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 31 December 2007 was HUF 8,461.9 billion, which was 19.2%, or HUF 1,364.4 billion, higher than at the end of the previous year. The Bank's consolidated shareholders' equity was HUF 895.6 billion, representing an increase of HUF 107.4 billion, or 13.6%, over the previous year. The ratio of consolidated equity to total assets decreased from 11.1% at year-end 2006 to 10.6%. The book value of OTP shares (BVPS) was HUF 3,198 on 31 December 2007, which was HUF 383 higher than at the end of the previous year.

Consolidated balance sheet of OTP Bank

	31/12/2006	31/12/2007	Change	
	HUF mn	HUF mn	HUF mn	%
Cash, due from banks and balances with the NBH	532,625	353,243	(179,382)	(33.7%)
Placements with other banks, net of allowance for placement losses	602,615	654,788	52,173	8.7%
Financial assets at fair value through statements of operation	110,576	285,895	175,319	158.6%
Securities available-for-sale	489,250	473,925	(15,325)	(3.1%)
Gross loans	**4,474,702**	**5,761,095**	**1,286,393**	**28.7%**
Retail loans	2,646,414	3,302,583	656,169	24.8%
Corporate loans	1,609,990	2,227,692	617,702	38.4%
Municipal loans	218,299	230,819	12,520	5.7%
Allowance for loan losses	(127,611)	(178,658)	(51,047)	40.0%
Loans, net of allowance for loan losses	4,347,091	5,582,437	1,235,346	28.4%
Accrued interest receivable	54,223	63,459	9,236	17.0%
Equity investments	70,939	9,892	(61,047)	(86.1%)
Securities held-to-maturity	268,280	317,557	49,277	18.4%
Premises, equipment and intangible assets, net	464,716	541,909	77,193	16.6%
Other assets	157,111	178,769	21,658	13.8%
Total assets	**7,097,426**	**8,461,874**	**1,364,448**	**19.2%**
Due to banks and deposits from the NBH and other banks	660,417	798,154	137,737	20.9%
Deposits from customers	4,232,153	5,038,372	806,219	19.1%
Retail loans	2,912,755	3,246,589	333,834	11.5%
Corporate loans	1,098,083	1,495,636	397,553	36.2%
Municipal loans	221,316	296,147	74,831	33.8%
Liabilities from issued securities	781,315	985,265	203,950	26.1%
Accrued interest payable	46,011	60,153	14,142	30.7%
Other liabilities	338,591	383,189	44,598	13.2%
Subordinated bonds and loans	250,726	301,164	50,438	20.1%
Total liabilities	**6,309,213**	**7,566,297**	**1,257,084**	**19.9%**
Total shareholders' equity	**788,213**	**895,577**	**107,364**	**13.6%**
Total liabilities and shareholders' equity	**7,097,426**	**8,461,874**	**1,364,448**	**19.2%**

[1] Based on the audited, IFRS financial report

Note: Due to rounding, figures indicated in the tables may differ from the sum of their components, and for the same reason, corresponding figures in different tables may also differ from each other.

On the ***assets*** side, cash, due from banks, and balances with the National Bank of Hungary were 33.7% lower than a year earlier. Placements with other banks – thanks in part to the Bank's modified placement structure – grew by 8.7% from the end of December 2006, amounting to HUF 654.8 billion on 31 December 2007.

The fair value of financial assets, as recognised in the profit and loss account, rose by HUF 175.3 billion, to reach HUF 285.9 billion by the end of the year.
The value of securities held for sale increased by 3.1%, or HUF 473.9 billion, over the course of the year.

Loans, net of allowances for loan losses rose by 28.4%, that is from HUF 4,347.1 billion on 31 December 2006 to HUF 5,582.4 billion. Net loans represented 66.0% of total assets on 31 December 2007.

The consolidated gross customer portfolio increased by 28.7% and amounted to HUF 5,761.1 billion at the end of 2007, of which the share of corporate loans was 38.7% (HUF 2,227.7 billion, annual change +38.4%), that of retail customers 57.3% (HUF 3,302.6 billion, annual change +24.8%), and loans to municipalities 4.0% (HUF 230.8 billion, annual change +5.7%). Within retail loans, housing and mortgage loans represented HUF 1,766.2 billion (annual change +16.2%), and consumer loans HUF 1,536.4 billion (annual change +36.4%). The share of the foreign subsidiary banks within the consolidated loan portfolio as at 31 December 2007 was 43.1% (HUF 2,526.6 billion).

The gross loan portfolio increased most dynamically at OBR in Romania (+60.8%), CJSC Bank in Ukraine (+45.1%), at the DSK Group (+43.4%) and at the Russian ISB (+41.4%). Of the total growth increment in the loan portfolio, the largest contributions came from OTP Bank's core operations[2] (HUF +342.8 billion), the DSK Group (HUF +231.0 billion), and the Ukrainian CJSC (HUF +164.9 billion).

Consolidated gross loan portfolio – as at 31 December 2007 (HUF mn)

	Corporate	Municipal	Retail	Consumer	Housing	Total
OTP Bank Hungarian Core Business[2]	1,138,889	214,428	1,684,170	1,199,898	484,272	3,037,487
OTP Factoring Ltd.	3,866		14,949	10,679	4,270	18,815
Merkantil Bank Ltd.	44,602		189,712		189,712	234,314
Merkantil Car Ltd.	4,327	15	34,631		34,631	38,973
OTP Banka Slovensko a.s.	154,980	6,894	70,412	54,339	16,073	232,286
DSK Group (with Asset Management AD)	221,601	1,022	540,426	216,236	324,190	763,049
OTP Leasing a.s.	12,402		14,200		14,200	26,602
OTP Bank Romania S.A.	95,685		67,225	6,816	60,409	162,910
OTP banka Hrvatska d.d.	89,410	443	161,339	73,398	87,940	251,192
Investsberbank	98,949	1,803	203,659	8,811	194,848	304,411
Closed Joint Stock Company OTP Bank	316,999		213,660	152,954	60,706	530,659
OTP banka Srbija a.d. Novi Sad	41,516	112	21,678	4,256	17,423	63,306
Crnogorska komercijalna banka a.d. Podgorica	120,103	6,102	57,419	31,229	26,190	183,624
Other subsidiaries*[3]	8,793					8,793
Total	2,352,120	230,819	3,273,480	1,758,616	1,514,863	5,856,421
Consolidated	**2,227,692**	**230,819**	**3,302,583**	**1,766,219**	**1,536,364**	**5,761,094**

Alongside a dynamic increase in the loan portfolio, the quality of the portfolio also improved, and 86.5% of the gross loan portfolio was performing as at the end of 2007, compared to 79.6% at the end of the previous year. The share of 'special watch' loans was 9.3%, and the share of the 'problematic' (non-performing) category was 4.2%, representing a 5.5 and 1.4-percentage-point decrease respectively compared to the previous year. 45.6% of the consolidated qualified portfolio and 55.9% of the non-performing loans were recorded on the balance sheets of the Bank's foreign subsidiaries.

[2] OTP Bank, OTP Mortgage Bank and OTP Building Society together.
[3] OTP Faktoring Slovensko, a.s., HIF Ltd., Merkantil Real Estate Leasing Ltd.

Consolidated gross loan volume by qualified categories

	31/12/2006		31/12/2007		Change		
	HUF mn	share %	HUF mn	share %	HUF mn	%	share %
Performing	3,561,978	79.6%	4,983,954	86.5%	1,421,976	39.9%	6.9%
Qualified	912,725	20.4%	777,140	13.5%	(135,585)	(14.9%)	(6.9%)
To-be-Monitored	661,594	14.8%	533,425	9.3%	(128,169)	(19.4%)	(5.5%)
NPLs	251,130	5.6%	243,715	4.2%	(7,415)	(3.0%)	(1.4%)
Below average	109,417	2.4%	53,765	0.9%	(55,652)	(50.9%)	(1.5%)
Doubtful	64,948	1.5%	70,253	1.2%	5,305	8.2%	(0.2%)
Bad	76,765	1.7%	119,697	2.1%	42,932	55.9%	0.4%
Total	**4,474,702**	**100.0%**	**5,761,094**	**100.0%**	**1,286,392**	**28.7%**	

IFRS consolidated risk provisions/impairment was HUF 178.7 billion, and of this, HUF 165.7 billion was related to the qualified portfolio, which resulted in a coverage ratio of 21.3%.

Within this, the HUF 150.8 billion in impairment provisions set aside for covering the HUF 243.7 billion in non-performing loans represented a coverage ratio of 61.9%.

Coverage of qualified customer loans

	31/12/2006	31/12/2007	Change %
Qualified volume (HUF mn)	912,725	777,140	(14.9%)
Provision (HUF mn)	121,323	165,725	36.6%
Coverage %	**13.3%**	**21.3%**	**8.0%**
NPLs (HUF mn)	251,130	243,715	(3.0%)
Provision (HUF mn)	110,436	150,827	36.6%
Coverage	44.0%	61.9%	17.9%
Total loan provision	**127,611**	**178,658**	**40.0%**

The portfolio of held-to-maturity securities fell by 18.4% in 2007, with the total value of such securities reaching HUF 317.6 billion on 31 December. The securities portfolio of the Bank contained virtually no structured products or investments carrying a significant exchange rate risk.

On the ***liabilities*** side, the portfolio of customer deposits as at 31 December 2007 was HUF 5,038.4 billion, which is 19.0% higher than one year previously. Some 64.4% of ***customer deposits*** came from retail customers, while 29.7% came from corporate customers and 5.9% from municipality customers.

The main contributors to the HUF 806.2 billion growth in deposits were the Bank's Hungarian operation (+HUF 296.3 billion), DSK (+HUF 126.6 billion) and ISB (+HUF 37.5 billion). The share of the foreign subsidiaries in the aggregate deposit portfolio grew from 34.2% to 39.1% in 2007.

Consolidated deposit volume - as at 31 December 2007 (HUF mn)

	Corporate	Municipal	Retail	Total
OTP Bank Hungarian Core Business	915,602	204,550	1,965,938	3,086,090
Merkantil Bank Ltd.	3,080		3,015	6,095
Merkantil Car Ltd.	448	0	202	650
OTP Banka Slovensko, a. s.	92,243	41,239	93,644	227,126
DSK Group	99,612	30,764	519,949	650,325
OTP Bank Romania S.A.	36,435		34,301	70,736
OTP Faktoring Slovensko, a.s.				
OTP banka Hrvatska d.d.	52,303	6,499	248,739	307,541
OTP banka Srbija a.d. Novi Sad	12,512	1,030	24,572	38,114
CJSC OTP Bank	88,069	6	84,189	172,264
Investsberbank	123,777	0	167,378	291,155
Crnogorska komercijalna banka a.d. Podgorica	94,387	12,061	104,662	211,110
Total	1,518,468	296,149	3,246,589	5,061,206
Consolidated	**1,495,636**	**296,149**	**3,246,589**	**5,038,374**

The portfolio of ***issued securities*** grew by 26.1% over the year, to HUF 985.3 billion. The subordinated and additional debt increased by 20.1% to HUF 301.2 billion.

Consolidated Results

In order to present Group level trends in a comprehensive way, the consolidated statement of operations – still showing the accounting figures – was adjusted by the following items:

– 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;

– out of FX-gains FVA of the spot leg of FX swaps has been added to Net Interest Income;

– any earnings within net securities gain related to FX swaps have been added to NIII.

OTP Bank's consolidated ***after-tax profit*** for 2007 – in accordance with IFRS – was HUF 208.5 billion, which was 11.5% or HUF 21.5 billion more than the figure for 2006. The consolidated profit before tax grew even more, by 13.9%, in 2007, reaching HUF 249.0 billion.

*Consolidated income statement of OTP Bank**

	2006	2007	Change	
	HUF mn	HUF mn	HUF mn	%
Net interest income	**340,186**	**423,698**	**83,512**	**24.5%**
Provision for loan and placement losses	23,997	42,084	18,087	75.4%
Net interest income after provision for loan and placement losses	**316,189**	**381,614**	**65,425**	**20.7%**
Net fee and commission income	112,899	152,885	39,986	35.4%
Foreign exchange gains, net	4,968	16,393	11,425	230.0%
Gains and losses on securities, net	5,806	5,085	(721)	(12.4%)
Gains on real estate transactions, net	1,292	1,371	79	6.1%
Dividend income and gains and losses of associated companies	901	993	92	10.2%
Insurance premiums	75,554	83,591	8,037	10.6%
Other income	20,378	23,967	3,589	17.6%
Total non-interest income	**221,798**	**284,285**	**62,487**	**28.2%**
Personnel expenses	106,804	147,831	41,027	38.4%
Depreciation and amortization	26,464	35,627	9,163	34.6%
Insurance expenses	60,866	69,204	8,338	13.7%
Other expenses	125,251	164,285	39,034	31.2%
Total non-interest expenses	319,385	416,947	97,562	30.5%
Income before income taxes	**218,602**	**248,952**	**30,350**	**13.9%**
Income taxes	31,506	40,404	8,898	28.2%
Income after income taxes	**187,096**	**208,548**	**21,452**	**11.5%**
Minority interest	45	340	295	655.6%
Net income	**187,051**	**208,208**	**21,157**	**11.3%**

The consolidated ***net interest income*** for 2007 – adjusted by the non-interest income from swap transactions – was HUF 423.7 billion, which was 24.5% higher than in 2006. Provisions – reduced by the released provisions that had been generated prior to the acquisitions – totalled HUF 42.1 billion. The ratio of provisions to the average gross loan portfolio was 0.82%, compared to 0.62% in 2006.

The net interest margin on the average balance sheet total (HUF 7,779.7 billion) calculated on the basis of end-of-period data was 5.45% in 2007, which is only eight basis points lower than in 2006.

Adjusted non-interest income, including net fees, but less FX and securities gains on swap transactions, and adjusted for other revenues from the release of provisions set aside before

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

the acquisitions and restated as a risk reserve, was in total 28.2% higher than one year earlier, and amounted to HUF 284.3 billion.

Net fees and commissions totalled HUF 152.9 billion, representing a 35.4% increase over 2006. The net result of securities trading without swap transactions was a gain of HUF 5.1 billion, as compared to HUF 5.8 billion in 2006. The net exchange rate gain without swap transactions amounted to HUF 16.4 billion, compared to a HUF 5.0 billion gain in 2006. Real estate transactions resulted in a profit of HUF 1.4 billion at consolidated level. Insurance premium revenues amounted to HUF 83.6 billion in 2007, which was 10.6% higher than in 2006. Compared to 2006, insurance expenses grew by 13.7%. The net profit on insurance transactions was HUF 14.4 billion. Other non-interest income less income from the release of provisions generated before the acquisitions was HUF 24.0 billion, or 17.6% higher than in the previous year.

The ***total income*** of the Bank Group less net fees and release of pre-acquisition provisions was HUF 708.0 billion, 26.0% more than in the previous year.

Non-interest expenses, amounting to HUF 416.9 billion, were 30.5% higher than in 2006. Within this, consolidated personnel expenses were 38.4% higher than in the previous year, amounting to HUF 147.8 billion. Depreciation rose by HUF 9.2 billion relative to 2006, to HUF 35.7 billion. Other non-interest expenses grew by 31.2%, to HUF 164.3 billion. In 2007, non-corporate taxes represented an expense of HUF 30.7 billion; that is, HUF 2.1 billion, or 6.4%, less than in 2006. Within this, the HUF 6.5 billion in 'special tax' imposed on credit institutions and financial enterprises (contribution tax and solidarity tax) was recognised among other expenses (in 2006: HUF 11.2 billion).

The Bank's cost-to-income ratio calculated on the basis of its consolidated, audited figures for 2007 was 57.6%, 121 basis points higher than in the previous year. This value of this indicator calculated on the basis of total income and net of released pre-acquisition provisions and operating expenses was 58.9%, or 206 basis points higher than in the previous year.

Consolidated return on average assets ***(ROAA)*** was 2.68% (in 2006: 3.04%), while consolidated return on average equity ***(ROAE)*** was 24.8%, which was 3.2 percentage points lower than that of the previous year. Basic net earnings per ordinary share ***(basic EPS)*** were HUF 796, up by HUF 74 on the 2007 figure, while diluted EPS was HUF 794 (in 2006: HUF 714).

RESULTS OF OTP BANK'S CORE OPERATIONS IN HUNGARY[4]

Balance Sheet

The combined balance sheet total of OTP Bank's core operations in Hungary as at 31 December 2007 was HUF 6,489.0 billion, which was 14.1%, or HUF 800.5 billion, higher than in 2006.

Figures presented in the statements are not consistent with the audited data because they were originated according to controlling methodology. In order to present business trends in a compresensive way, OTP Hungary Core statement of operations was adjusted by the following items:

– interest expenses of upper and lower Tier2 issues have bee deducted from NII;
– interest revenues stemming from subsidiaries financing have been also deducted from NII;
– the result on the open FX-position has been deducted from other non-interest income;
– dividends received from subsidiaries, as well as cash transfers have been deducted from other non-interest income;
– FX swap related revenues earlier shown as other non-interest income have been added to NII.

OTP Bank Hungarian Core Business

	31/12/2006	31/12/2007	Change	
	HUF mn	HUF mn	HUF mn	%
Cash, due from banks and balances with the NBH	438,704	232,219	(206,485)	(47.1%)
Placements with other banks, net of allowance for placement losses	693,884	1,061,360	367,476	53.0%
Financial assets at fair value through statements of operation	61,116	124,602	63,486	103.9%
Securities held for trading	36,075	60,385	24,310	67.4%
Fair value adjustment of derivative financial instruments	25,041	64,217	39,176	156.4%
Securities available-for-sale	547,235	510,129	(37,106)	(6.8%)
Gross loans	2,694,689	3,037,488	342,799	12.7%
Allowance for loan losses	(31,131)	(28,863)	2,268	(7.3%)
Loans, net of allowance for loan losses	2,663,558	3,008,625	345,067	13.0%
Accrued interest receivable	62,723	64,722	1,999	3.2%
Investments in subsidiaries	583,298	630,703	47,405	8.1%
Securities held-to-maturity	504,111	558,510	54,399	10.8%
Premises, equipment and intangible assets, net	101,188	110,851	9,663	9.5%
Other assets	32,774	187,327	154,553	471.6%
Total assets	**5,688,590**	**6,489,047**	**800,457**	**14.1%**
Due to banks and deposits from the NBH and other banks	559,510	757,363	197,853	35.4%
Deposits from customers	2,790,322	3,086,089	295,767	10.6%
Liabilities from issued securities	1,191,270	1,368,910	177,640	14.9%
Accrued interest payable	59,442	66,136	6,694	11.3%
Other liabilities	127,874	146,446	18,572	14.5%
Subordinated bonds and loans	247,865	298,914	51,049	20.6%
Total liabilities	**4,976,283**	**5,723,859**	**747,576**	**15.0%**
Total shareholders' equity	**712,307**	**765,188**	**52,881**	**7.4%**
Total liabilities and shareholders' equity	**5,688,590**	**6,489,047**	**800,457**	**14.1%**

On the ***assets*** side, cash, due from banks and balances with the National Bank of Hungary were 47.1% lower than one year earlier. Placements with other banks were 53.0%, or HUF 367.5 billion higher than in the previous year. The fair value of financial assets, as recognised in the profit and loss account, rose to more than double that of the previous year, to reach HUF 124.6 billion. Of the HUF 63.5 billion growth, the increase in the portfolio of securities held for trading accounted for HUF 24.3 billion, while the change in the adjusted fair value of derivative financial instruments was HUF 39.2 billion.

The portfolio of securities available for sale fell by 6.8% to HUF 510.1 billion at the end of 2007, while the portfolio of securities held-to-maturity grew by 10.8%, to HUF 558.5 billion.

[4] OTP Bank, OTP Mortgage Bank and OTP Building Society together.

The gross customer loan portfolio related to the core operations of OTP Bank in Hungary[5] was 3,037.5 billion on 31 December 2007, which represents a significant, HUF 342.8 billion, or 12.7%, growth. Of this total, loans to corporate customers accounted for 37.5% (HUF 1,138.9 billion, annual change +13.3%), those to retail customers 55.4% (HUF 1,684.2 billion, +13.8%), and the loans of municipality 7.1% (HUF 214.4 billion, +2.0%). Within retail loans, housing and mortgage loans represented HUF 1,199.9 billion (annual change +5.8%), and consumer loans HUF 484.3 billion (annual change +40.2%).

Gross loan volume of OTP Bank Hungarian Core Business

	31/12/2006 HUF mn	31/12/2007 HUF mn	Change HUF mn	%
Corporate	1,004,773	1,138,889	134,116	13.3%
Municipal	210,159	214,428	4,269	2.0%
Retail	1,479,756	1,684,170	204,414	13.8%
Consumer	1,134,259	1,199,898	65,639	5.8%
Housing	345,497	484,272	138,774	40.2%
Total	**2,694,689**	**3,037,488**	**342,799**	**12.7%**

Alongside a dynamic increase of the loan portfolio, the quality of the portfolio improved over the previous year in terms of the ratio of non-performing loans. 95.3% of the gross loan portfolio was performing as at the end of 2007, while in 2006 the comparative figure was 96.0%. 'Special watch' loans accounted for 3.4% of the portfolio (compared to 1.9% in the previous year) and non-performing loans represented 1.4% of the total (compared to 2.1% in the previous year).

Gross loan volume by qualified categories of OTP Bank Hungarian Core Business

	31/12/2006		31/12/2007		Change		
	HUF mn	share %	HUF mn	share %	HUF mn	%	share %
Performing	2,586,117	96.0%	2,893,856	95.3%	307,739	11.9%	(0.7%)
Qualified	108,572	4.0%	143,632	4.7%	35,060	32.3%	0.7%
To-be-Monitored	50,774	1.9%	101,770	3.4%	50,996	100.4%	1.5%
NPLs	57,798	2.1%	41,862	1.3%	(15,936)	(27.6%)	(0.8%)
Below average	22,684	0.8%	8,243	0.3%	(14,441)	(63.7%)	(0.6%)
Doubtful	25,849	1.0%	21,921	0.7%	(3,928)	(15.2%)	(0.2%)
Bad	9,265	0.3%	11,698	0.4%	2,433	26.3%	0.0%
Total	**2,694,689**	**100%**	**3,037,488**	**100.0%**	**342,799**		

At the end of 2007 the provisions set aside and impairment recognised on the HUF 143.6 billion in qualified loans amounted to HUF 28.9 billion, representing a 20.1% coverage ratio. Within this, the HUF 22.3 billion in impairment provisions set aside for covering the HUF 41.9 billion in non-performing loans represented a coverage ratio of 53.4%, a 4.8-percentage-point increase relative to 2006.

Coverage of qualified customer loans of OTP Bank Hungarian Core Business

	31/12/2006	31/12/2007	Change
Qualified volume (HUF mn)	108,572	143,632	32.3%
Provision (HUF mn)	31,131	28,863	(7.3%)
Coverage %	**28.7%**	**20.1%**	**(8.6%)**
NPLs (HUF mn)	57,798	41,862	(27.6%)
Provision (HUF mn)	28,096	22,342	(20.5%)
Coverage %	**48.6%**	**53.4%**	**4.8%**

[5] We removed the loans provided to OTP Financing Netherlands and OTP Financing Cyprus – which primarily served the financing of subsidiary banks – from the portfolio of corporate loans within the gross portfolio, and instead recorded them among interbank loans.

The total of customer deposits collected as part of OTP Bank's core operations in Hungary was HUF 3,086.1 billion at the end of 2007, HUF 295.8 billion higher than in 2006. Of the total customer deposits, 63.7% came from the retail segment, 29.7% from corporate customers and 6.6% from municipalities. Compared to the previous year, the volumes of corporate and municipality deposits rose considerably, by 28.0% and 21.5% respectively, while the growth in retail deposits was 3.1%.

Deposit volume of OTP Bank Hungarian Core Business

	31/12/2006	31/12/2007	Change	
	HUF mn	HUF mn	HUF mn	%
Corporate	715,468	915,602	200,134	28.0%
Municipal	168,385	204,550	36,165	21.5%
Retail	1,906,468	1,965,938	59,470	3.1%
Total	**2,790,321**	**3,086,090**	**295,769**	**10.6%**

The Bank Group had a 24.1% market share of total deposits held by Hungarian credit institutions, and within this, it had a 31.3% share of household deposits, a 53.1% share of municipality deposits and an 11.9% share of corporate deposits.

The stock of mortgage bonds issued for the financing of mortgage loans was HUF 974.7 billion at the end of 2007, which was HUF 13.5 billion, or 1.5%, lower than at the end of the previous year. In 2007 the issuance of retail mortgage bonds continued, which provided continuous forint-based funds for the company, and in the middle of the year a new multi-currency domestic mortgage-bond scheme was launched. As a result of the international subprime mortgage crisis, and due to the increase in premiums, from the third quarter on OTP Mortgage Bank decided to defer foreign issues to the following year. With regard to issued mortgage bonds, OTP Mortgage Bank achieved a 63.9% share on the Hungarian market.

Non-consolidated results

In order to better illustrate the underlying fundamentals of the business, we have presented the results of the Hungarian core operation based on the consolidated audited IFRS figures of OTP Bank, OTP Mortgage Bank and OTP Building Society with the following adjustments:

– the net interest income has been stripped of the interest expense related to subordinated and additional loan capital as well as of the reported net interest income from the financing of subsidiaries;

– other non-interest income has been stripped of the exchange rate gain on the strategic open position and the non-interest income earned on the financing of subsidiaries;

– the non-interest income from foreign currency swaps has been presented among net interest income;

– the non-interest income has been stripped of dividends received from the subsidiaries and funds permanently transferred to them.

The annual ***pre-tax profit*** from core operations increased by 13.3%, to HUF 160.8 billion, while the after-tax profit increased by 12.2%, to HUF 136.7 billion. The growth in profit was primarily due to the favourable change in operating expenses and risk expenses; the rate of growth of total income was below that observed in previous years.

OTP Bank Hungarian Core Business

	2006 adjusted audited HUF mn	2007 adjusted audited HUF mn	Change HUF mn	%
Net interest income	**241,153**	**242,413**	**1,260**	**0.5%**
Provision for loan and placement losses	25,314	21,387	(3,927)	(15.5%)
Net interest income after provision for loan and placement losses	**215,839**	**221,026**	**5,187**	**2.4%**
Net fee and commision income	93,158	103,020	9,862	10.6%
Foreign exchange gains, net	(1,692)	4,876	6,568	(388.2%)
Gains and losses on securities, net	1,711	845	(866)	(50.6%)
Gains on real estate transactions, net	77	(54)	(131)	(169.8%)
Other	7,586	3,162	(4,424)	(58.3%)
Total non-interest income	**100,840**	**111,849**	**11,009**	**10.9%**
Personnel expenses	67,124	71,740	4,616	6.9%
Depreciation and amortization	17,686	20,297	2,612	14.8%
Other	89,985	80,072	(9,913)	(11.0%)
Total non-interest expenses	**174,795**	**172,109**	**(2,685)**	**(1.5%)**
Income before income taxes	**141,884**	**160,766**	**18,881**	**13.3%**
Income taxes	20,049	24,029	3,980	19.9%
Income after income taxes	**121,835**	**136,737**	**14,902**	**12.2%**

Net interest income – as a result of the increasing competition in the retail market, the repricing of subsidised housing loans, and intensive customer acquisition and fundraising campaigns – remained essentially unchanged in 2007, with the HUF 242.4 billion in net interest income representing a growth of just 0.5% over the previous year.

The risk-related expenses of loans – as a result of the considerable improvement in the quality of the portfolio – fell significantly, by approximately HUF 3.9 billion, to HUF 21.4 billion. The ratio of provisioning to the average gross loan portfolio was 0.75%.

Of ***non-interest income,*** net commission income, representing a dominant share of the total, increased by 10.6%, while net interest income as a whole grew by a similar rate of 10.9%.

The ***operating costs*** of the core activity – due mainly to a nearly HUF 4.3 billion, or 15.4%, decrease in taxes accounted among other expenses – fell by 1.5%. Within this category, personnel expenses increased by 6.9%, while depreciation was 14.8% higher than in the previous year. Other expenses fell by 11.0% overall. The cost-to-income ratio decreased significantly due to the above processes, from 51.1% in 2006 to 48.6% (-252bp).

Capitalisation and capital adequacy (based on the financial institutions act)[6]

As of 31 December 2007, the ***equity*** of OTP Bank according to Hungarian Accounting Standards (HAS) amounted to HUF 673.0 billion, or 21.7% more than a year earlier.
The HUF 119.9 billion increase was a net result of the HUF 12.0 billion growth in the general reserve, the HUF 74.3 billion increase in the profit reserve, the HUF 52.9 billion reduction in the allocated reserve and the balance sheet profit for the year of HUF 107.9 billion. Equity per share, of nominal value HUF 100, was HUF 2,404.

The portfolio of repurchased treasury shares grew from a 2006 figure of HUF 1.7 billion to HUF 54.2 billion by the end of 2007.

The ***risk-adjusted regulatory*** capital of the Bank on 31 December 2007 was HUF 379.6 billion, and its adjusted balance sheet total was HUF 3,461.6 billion.

Calulation of the capital adequacy ratio

	31/12/2006	31/12/2007	Change	
	HUF mn	HUF mn	HUF mn	%
I. Primary capital elements	578,445	653,064	74,619	12.9%
A) subscribed capital	28,000	28,000	0	0.0%
B) capital reserve	52	52	0	0.0%
C) general reserve	84,261	96,249	11,988	14.2%
D) general risk reserve	28,707	36,347	7,640	26.6%
E) profit reserve	310,177	384,521	74,344	24.0%
F) balance sheet profit	127,248	107,895	(19,353)	(15.2%)
II. Deductible components of primary capital	260,832	259,301	(1,531)	(0.6%)
A) capital subscribed not yet paid	0	0	0	
B) intangible assets	260,832	259,301	(1,531)	(0.6%)
III. Primary capital (I-II.)	317,613	393,763	76,150	24.0%
IV. Secondary capital	242,283	291,861	49,578	20.5%
V. Guarantee capital before deductions (III+IV.)	559,896	685,624	125,728	22.5%
VI. Book value of financial institutions, insurance companies and investment services companies and subordinated loans issued to them	239,227	276,187	36,960	15.4%
VII. Guarantee capital according to the rules of prudence (V-VI.)	320,669	409,437	88,768	27.7%
VIII. Capital requirement of limit breaches and sovereign risk	50,449	29,804	(20,645)	(40.9%)
IX. Guarantee capital for calculating the capital adequacy ratio	270,220	379,633	109,413	40.5%
X. Risk-weighted total assets	2,733,972	3,461,579	727,607	26.6%
XI. Capital adequacy ratio %	**9.88%**	**10.97%**		

As of 31 December 2007, the ***solvency ratio*** calculated according to Hungarian regulations was 10.97%, which is well in excess of the 8% required under the Credit Institutions Act.

The Bank's non-consolidated 2007 pre-tax profit according to HAS was HUF 142.0 billion, which was more than HUF 70.0 billion, or 33.2%, lower than that of 2006. Compared to the 2006 pre-tax result excluding the one-off impact of the ICES programme (HUF 154.6 billion), the fall was 8.1%, which was partly attributable to the growth in interest expenses on the subordinated loan capital taken up to finance the acquisition of the foreign subsidiaries. With a rise in the actual tax rate compared to 2006 (from 12.4% to 15.6%), the ***after-tax profit*** was HUF 119.9 billion, 35.6% less than in 2006. Compared to the 2006 after-tax result excluding the one-off impact of the ICES programme (HUF 134.8 billion), the fall in the profit after tax was 11.0%.

After setting aside HUF 12.0 billion in general risk provisions, the balance sheet profit of OTP Bank for the year 2007 amounted to HUF 107.9 billion (the Bank will not be paying dividends on its profits of 2007).

[6] In accordance with Hungarian Accounting Standards

RESULTS OF THE MAIN SUBSIDIARIES

In 2007 the business operations of OTP Bank's subsidiaries were generally in line with the Bank's targets and the owners' expectations. The combined, fully consolidated balance sheet of the subsidiaries rose from HUF 4,436 billion to HUF 5,629.3 billion, or by 26.9%. Of the HUF 1,193 billion growth, the balance sheet total of the Montenegrin bank, included in the consolidation, was HUF 260.5 billion. The aggregate after-tax profit of the fully consolidated subsidiaries amounted to HUF 87.3 billion in 2007, which was HUF 34.6 billion, or 65.8%, higher than in 2006.

Total assets and profit after tax of the fully conlosidated subsidiaries

	Total assets				Profit after tax			
	2006	2007	Change		2006	2007	Change	
Subsidiary	HUF mn	HUF mn	HUF mn	%	HUF mn	HUF mn	HUF mn	%
Merkantil Bank Ltd.	198,923	244,624	45,701	23.0%	5,237	7,676	2,439	46.6%
Merkantil Car Ltd.	78,929	53,611	(25,318)	(32.1%)	988	3,205	2,217	224.3%
Merkantil Lease Ltd.	37,174	39,869	2,695	7.3%	273	698	425	156.0%
Other Merkantil subsidiaries	19,148	23,825	4,677	24.4%	(46)	252	298	–
Merkantil Group	334,173	361,928	27,755	8.3%	6,425	11,831	5,406	84.1%
OTP Building Society Ltd.	107,085	140,860	33,775	31.5%	487	2,434	1,947	399.9%
OTP Mortgage Bank Ltd	1,074,846	1,237,512	162,666	15.1%	3,009	2,938	(71)	(2.3%)
OTP Banka Slovensko, a. s.	325,310	368,185	42,875	13.2%	2,030	2,601	571	28.1%
DSK Group and Asset Management AD	855,799	1,014,803	159,004	18.6%	21,880	26,512	4,632	21.2%
OTP Bank Romania S.A.	193,412	250,085	56,673	29.3%	(2,784)	(2,990)	(206)	–
OTP banka Hrvatska d.d.	364,118	422,231	58,113	16.0%	3,468	3,577	109	3.1%
CJSC OTP Bank	432,623	624,585	191,962	44.4%	2,611	14,030	11,419	437.4%
Investsberbank	329,326	432,000	102,674	31.2%		7,601	–	–
CKB*		260,493	–	–		2,254	–	–
OTP bank Srbija a.d.**	34,643	112,213	77,570	223.9%	171	630	459	268,2%
OTP Garancia Insurance Ltd.	189,323	210,576	21,253	11.2%	7,360	8,241	881	12.0%
OTP Fund Management Ltd.	14,792	11,619	(3,173)	(21.5%)	5,238	6,188	950	18.1%
HIF Ltd.	1,517	523	(994)	(65.6%)	121	52	(69)	(57.0%)
OTP Real Estate Ltd.	19,979	18,562	(1,417)	(7.1%)	(179)	772	951	–
OTP Factoring Ltd.	17,329	17,594	265	1.5%	1,195	2,994	1,799	150.7%
OTP Factoring Asset Management Kft.	1,052	680	(372)	(35.4%)	41	47	6	14.8%
Bank Center No. 1. Ltd.	9,258	9,411	153	1.7%	994	157	(837)	(84.2%)
OTP Fund Servicing Ltd.	2,360	4,021	1,661	70.4%	355	842	487	137.2%
Inga Kettő Ltd.	6,324	6,446	122	1.9%	41	145	104	252.1%
Concordia Info Ltd.	3,771	3,955	184	4.9%	116	538	422	363.5%
OTP Card Manufacturing Ltd.	647	841	194	30.0%	15	21	6	43.0%
Air-Invest Ltd.	6,466	6,225	(241)	(3.7%)	(228)	(400)	(172)	75.8%
OTP Trade Ltd.	58,083	36,338	(21,745)	(37.4%)	1,938	(1,685)	(3,623)	–
OTP Flat Lease Ltd.	7,237	18,838	11,601	160.3%	71	(98)	(169)	–
OTP Life Annuity Ltd.	2,336	9,492	7,156	306.4%	(60)	(509)	(449)	744.4%
OTP Faktoring Slovensko, a.s.	6,202	10,000	3,798	61.3%	(43)	2	45	–
OTP Leasing, a.s.	29,380	28,639	(741)	(2.5%)	(395)	(196)	199	(50.4%)
OTP Garancia Poistovna, a.s.	2,133	2,374	241	11.3%	(179)	(236)	(57)	31.8%
OTP Garancia Zivotna Poistovna, a.s.	1,262	1,957	695	55.1%	(191)	(193)	(2)	1.3%
DSK Garancia Life Insurance	1,534	1,642	108	7.1%	(216)	(55)	161	(74.7%)
DSK Garancia Insurance	1,093	1,303	210	19.3%	(139)	3	142	–
Asigurarea CECCAR-ROMAS	2,485	3,380	895	36.0%	(170)	(769)	(599)	353.3%
Subsidiaries total	**4,435,896**	**5,629,312**	**1,193,416**	**26.9%**	**52,982**	**87,279**	**34,639**	**65.4%**

* In the year 2006 it was not represented in the consolidation

** Serbian subsidiaries of OTP Bank, Niska banka a.d. Nis, Yepter banka a.d. Beograd and Kulska banka a.d. Novi Sad, were consolidated in 2007 under the name of OTP banka Srbija. Regarding the year 2006 aggregated figures of the banks are represented, while in 2007 consolidated figures are available.

Main Indicators of DSK Group:

	2006	2007	Change
ROAA	3.04%	2.83%	(0.72%)
ROAE	27.1%	24.7%	(4.86%)
Cost/income ratio[7]	40.7%	39.0%	(1.76%)

Main Financial Data of DSK Group[7, 8]:

	31/12/2006	31/12/2007	Change	
	HUF mn	HUF mn	HUF mn	%
Gross loans	532,092	763,049	230,957	43.4%
Retail	399,703	540,426	140,723	35.2%
Corporate	132,197	221,601	89,404	67.6%
Municipal	192	1,022	830	432.3%
Provisions	(16,765)	(27,925)	(11,160)	66.6%
Net loans	513,327	735,124	219,797	42.7%
Deposits	523,770	650,325	126,555	24.2%
Retail	430,964	519,949	88,985	20.6%
Corporate	71,744	99,612	27,868	38.8%
Municipal	21,062	30,764	9,702	46.1%
Liabilities to credit institutions	157,360	178,447	21,087	13.4%
Shareholders' equity	90,209	124,179	33,970	37.7%
Subscribed capital	14,432	22,108	7,676	53.2%
Total assets	**855,799**	**1,014,803**	**159,004**	**18.6%**
Profit before tax	**25,420**	**29,174**	**3,754**	**14.8%**
Profit after tax	**21,880**	**26,512**	**4,632**	**21.2%**

The DSK Group's balance sheet total as at 31 December 2007 was HUF 1,014.8 billion, up 18.6% from the end of 2006. The Group's equity totalled HUF 124.2 billion, which represented a 37.7% increase over the previous year, and accounted for 12.2% of total liabilities. The approximately HUF 7.8 billion mid-year capital raise was among the factors contributing to the HUF 34.0 billion growth in equity.

The gross value of the loan portfolio grew by 43.4% to HUF 763.0 million, within which the volume of retail loans increased by 35.2% and the portfolio of loans to businesses by 67.6%. The share of corporate loans within the overall portfolio rose from 24.8% in 2006, to 29.0%.

The portfolio of customer deposits grew by 24.2%, amounting to HUF 650.3 billion by the end of the year. Some 80.0% of the deposits were from retail customers. The Bank's deposit liabilities represented 64.1% of its total funding sources, while the loans/deposits ratio was 117.3%. 17.6% of the Bank's funds were procured on the interbank market.

The HUF 65.4 billion interest income and almost HUF 22.0 billion in interest paid resulted in net interest income of HUF 43.4 billion, and thus net interest margin to the average balance sheet total was 4.64%.

The Group's net fee and commission revenues grew dynamically, by 20.0%, while non-interest revenues rose by 14.3%, to HUF 19.4 billion. The share of non-interest revenues within total income exceeded 30%.

The Group's operating costs reached HUF 24.5 billion in 2007, which represents a 4.8% increase over the previous year. Within this category, personnel expenses were reduced by 9.0%. The Bank's adjusted cost-to-income ratio was 39.0% in 2007, or 176 basis points lower than in 2006.

DSK closed the 2007 business year with an after-tax profit of HUF 26.5 billion, thus achieving a return on average assets (ROAA) of 2.83%, and a return on average equity (ROAE) of 24.7%.

[7] Figured 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.

[8] with Asset Management AD (SPV)

Main Indicators of CJSC OTP Bank:

	2006	2007	Change
ROAA	–	2.65%	–
ROAE	–	25.7%	–
Cost/income ratio[9]	52.4%	45.6%	(6.81%)

Main Financial Data of CJSC OTP Bank:

	31/12/2006	31/12/2007	Change	
	HUF mn	HUF mn	HUF mn	%
Gross loans	365,793	530,659	164,866	45.1%
Retail	163,870	213,660	49,790	30.4%
Corporate	114,771	152,954	38,183	33.3%
Municipal	49,098	60,706	11,608	23.6%
Provisions	201,923	316,999	115,076	57.0%
Net loans	0	0	0	–
Deposits	148,752	172,264	23,512	15.8%
Retail	71,054	84,189	13,135	18.5%
Corporate	77,648	88,069	10,422	13.4%
Municipal	50	6	(45)	(90.0%)
Liabilities to credit institutions	227,643	371,622	143,979	63.2%
Shareholders' equity	43,365	65,613	22,248	51.3%
Subscribed capital	20,849	34,327	13,478	64.6%
Total assets	**432,623**	**624,585**	**191,962**	**44.4%**
Profit before tax	**3,769**	**19,258**	**–**	**–**
Profit after tax	**2,611**	**14,030**	**–**	**–**

The balance sheet total of CJSC OTP Bank as at 31 December 2007 amounted to HUF 624.6 billion, exceeding the 2006 year-end figure by 44.4%. The Bank's equity on 31 December 2007 was HUF 65.6 billion (a 51.3% increase), and of the HUF 22.2 billion growth, HUF 13.5 billion resulted from a capital raise. The gross value of the Bank's loan portfolio rose by 45.1% to HUF 530.7 billion, within which the growth in corporate loans was 57.0% and the increase in retail loans 30.4%. Some 60% of the loan portfolio consisted of loans to businesses, a proportion that had risen in comparison to 2006.

The portfolio of customer deposits grew by 15.8%, amounting to HUF 172.3 billion by the end of the year. More than half of the deposits were from corporate customers. The Bank's deposit sources accounted for 27.6% of total funds; the loan-to-deposit ratio was 308.1%, since the majority of sources, at almost 60%, were procured on the interbank market.

The Bank's adjusted cost-to-income ratio dropped to 45.6% from the 2006 figure of 52.4%.

CJSC OTP Bank closed the 2007 business year with an after-tax profit of HUF 14.0 billion, thus achieving a return on average assets (ROAA) of 2.65%, and a return on average equity (ROAE) of 25.7%.

[9] Indicator is calculated based on the adjusted other income and provisions due to the release of pre-acqusition provision

[10] In 2006 two months (November-December) have been fully consolidated

Main Indicators of Investsberbank:

	2005	2006	Change
ROAA	–	2,00%	–
ROAE	–	19,0%	–
Cost/income ratio[11]	–	66,4%	–

Main Financial Data of Investsberbank:

	31/12/2006	31/12/2007	Change	
	HUF mn	HUF mn	HUF mn	%
Gross loans	215,232	304,410	89,178	41.4%
Retail	97,078	203,659	106,581	109.8%
Corporate	116,601	98,949	(17,652)	(15.1%)
Municipal	1,553	1,803	250	16.0%
Deposits	253,645	291,154	37,509	14.8%
Retail	168,260	167,378	(882)	(0.5%)
Corporate	85,385	123,777	38,392	45.0%
Municipal	0	0	0	–
Liabilities to credit institutions	12,175	72,765	60,590	497.6%
Shareholders' equity	38,338	41,546	3,208	8.4%
Subscribed capital	28,995	28,995	0	0.0%
Total assets	**329,326**	**432,000**	**102,674**	**31.2%**
Profit before tax	**–**	**10,687**	**–**	**–**
Profit after tax	**–**	**7,601**	**–**	**–**

The balance sheet total of Russian subsidiary Investsberbank (ISB) as at 31 December 2007 was HUF 432 billion, up 41.4% from the end of 2006. Its equity totalled HUF 41.5 billion, which represented a 8.4% increase over the previous year, and accounted for 9.6% of total liabilities.

The gross value of the Bank's loan portfolio grew by 41.4%, within which the volume of retail loans more than doubled, but the volume of corporate loans fell by 15.1%. The share of retail loans within the overall portfolio rose from 44.1% in 2006 to 66.9%.

The portfolio of customer deposits grew by 14.8%, amounting to HUF 291.2 billion by the end of the year. Some 57.5% of the deposits were from retail customers.

The Bank's deposit liabilities represented 67.4% of its total funding sources, while the loan-to-deposit ratio was 104.6%. 16.8% of the Bank's funds were procured on the interbank market.

The Bank's adjusted cost-to-income ratio was 66.4% in 2007.

ISB closed the 2007 business year with an after-tax profit of HUF 7.6 billion, thus achieving a return on average assets (ROAA) of 2.00%, and a return on average equity (ROAE) of 19.0%.

[11] Indicator is calculated based on the adjusted other income and provisions due to the release of pre-acqusition provision

ASSET-LIABILITY MANAGEMENT

The asset-liability management activities of the OTP Group focused on four main areas in 2007:

- *Elaboration of a medium-term financing strategy*
- *Reduction of financing costs within the Group*
- *Introduction of a transparent and competitive intra-group pricing system*
- *Introduction of a shared liquidity pool*

Elaboration of a medium-term financing strategy

The main objective of the formulated medium-term strategy is to ensure funding for the OTP Group's future growth, while maintaining the highest degree of security at the lowest possible risk-adjusted costs. Based on the projected development of the balance sheets, the OTP Group will continue to generate surplus forint liquidity, while – primarily due to the foreign subsidiaries – a considerable demand for foreign currency financing will arise. Owing to the differing trends with respect to forint and foreign currency liquidity, the necessary foreign currency funds will be partly raised through the conclusion of forex swaps, charged in part to the Group's forint liquidity. When performing these swaps – as in the case of all debt management – special attention must be paid to ensuring a safe maturity structure. Over the coming years the Group's growth opportunities will give rise to a substantial funding requirement, similar in scale to the external financing requirement of the Hungarian state. The mortgage bonds issued by OTP Mortgage Bank – which are now accepted as collateral by the European Central Bank – are the most safely and cheaply issuable instrument at our disposal, and for this reason a keystone of the approved medium-term strategy is to exploit the potential of mortgage bond issues to the fullest possible extent. Besides this, the growing financing requirement will also make it necessary to expand the circle of investors, as well as their geographical diversity. Under the approved medium-term strategy, both the mortgage bonds issued by OTP Mortgage Bank and the bonds issued by OTP should come to be regarded by investors as a regional benchmark.

Reduction of financing costs within the Group

In keeping with the approved new medium-term financing strategy, a comparative analysis of the various available financing opportunities began to be conducted at regular intervals, making it possible to screen out sources of funding that would not be optimal at group level. In accordance with the formulated strategy, emphasis was placed on ensuring the use of more favourably-termed, lower-cost sources of financing.

In countries where financing costs are high, new funding schemes were formulated which, when they are introduced, will result in significant cost savings. Asset-liability management activities of this nature focused particularly on those subsidiary banks where, at the current financing costs, the prospect of continued growth financed by the parent bank appeared less profitable. The benefits of the new financing techniques will be felt as early as 2008.

Introduction of a transparent and competitive intra-group pricing system

The new transparent internal pricing system aims to encourage optimisation at group level.

Through a system of premiums, the internal pricing structure encourages subsidiaries to respond to changes in the market environment. The transparent pricing system enables the business departments to quickly adapt to changes in the financing situation, potentially resulting in more favourably priced loans and deposits for members of the OTP Group.

Introduction of a shared liquidity pool

In order to better leverage synergies within the Group, a shared liquidity pool was created at group level. The essence of the liquidity pool concept is that the liquidity of the individual group members is not managed separately, but is shared across the Group. The Group members place their surplus liquidity into a shared pool, to be utilised by all members in the extent that is necessary for their business operations and compliance with regulations. Since the liquidity requirements of the individual group members differ in their extent and timing, at group level substantial savings can be achieved through the use of a liquidity pool.

Liquidity and market risk exposure of the OTP Bank Group

Pursuant to government decree 244/2000, the capital requirement for the trading book positions, counterparty risks and forex risk must be consolidated for OTP Mortgage Bank Ltd, OTP Building Society Ltd, Merkantil Bank Ltd, OBS, DSK, OBR, OBH, CJSC, ISB and OTP banka Srbija. By the end of 2007, the consolidated capital requirement was HUF 18.1 billion, which was primarily due to the forex position (HUF 11.1 billion).

The exposures of the Group members' forex positions are limited by individual and global net open position (overnight and intraday) limits, and by stop loss limits. In 2007 the Group's net exposure was an average HUF 118.2 billion, effectively resulting from the foreign interests recorded in the books of OTP Bank.

In 2007 the OTP Group's abundant liquidity decreased due to the dynamic growth in its lending activity and, in the second half of the year, as a consequence of the rising financing requirement of the subsidiary banks. Due to the considerable demand for forex loans, most of the group's forex placements are financed from OTP Bank's forint sources. The Mortgage Bank raises funds by issuing securities, which had previously been purchased by the parent bank, and by institutional and retail investors. In 2007 no mortgage bonds were issued.

In 2007 the OTP Bank Group's interest-risk exposure was essentially determined by the positions of OTP Bank Plc, OTP Mortgage Bank Ltd, CJSC and DSK Bank. At group level the volume of liabilities that can be re-priced within one year exceeds the volume of assets that can be re-priced within one year.

Changes in the liquidity position of OTP Bank Plc.

The long-term liquidity position was influenced significantly by the fundraising transactions carried out in the course of the year, in a value of EUR 200 million and EUR 750 million. The combined amount of the non-refinancing loans taken up by OTP on the capital market rose to EUR 4,411 million, of which 98.3% (EUR 4,336 million) had been called in euro and Swiss franc by the end of 2007. Abundant forint liquidity allowed the Bank to raise euro-denominated and Swiss franc-denominated liabilities in the form of forex swap transactions.

By the end of 2007, the volume of forex loans had growth 60.7% from the end of 2006. A significant part of the loans was provided to the subsidiaries by the Bank. The coverage of forex loans by forex client deposits was 23.8%, and 40.4% in the euro-based segment. As a result of the foreign bank acquisitions, an increasing portion of the equity interests, more than 81%, is now forex denominated. In 2007, the value of client forex deposits increased by 15.7%.

The Bank proceeds more strictly than is stipulated by the regulations: while the latter define large deposits as those exceeding 15% of the guarantee capital, the Bank classifies any deposits in excess of 6% of guarantee capital (i.e. greater than HUF 21.5 billion) as large deposits. The ratio of these deposits to the balance sheet total was 6% at the end of 2007. Based on the 'Dependence on Large Depositors' indicator applied by OTP Bank, the volume of liquid assets is 4.6 times the large depositors' portfolio. However, if we disregard the deposits of funds managed by OTP Fund Management, this figure jumps to 45x, which is far higher than the limit of 2x stipulated in OTP Bank's regulations.

Interest rate risk exposure of OTP Bank Plc.

The Bank wishes to keep within certain specified limits the potential loss resulting from an adverse change in market interest rates as reflected in a fall in net interest revenue or the market value of the portfolio. To this end, the Bank continuously monitors interest risk exposure, informing the management in the event of a limit overshoot.

In 2006, the short-term gap of the combined forint repricing balance sheet of the banking and trading book portfolios (i.e. the value of the receivables in the given time category less the liabilities of the given time category) was negative, showing a HUF 400 billion liability surplus. The reason for this is that the liability surplus due to the substantial portfolio of short-term time deposits is outweighed by the even more considerable asset surplus arising from the short-term appreciation of off-balance-sheet interest-rate and FX swaps. In addition to its rapidly appreciating deposit portfolio, the Bank's interest risk exposure is fundamentally determined by its portfolio of fixed-rate securities held for investment, which exceeded HUF 700 billion. The duration of the investment securities portfolio is 2.9 years. In the EUR portfolio, in one year HUF 55 billion more in assets were repriced (appreciated) than liabilities. This is due to the fact that the Bank finances a part of the variable-rate, and short-term fixed-rate, euro placements with long-term, fixed-rate subordinated or auxiliary loan capital.

The foreign exchange risk exposure of OTP Bank Plc.

The Bank is active on both the domestic and the foreign forex spot and derivative markets. In 2007, OTP Bank's net open position was an average HUF 120.8 billion, which was effectively a result of its foreign interests. The dealing room held an average net open position of HUF 4.4 billion.

In 2007, the forint weakened by 0.4% against the euro. The US dollar weakened significantly against the euro, which – due to the relative stability of the forint/euro cross rate – strengthened the forint's rate against the dollar by 10%. OTP Bank Plc. successfully exploited the opportunities offered by market movements.

The capital requirement of OTP Bank Plc's market risk exposure

Since the second quarter of 2001, in line with government decree 244/2000, the Bank has been reporting on a daily basis to the Financial Supervisory Authority on the capital requirement of the trading book positions' interest risk and counterparty risk determined according to the standard method, as well as on the capital requirement of foreign exchange risk, which since 1 April 2006 – with approval from the Bank's Board of Directors and the Financial Supervisory Authority – is determined using an internal model. In 2007 the average (total) capital requirement was 18.6 billion, of which a value equivalent to HUF 2.1 billion was required by the position risk, HUF 0.9 billion by the counterparty risk, and HUF 15.6 billion by the foreign exchange risk.

Financial Summary (consolidated IFRS data)

Balance sheet as at 31 December

(in HUF bn)	2003	2004*	2005*	2006*	2007*
Cash. due from banks and balances with the National Bank of Hungary	276.5	465.9	483.2	532.6	353.2
Placements with other banks, net of allowance for placement losses	252.3	286.2	438.8	602.6	654.8
Financial assets at fair value through statements of operations	–	70.6	48.1	110.6	285.9
Securities available-for-sale	377.0	295.8	409.9	489.3	473.9
Gross loans	2,046.7	2,586.1	3,297.2	4,474.7	5,761.1
Retail	1,189.1	1,547.4	1,965.8	2,646.4	3,302.6
Corporate	764.9	920.6	1,195.4	1,610.0	2,227.7
Municipal	92.8	118.1	136.0	218.3	230.8
Allowances for loan losses	(64.2)	(79.3)	(105.9)	(127.6)	(178.7)
Net loans	1,982.6	2,506.8	3,191.3	4,347.1	5,582.4
Equity investments	5.9	9.4	12.4	70.9	9.9
Securities held-to-maturity	299.8	247.3	289.8	268.3	317.6
Premises, equipment and intangible assets, net	167.3	174.8	233.2	464.7	541.9
Other assets	99.4	105.6	109.2	211.3	242.2
Total assets	**3,460.8**	**4,162.4**	**5,215.9**	**7,097.4**	**8,461.9**
Due to banks and deposits from the National Bank of Hungary and other banks	126.4	254.1	364.1	660.4	798.2
Deposits from customers	2,689.8	2,902.2	3,428.2	4,232.2	5,038
Retail	2,000.0	2,155.8	2,562.9	2,912.8	3,246.6
Corporate	501.4	549.8	662.2	1,098.1	1,495.6
Municipal	188.5	196.5	203.1	221.3	296.1
Liabilities from issued securities	124.9	317.2	543.5	781.3	985.3
Other liabilities	192.1	240.8	285.6	384.6	383.1
Subordinated bonds and loans	15.4	14.3	47.0	250.7	301.2
Total liabilities	**3,148.6**	**3,728.7**	**4,668.4**	**6,309.2**	**7,566.3**
Total shareholders' equity	**311.8**	**433.7**	**547.5**	**788.2**	**895.6**
Total liabilities and shareholders' equity	**3,460.8**	**4,162.4**	**5,215.9**	**7,097.4**	**8,461.9**
Net assets per share (NAV)*** (HUF, diluted)	1,236.0	1,486.6	1,862.8	2,815.0	3,198.5

Profit and loss account for the years ended 31 December

(in HUF bn)	2003	2004*	2005*	2006**	2007**[1]
Net interest income	176.1	260.9	297.2	355.9	423.7
Provision for loan and placement losses	10.8	16.0	28.0	28.6	42.1
Net interest income after provision for loan and placement losses	165.3	244.8	269.2	327.4	381.6
Fee income	81.6	91.6	118.9	145.0	152.9
Foreign exchange gains, net	5.2	1.3	3.9	(11.9)	16.4
Gains and losses on securities, net	(7.6)	6.5	9.7	6.9	5.1
Gains on real estate transactions, net	1.5	1.8	0.1	1.3	1.4
Dividend income and gains and losses of associated companies	0.4	0.6	0.7	0.9	1.0
Insurance premiums	56.3	49.3	69.8	75.6	83.6
Other	12.2	10.7	13.5	24.9	3.6
Total non-interest income	149.6	161.8	216.5	242.7	263.9
Fee expense	19.9	20.6	19.9	–	–
Personnel expense	61.3	79.5	95.2	106.8	147.8
Depreciation and amortization	19.8	29.2	21.9	26.5	35.6
Insurance expenses	41.8	40.3	58.5	60.9	69.2
Other	69.4	81.0	98.1	125.3	164.3
Total non-interest expense	212.2	250.6	293.6	351.5	416.9
Profit before tax	**102.7**	**156.0**	**192.1**	**218.6**	**249.0**
Profit after tax	**83.3**	**131.5**	**158.3**	**187.1**	**208.5**
Earnings per share (EPS)***					
Base HUF	320	501	603	722	796
Diluted HUF	319	499	599	714	794

Key ratios	2003	2004*	2005*	2006*	2007*
Loan to deposit ratio %	65.0	69.4	70.6	105.7	113.8
Cost/income ratio %	62.9	57.2	55.4	56.4	–
Cost/income ratio, adjusted %	–	–	–	56.8	58.9
Capital adequacy ratio %****	10.54	11.19	10.55	9.88	10.97
ROAA %	2.70	3.45	3.38	3.04	2.68
ROAE %	31.1	35.3	32.3	28.0	24.8
Dividend per share HUF	60	146	197	144	0
Per capita profit after tax (HUF mn)	4.8	7.7	9.0	7.6	6.7

* Due to the changes of the accounting standards figures are not comparable with previous years' data
** From the year 2006 adjusted by the release of pre-acqusition provision and by the non-interest result of FX swap transactions, while fees and commission income was shown on a net base
*** On 11 March 2002 each ordinary share with a face value of HUF 1,000 was split into 10 ordinary shares with a face value of HUF 100 each, thus previous years' data have been restated
**** OTP Bank non-consolidated, accoring to HAR
[1] Figures presented in the statements are not consistent with the audited data because they were originated according to controlling methodoly

Deloitte.

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INDEPENDENT AUDITORS' REPORT

To the Shareholders and Board of Directors of OTP Bank Plc.

We have audited the accompanying consolidated financial statements of OTP Bank Plc. and its subsidiaries, which comprise the consolidated balance sheet as at December 31, 2007, and the related consolidated income statement, statement of changes in equity and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes, included on pages 59 to 107 of this Annual report.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards as adopted by the European Union. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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Deloitte Touche Tohmatsu

Registered by the Budapest Court of Registration
Company Reg. No.: 01-09-071057

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of OTP Bank Plc. and its subsidiaries as of December 31, 2007, and of its consolidated financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

Budapest, March 17, 2008

Horváth Tamás
Deloitte Auditing and Consulting Ltd.
1068 Budapest, Dózsa György út 84/C
000083

Horváth Attila Péter
Registered Auditor
005173

Balance Sheet

(consolidated, based on IFRS, as at 31 December 2007, in HUF million)

	Note	2007	2006
Cash, due from banks and balances with the National Bank of Hungary	4	353,243	532,625
Placements with other banks, net of allowance for placement losses	5	654,788	602,615
Financial assets at fair value through statements of operations	6	285,895	110,576
Securities available-for-sale	7	473,925	489,250
Loans, net of allowance for loan losses	8	5,582,437	4,347,091
Accrued interest receivable		63,459	54,223
Associates and other investments	9	9,892	70,939
Securities held-to-maturity	10	317,557	268,280
Premises, equipment and intangible assets, net	11	541,909	464,716
Other assets	12	178,769	157,111
Total assets		**8,461,874**	**7,097,426**
Due to banks and deposits from the National Bank of Hungary and other banks	13	798,154	660,417
Deposits from customers	14	5,038,372	4,232,153
Liabilities from issued securities	15	985,265	781,315
Accrued interest payable		60,153	46,011
Other liabilities	16	383,189	338,591
Subordinated bonds and loans	17	301,164	250,726
Total liabilities		**7,566,297**	**6,309,213**
Share capital	18	28,000	28,000
Retained earnings and reserves	19	976,225	820,819
Treasury shares	20	(114,001)	(63,716)
Minority interest	21	5,353	3,110
Total shareholders' equity		**895,577**	**788,213**
Total liabilities and shareholders' equity		**8,461,874**	**7,097,426**

The accompanying notes to consolidated financial statements on pages 63 to 107 form an integral part of these consolidated financial statements.

Profit and Loss Account

(consolidated, based on IFRS, for the year ended 31 December 2006, in HUF million)

	Note	2007	2006
Interest Income:			
Loans		567,008	387,653
Placements with other banks		95,793	79,409
Due from banks and balances with the National Bank of Hungary		12,824	25,937
Securities held for trading		7,272	2,593
Securities available-for-sale		34,145	28,746
Securities held-to-maturity		29,938	18,479
Total Interest Income		746,980	542,817
Interest Expense:			
Due to banks and deposits from the National Bank of Hungary and other banks		76,147	41,028
Deposits from customers		172,506	107,060
Liabilities from issued securities		50,197	34,321
Subordinated bonds and loans		16,438	4,464
Total Interest Expense		315,288	186,873
Net interest income		**431,692**	**355,944**
Provision for loan and placement losses	5, 8	58,184	28,559
Net interest income after provision for loan and placement losses		**373,508**	**327,385**
Non-Interest Income:			
Fees and commissions		188,788	145,015
Foreign exchange gains, net		8,399	(11,884)
Gains and losses on securities, net		5,085	6,900
Gains on real estate transactions, net		1,371	1,292
Dividend income and gains and losses of associated companies		993	901
Insurance premiums		83,591	75,554
Other		40,067	24,940
Total Non-Interest Income		328,294	242,718
Non-Interest Expenses:			
Fees and commissions		35,903	32,116
Personnel expenses		147,831	106,804
Depreciation and amortization	11	35,627	26,464
Insurance expenses		69,204	60,866
Other	22	164,285	125,251
Total Non-Interest Expense		452,850	351,501
Income before income taxes		**248,952**	**218,602**
Income taxes	23	(40,404)	(31,506)
Net income		**208,548**	**187,096**
From this, attributable to:			
Minority interest		340	45
Equity holders		**208,208**	**187,051**
Consolidated earnings per share (in HUF)			
Basic	36	796	722
Diluted	36	794	714

The accompanying notes to consolidated financial statements on pages 63 to 107 form an integral part of these consolidated financial statements.

Statements of Cash Flow

(consolidated, based on IFRS, for the year ended 31 December 2006, in HUF million)

OPERATING ACTIVITIES	Note	2007	2006
Income before income taxes		**248,952**	**218,602**
Income tax paid		(45,005)	(47,072)
Depreciation and amortization	11	35,627	26,464
Provision for loan and placement losses	5, 8	58,184	28,559
Provision for permanent diminution in value of equity investments	9	131	(1,892)
Provision for losses on other assets	12	8,386	814
Release of allowance for losses on off-balance sheet commitments and contingent liabilities, net	16	4,018	6,982
Net increase in insurance reserves		20,604	32,253
Share-based compensation	2, 26	5,123	5,927
Unrealised losses on fair value adjustment of securities held for trading		695	1,465
Unrealised gains on fair value adjustment of derivative financial instruments		(44,522)	(17,137)
Net changes in financial assets through Statements of Operations		(32,298)	(6,297)
Net increase in accrued interest receivables		(8,338)	(10,059)
Net increase in other assets, excluding advances for investments and before allowance for losses		(18,649)	(80,271)
Net decrease in accrued interest payable		14,021	16,801
Net increase in other liabilities		4,072	43,969
Net Cash Provided by Operating Activities		**251,001**	**219,108**
INVESTING ACTIVITIES			
Net decrease/(increase) in placement with other banks before provision for placements losses		16,315	(80,699)
Net decrease/(increase) in securities available-for-sale		(94,121)	(78,636)
Net decrease/(increase) in equity investments, before provision for permanent diminution in value		61,133	(56,678)
Net cash outflow from acquisition of subsidiaries		(58,303)	(243,703)
Net (increase)/decrease in debt securities held-to-maturity		(47,990)	21,526
Net decrease/(increase) in advances for investments, included in other assets		254	(255)
Net increase in loans, before provision for loan losses		(1,179,630)	(601,625)
Net additions to premises, equipments and intangible assets		(66,744)	(38,050)
Net Cash Used in Investing Activities		**(1,369,086)**	**(1,078,120)**
FINANCING ACTIVITIES			
Net increase in due to banks and deposits from the National Bank of Hungary and other banks		118,469	86,294
Net increase in deposits from customers		671,271	359,754
Net increase in liabilities from issued securities		203,950	220,626
Increase in subordinated bonds and loans		50,438	192,476
Increase/(decrease)of minority interest		127	(414)
Foreign currency translation losses		(5,579)	(8,478)
Issuance of/ Dividend on equity instrument (ICES)		(5,640)	120,305
Net change in treasury shares		(54,182)	(6,998)
Net decrease in compulsory reserves at National Bank of Hungary	4, 28	(22,416)	(14,772)
Dividends paid		(40,151)	(55,119)
Net Cash Provided by Financing Activities		**916,287**	**893,674**
Net Increase in Cash and Cash Equivalents		**(201,798)**	**34,662**
Cash and cash equivalents as at 1 January		396,658	361,996
Cash and Cash Equivalents as at 31 December		**194,860**	**396,658**
Analysis of cash and cash equivalents opening and closing balance			
Cash, due from banks and balances with the National Bank of Hungary	4, 28	532,625	483,191
Compulsory reserve established by the National Bank of Hungary	4, 28	(135,967)	(121,195)
Cash and cash equivalents as at 1 January		**396,658**	**361,996**
Cash, due from banks and balances with the National Bank of Hungary	4, 28	353,243	532,625
Compulsory reserve established by the National Bank of Hungary	4, 28	(158,383)	(135,967)
Cash and cash equivalents as at 31 December		**194,860**	**396,658**

The accompanying notes to consolidated financial statements on pages 63 to 107 form an integral part of these consolidated financial statements.

Statements of Changes in Shareholders' Equity

(consolidated, based on IFRS, for the year ended 31 December 2006, in HUF million)

	Note	Share Capital	Retained Earnings and Reserves	Treasury Shares	Minority interest	Total
Balance as at 1 January 2006		**28,000**	**572,567**	**(53,586)**	**491**	**547,472**
Net income		–	187,096	–	(45)	187,051
Fair value adjustment of securities available-for-sale recognised directly through equity, net		–	(3,430)	–	–	(3,430)
Share-based compensation	26	–	5,927	–	–	5,927
Dividend for the year 2005		–	(55,160)	–	–	(55,160)
Gain on sale of treasury shares		–	3,132	–	–	3,132
Purchase of treasury shares		–	–	(10,130)	–	(10,130)
Derivative financial instruments designated as cash flow hedge		–	(1,131)	–	–	(1,131)
Issuance equity instrument (ICES)	19	–	120,305	–	–	120,305
Foreign currency translation gain		–	(8,478)	–	–	(8,478)
Deferred tax		–	36	–	–	36
Minority interest		–	(45)	–	2,664	2,619
Balance as at 31 December 2006		**28,000**	**820,819**	**(63,716)**	**3,110**	**788,213**
Net income		–	208,548	–	(340)	208,208
Fair value adjustment of securities available-for-sale recognised directly through equity, net		–	(858)	–	–	(858)
Fair value adjustment of derivative financial instruments recognised directly through equity, net		–	(387)	–	–	(387)
Share-based compensation	26	–	5,123	–	–	5,123
Dividend for the year 2006		–	(40,320)	–	–	(40,320)
Loss on sale of treasury shares		–	(3,897)	–	–	(3,897)
Purchase of treasury shares		–	–	(50,285)	–	(50,285)
Derivative financial instruments designated as cash flow hedge		–	(1,196)	–	–	(1,196)
Dividend on equity instrument (ICES)	19		(5,640)			(5,640)
Foreign currency translation gain		–	(5,627)	–	–	(5,627)
Minority interest		–	(340)	–	2,583	2,243
Balance as at 31 December 2007		**28,000**	**976,225**	**(114,001)**	**5,353**	**895,577**

The accompanying notes to consolidated financial statements on pages 63 to 107 form an integral part of these consolidated financial statements.

NOTES TO CONSOLIDATED IFRS FINANCIAL STATEMENTS AS AT 31 DECEMBER 2007

NOTE 1: ORGANIZATION AND BASIS OF CONSOLIDATED FINANCIAL STATEMENTS

1.1. General information

OTP Bank Plc. (the 'Bank' or 'OTP') was established on 31 December 1990, when the predecessor State-owned company was transformed into a public liability company.

The registered office of the Bank address is 16 Nádor Street, Budapest 1051.

In 1995, the shares of the Bank were introduced to the Budapest and the Luxembourg stock exchanges and were also listed on SEAQ London and PORTAL (USA).

As at 31 December 2007 approximately 95% of the shares of the Bank were held by domestic and foreign private and institutional investors. The remaining shares are owned by employees (2%) and the Bank (3%).

The Bank and its subsidiaries (together the 'Group') provide a full range of commercial banking services through a wide network of 1,462 branches. The Group has operations in Hungary, Bulgaria, Slovakia, Romania, Croatia, Serbia, Ukraine, Russia and Montenegro.

As at 31 December 2007 the number of employees at the Group was 33,062. The average number of employees for the one year period ended 31 December 2007 was 30,912.

1.2. Accounting

The Group maintains its accounting records and prepares its statutory accounts in accordance with the commercial, banking and fiscal regulations prevailing in Hungary and in case of foreign subsidiaries in accordance with the local commercial, banking and fiscal regulations.

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

Due to the fact that the Bank is listed on international and national stock exchanges, the Bank is obliged to present its financial position according to the International Financial Reporting Standards in order to present the consolidated financial position and results of operations of the Bank in accordance with all standards and interpretations approved by the International Accounting Standards Board (IASB), which are referred to as International Financial Reporting Standards (IFRS). These standards and interpretations were previously called International Accounting Standards (IAS).

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union (the 'EU'). IFRS as adopted by the EU do not

currently differ from IFRS as issued by the IASB, except for portfolio hedge accounting under IAS 39 which has not been approved by the EU. As the Group does not apply portfolio hedge accounting under IAS 39, there is no impact on these consolidated financial statements, had it been approved by the EU at the balance sheet date.
The Financial Statements were authorised for issue on 17 March 2008.

1.2.1. The effect of adopting new and revised International Financial Reporting Standards effective from 1 January 2007

In the current year, the Bank has adopted IFRS 7 Financial Instruments: Disclosures which is effective for annual reporting periods beginning on or after 1 January 2007, and the consequential amendments to IAS 1 Presentation of Financial Statements.

The impact of the adoption of IFRS 7 and the changes to IAS 1 implicate the expansion of the disclosures provided in these financial statements regarding the financial instruments of the Bank and management of capital.

Four Interpretations issued by the International Financial Reporting Interpretations Committee are effective for the current period. These are:
– IFRIC 7: Applying the Restatement Approach under IAS 29, Financial Reporting in Hyperinflationary Economies;
– IFRIC 8: Scope of IFRS 2;
– IFRIC 9: Reassessment of Embedded Derivatives;
– IFRIC 10: Interim Financial Reporting and Impairment.

The adoption of the above amendments had no significant impact on the 2007 consolidated financial statements.

1.2.2. Changes in Accounting Policies arising from the Adoption of New IFRSs and Amendments to IASs effective 1 January 2007

At the date of authorisation of these financial statements, other than the Standards and Interpretations adopted by the Bank, the following Interpretations were in issue but not yet effective:
– IAS 23: (Revised) Borrowing Costs (effective for accounting periods beginning on or after 1 January 2009);
– IFRS 8: Operating Segments (effective for accounting periods beginning on or after 1 January 2009);
– IFRIC 13: Customer Loyalty Programmes (effective for accounting periods beginning on or after 1 July 2008);
– IFRIC 11 IFRS 2: Bank and Treasury Share Transactions (effective 1 March 2007);
– IFRIC 12: Service Concession Arrangements (effective 1 January 2008);
– IFRIC 14 IAS 19: The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction (effective 1 January 2008).

The directors anticipate that all of the above Interpretations will be adopted in financial statements of the Bank for the period commencing 1 January 2008 and that the adoption of those Interpretations will have no material impact on the financial statements of the Bank in the period of initial application.

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

2.1. Basis of Presentation

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

The presentation of Consolidated Financial Statements in conformity with IFRS requires management of the Bank to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities as of the date of the financial statements and their reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Future changes in economic conditions, business strategies, regulatory requirements, accounting rules and other factors could result in a change in estimates that could have a material impact on future financial statements.

2.2. Foreign currency translation

Assets and liabilities denominated in foreign currencies are translated into HUF at exchange rates quoted by the National Bank of Hungary ('NBH'), or if there is no official rate, at exchange rate quoted by OTP as of the date of the Consolidated Financial Statements. Income and expenses arising in foreign currencies are converted at the rate of exchange on the transaction date. Resulting foreign exchange gains or losses are recorded in the Consolidated Statements of Operations.

Net differences resulting from translating foreign currency financial statements of consolidated subsidiaries are presented as an element of retained earnings and reserves in the Consolidated Balance Sheet.

Effective for acquisitions after 31 March 2004 goodwill arising on acquisition is expressed in the functional currency of the foreign operation and translated at the closing rate in the Consolidated Balance Sheet. The resulting exchange difference is presented as an element of retained earnings and reserves in the Consolidated Balance Sheet.

2.3. Principles of consolidation

Included in these Consolidated Financial Statements are the accounts of those subsidiaries in which the Bank holds a controlling interest. The list of the major fully consolidated subsidiaries, the percentage of issued capital owned by the Bank and the description of their activities is provided in Note 30. However, certain subsidiaries in which the Bank holds a controlling interest have not been consolidated in accordance with IFRS because the effect of consolidating such companies is not material to the Consolidated Financial Statements as a whole (see Note 2.10.).

2.4. Accounting for acquisitions

Upon acquisition, subsidiaries are accounted for under the purchase method of accounting. Any goodwill arising on acquisition is recognized in the Consolidated Balance Sheet and accounted for as indicated below.

The Group has applied IFRS 3 Business Combinations since 31 March 2004 for acquisitions after that date. Goodwill, which represents the residual cost of the acquisition after recognizing the acquirer's interest in the fair value of the identifiable assets, liabilities and contingent liabilities acquired, is held as an intangible asset and recorded at cost less any accumulated impairment losses in the Consolidated Financial Statements.

Goodwill acquired in a business combination is tested for impairment annually or more frequently if events or changes in circumstances indicate that it might be impaired.

Negative goodwill, when the interest of the acquier in the net fair value of the acquired identifiable net assets exceeds the cost of the business combination, is recognized immediately in the Consolidated Statements of Operations as other income.

2.5. Securities held-to-maturity

Investments in securities are accounted for on a settlement date basis and are initially measured at fair value. At subsequent reporting dates, securities that the Group has the expressed intention and ability to hold to maturity (held-to-maturity securities) are measured at amortised cost, less any impairment losses recognised to reflect irrecoverable amounts. The annual amortisation of any discount or premium on the acquisition of a held-to-maturity security is aggregated with other investment income receivable over the term of the investment so that the revenue recognised in each period represents a constant yield on the investment.

Held-to-maturity investments include securities, which the Group has the ability and intent to hold to maturity. Such securities comprise mainly securities issued by the Hungarian Government and mortgage bonds.

2.6. Financial assets at fair value through statements of operations

2.6.1. Securities held for trading

Investments in securities are accounted for on a settlement date basis and are initially measured at fair value. Held for trading investments are measured at subsequent reporting dates at fair value. Unrealised gains and losses on held for trading securities are recognised in profit/loss and included in the Consolidated Statements of Operations for the period. Such securities consist of Hungarian and foreign discounted and interest bearing Treasury bills, government bonds and other securities. Other securities include shares in commercial companies and shares in investment funds.

2.6.2. Derivative financial instruments

In the normal course of business, the Group is a party to contracts for derivative financial instruments, which represent a very low initial investment compared to the notional value of the contract. The derivative financial instruments used include interest rate forward or swap agreements and currency forward and swap agreements. These financial instruments are used by the Group to hedge interest rate risk and currency exposures associated with its transactions in the financial markets.

Derivative financial instruments are initially measured at fair value and at subsequent reporting dates at their fair value. Fair values are obtained from quoted market prices, discounted cash flow models and options pricing models as appropriate. Changes in the fair value of derivative financial instruments that do not qualify for hedge accounting are recognised in profit/loss and included in the Consolidated Statements of Operations for the period. All derivatives are carried as assets when fair value is positive and as liabilities when fair value is negative.

2.6.3. Derivative financial instruments designated as a fair-value or cash flow hedge

Changes in the fair value of derivatives that are designated and qualify as fair value hedges and that prove to be highly effective in relation to the hedged risk, are recorded in the Consolidated Statements of Operations along with the corresponding change in fair value of the hedged asset or liability that is attributable to the specific hedged risk. The ineffective element of the hedge is charged directly to the Consolidated Statements of Operations.

Changes in fair value of derivatives that are designated and qualify as cash flow hedges and that prove to be highly effective in relation to the hedged risk are recognised in the reserve among Consolidated Shareholders' Equity. Amounts deferred in equity are transferred to the Consolidated Statements of Operations and classified as revenue or expense in the periods during which the hedged assets and liabilities affect the Consolidated Statements of Operations for the period. The ineffective element of the hedge is charged directly to the Consolidated Statements of Operations.

Certain derivative transactions, while providing effective economic hedges under the risk management policy of the Group, do not qualify for hedge accounting under the specific rules of IAS 39 and are therefore treated as derivatives held for trading with fair value gains and losses charged directly to the Consolidated Statements of Operations.

2.7. Securities available-for-sale

Investments in securities are accounted for on a settlement date basis and are initially measured at fair value. Available-for-sale investments are measured at subsequent reporting dates at fair value. Unrealised gains and losses on available-for-sale financial instruments are recognised directly in equity, unless such available-for-sale security is part of an effective fair value hedge. Such gains and losses will be reported when realised in profit and loss for the applicable period. Such securities consist of Hungarian and foreign discounted and interest bearing Treasury bills, government bonds and other securities. Other securities include shares in commercial companies, shares in investment funds, bonds issued by companies and mortgage bonds issued by other financial institutions.

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

Those available-for-sale financial assets that do not have a quoted market price and whose fair value cannot be reliably measured by other models mentioned above, are measured at cost, less allowance for permanent diminution in value, when appropriate.

2.8. Loans, placements with other banks and allowance for loan and placements losses

Loans and placements with other banks are stated at the principal amounts outstanding, net of allowance for loan or placement losses, respectively. Interest is accrued and credited to income based on the principal amount outstanding. When a borrower is unable to meet payments as they come due or, in the opinion of the management, there is an indication that a borrower may be unable to meet payments as they come due, all unpaid interest is reversed and accruals are stopped.

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

Allowance for losses on loans and placements with other banks represent management assesment for potential losses in relation to these activities.

The allowances for loan and placement losses are maintained to cover losses that have been specifically identified and for potential losses which may be present based on portfolio performance.

Write-offs are generally recorded after all reasonable restructuring or collection activities have taken place and the possibility of further recovery is considered to be remote. The loan is written off against the related account 'Provisions for loan and placement losses' in the statement of operations. If the reason for provisioning is no longer deemed appropriate, the redundant provisioning charge is released into income.

2.9. Sale and repurchase agreements

Where debt or equity securities are sold under a commitment to repurchase them at a pre-determined price, they remain on the balance sheet and the consideration received is recorded in liabilities due to banks. Conversely, debt or equity securities purchased under a commitment to resell are not recognised in the balance sheet and the consideration paid is recorded in placement with other banks. Interest is accrued evenly over the life of the repurchase agreement.

2.10. Associates and other investments

Companies where the Bank has the ability to exercise significant influence are accounted for using the equity method. However, certain associated companies in which the Bank holds a significant interest have not been accounted for in accordance with the equity method because the effect of using the equity method to account for such companies is not material to the consolidated financial statements as a whole. Shares which are intended to be disposed of are included among securities available-for-sale and measured at fair value.

Unconsolidated subsidiaries and associated companies that were not accounted for using the equity method and other investments where the Bank does not hold a controlling or significant interest are recorded at the cost of acquisition, less allowance for permanent diminution in value, when appropriate.

Gains and losses on the sale of equity investments are determined on the basis of the specific identification of the cost of each investment.

2.11. Premises, equipments and intangible assets

Premises, equipments and intangible assets are stated at cost, less accumulated depreciation and amortization and impairment, if any. The depreciable amount (book value less residual value) of the non-current assets must be allocated over the useful life. Depreciation and amortization are computed using the straight-line method over the estimated useful lives of the assets based on the following annual percentages:

Buildings	1–20%
Machinery and equipment	2.5–54%
Vehicles	3–100%
Leased assets	13–100%
Software	5–50%
Property rights	14.5–50%

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

At each balance sheet date, the Group reviews the carrying value of its tangible and intangible assets to determine if there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated to determine the extent (if any) of the impairment loss. Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

Where the carrying value of premises, equipments and other tangible fixed assets is greater than the estimated recoverable amount, it is written down immediately to the estimated recoverable amount.

2.12. Leases

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

The Group as lessor
Amounts due from lessees under finance leases are recorded as receivables at the amount of the net investment in the lease of the Group. Finance lease income is allocated to accounting periods so as to reflect a constant rate of return on the net investment outstanding of the Group in respect of the leases. Direct costs such as commissions are included in the initial measurement of the finance lease receivables.

Rental income from operating leases is recognised on a straight-line basis over the term of the relevant lease.

The Group as lessee
Assets held under finance leases, which confer rights and obligations similar to those attached to owned assets, are capitalised at their fair value and depreciated over the useful lives of assets. The capital element of each future lease obligation is recorded as a liability, while the interest elements are charged to the Consolidated Statements of Operations over the period of the leases to produce a constant rate of charge on the balance of capital payments outstanding.

Payments made under operating leases are charged to the Consolidated Statements of Operations on a straight-line basis over the term of the lease. When an operating lease is terminated before the lease period has expired, any payment required to be made to the lessor by way of penalty is recognised as an expense in the period in which termination takes place.

2.13. Properties held for resale

Properties held for resale are accounted for at historical cost less allowance for permanent diminution in value and are included in Other assets in the Consolidated Balance Sheet. Properties held for resale include property held for sale in the normal course of business as a result of construction or development, real estate held due to work out of loans and property acquired exclusively with a view to subsequent disposal in the near future.

2.14. Insurance reserves

Insurance reserves are accrued for liabilities from life and non-life insurance contracts and are included in Other liabilities. The level of such reserves reflects the amount of future liabilities expected as at the date of the consolidated financial statements. The provision for outstanding claims and claim settlement expenses for non-life policies are based upon estimates of the expected losses for all classes of business. The reserve includes reported claims, claims incurred but not reported and claim adjustment expenses. This provision takes into account mortality factors within Hungary and other countries where insurance operations are conducted and is based upon mortality tables approved by regulatory authorities.

2.15. Treasury shares

Treasury shares are shares which are purchased on the stock exchange and the over-the-counter market by the Bank and its subsidiaries and are presented in the Consolidated Balance Sheet at acquisiton cost as a deduction from Consolidated Shareholders' Equity.

Gains and losses on the sale of treasury shares are credited or charged directly to consolidated Retained earnings and reserves.

2.16. Interest income and interest expense

According to the IAS 18 interest income and expense are recognised in the Consolidated Statements of Operations on an accrual basis. Revenue is recognised as the interest accrues using the effective interest method that is the rate that discounts the estimated future cash receipts through the expected life of the financial instrument to the net carrying amount of the financial asset.

2.17. Fees and commissions

Fees and commissions are recognised in the Consolidated Statements of Operations on an accrual basis based on IAS 18.

2.18. Income taxes

The annual taxation charge is based on the tax payable under fiscal regulations prevailing in the country where the company is incorporated, adjusted for deferred taxation.

Deferred taxation is accounted for using the balance sheet liability method in respect of temporary differences between the tax bases of assets and liabilities and their carrying value for financial reporting purposes, measured at the tax rates that apply to the future period when the asset is expected to be realised or the liability is settled.

2.19. Off-balance sheet commitments and contingent liabilities

In the ordinary course of its business, the Group has entered into off-balance sheet commitments such as guarantees, commitments to extend credit and letters of credit and transactions with financial instruments. The provision for losses on commitments and contingent liabilities is maintained at a level adequate to absorb probable future losses. Management determines the adequacy of the allowance based upon reviews of individual items, recent loss experience, current economic conditions, the risk characteristics of the various categories of transactions and other pertinent factors.

The Group recognises a provision when it has a present obligation as a result of a past event; it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation; and a reliable estimate can be made of the obligation.

2.20. Share-based compensation

The Bank has applied the requirements of IFRS 2 Share-based Payments. In accordance with the transitional provisions, IFRS 2 has been applied to all grants of equity instruments after 7 November 2002.

The Bank issues equity-settled share-based compensations to certain employees. Equity-settled share-based compensations are measured at fair value at the date of grant. The fair value determined at the grant date of the equity-settled share-based compensations is expensed on a straight-line basis over the year, based on the estimate of the Bank of shares that will eventually vest.

Fair value is measured by use of a binomial model. The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions, and behavioural considerations.

2.21. Consolidated statements of cash flows

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

2.22. Segment reporting

Segment information is based on two segments formats. The primary format represents the geographical markets of the Group. The secondary format represents two business segments – banking (finance) and insurance.

Segment results include revenue and expenses directly attributable to a segment and the revelant portion of revenue and expenses that can be allocated to a segment, whether from external transactions or from transactions with other segments of the Group.

Unallocated items mainly comprise administrative expenses. Segment results are determined before any adjustments for minority interest. Segment assets and liabilities comprise those operating assets and liabilities that are directly attributable to the segment on a resonable basis. Segment assets are determined after deducting related adjustments that are reported as direct offsets in the balance sheet of the Group.

2.23. Comparative figures

Certain amounts in the 2006 consolidated financial statements have been reclassified to conform to the current year presentation.

NOTE 3: SIGNIFICANT ACCOUNTING ESTIMATES AND DECISIONS IN THE APPLICATION OF ACCOUNTING POLICIES

The presentation of financial statements in conformity with IFRS requires the management of the Group to make judgement about estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities as at the date of the financial statements and their reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Significant areas of subjective judgement include:

3.1. Impairment of Loans and Advances

The Group regularly assesses its loan portfolio for possible impairment. Management determines the adequacy of the allowances based upon reviews of individual loans and placements, recent loss experience, current economic conditions, the risk characteristics of the various categories of loans and other pertinent factors. Provisioning involves many uncertainties about the outcome of those risks and requires the management of the Group to make many subjective judgements in estimating the loss amounts.

3.2. Valuation of instruments without Direct Quotations

Financial instruments without direct quotations in an active market are valued using the valuation model technique. The models are regularly reviewed and each model is calibrated for the most recent available market data. While the models are built only on available data, their use is subject to certain assumptions and estimates (e.g., for correlations, volatilities, etc.). Changes in the model assumptions may affect the reported market value of the relevant financial instruments.

3.3. Provisions

The Group is involved in a number of ongoing legal disputes. Based upon historical experience and expert reports, the Group assesses the developments in these cases, and the likelihood and the amount of potential financial losses which are appropriately provided for (see Note 16.).

3.4. Insurance liabilities

Insurance liabilities for life and non-life insurance contracts reflect the amount of future liabilities expected at the date of the consolidated financial statements. Such reserves are based on past experience, mortality tables and management estimates. Changes in these assumptions may affect the level of such liabilities.

NOTE 4: CASH, DUE FROM BANKS AND BALANCES WITH THE NATIONAL BANK OF HUNGARY (in HUF mn)

	2007	2006
Cash on hand:		
in HUF	51,038	46,286
in foreign currency	90,850	52,471
	141,888	**98,757**
Due from banks and balances with the National Bank of Hungary:		
Within one year:		
in HUF	170,019	389,684
in foreign currency	41,336	44,184
	211,335	**433,868**
Total	**353,243**	**532,625**

Based on the requirements for compulsory reserve set by the National Bank of Hungary, the balance of compulsory reserves maintained by the Group amounted to HUF 158,383 million and HUF 135,967 million for the years ended 31 December 2007 and 2006, respectively.

NOTE 5: PLACEMENTS WITH OTHER BANKS, NET OF ALLOWANCE FOR PLACEMENT LOSSES (in HUF mn)

	2007	2006
Within one year:		
in HUF	22,721	37,808
in foreign currency	594,408	526,024
	617,129	**563,832**
Over one year:		
in HUF	2,700	3,000
in foreign currency	35,001	35,783
	37,701	**38,783**
Allowance for placements losses	42	–
Total	**654,788**	**602,615**

Placements of foreign subsidiaries with their respective National Banks amounted to HUF 284,885 million and HUF 184,799 million for the years ended 31 December 2007 and 2006, respectively.

Placements with other banks in foreign currency as at 31 December 2007 and 2006 bear interest rates in the range from 0.05% to 11.99% and from 0.43% to 16.5%, respectively.

Placements with other banks in HUF as at 31 December 2007 and 2006 bear interest rates in the range from 3.9% to 14.13% and from 4.24% to 9.55%, respectively.

Allowance for placements losses amounted to HUF 42 million as at 31 December 2007.

NOTE 6: FINANCIAL ASSETS AT FAIR VALUE THROUGH STATEMENTS OF OPERATIONS (in HUF mn)

	2007	2006
Securities held for trading		
Treasury bills	24,143	1,562
Hungarian Government interest bearing treasury bills	2,406	5,709
Government bonds	90,330	41,421
Corporate bonds	72,443	21,432
Mortgage bonds	807	574
Other securities	31,828	14,169
	221,957	**84,867**
Derivative financial instruments designated as held for trading	63,938	25,709
Total	**285,895**	**110,576**

Securities held for trading are measured at fair value in the financial statements of the Group which approximates book value.

Approximately 17% and 38% of the government bonds were denominated in foreign currency as at 31 December 2007 and 2006, respectively. Approximately 10%, 22%, 17% and 51% of this portfolio was denominated in USD, EUR, BGN and RUB as at 31 December 2007, and 12%, 21%, 19%, and 48% of this portfolio was denominated in USD, EUR, BGN and RUB as at 31 December 2006.

Interest rates on securities held for trading are ranged from 2% to 12.1% and from 2% to 12.5% as at 31 December 2007 and 2006, respectively.

Interest conditions and the remaining maturities of held for trading securities can be analyzed as follows:

	2007	2006
Within five years:		
wth variable interest	25,803	1,136
with fixed interest	138,752	68,683
	164,555	**69,819**
Over five years:		
with variable interest	–	3,249
with fixed interest	51,820	10,802
	51,820	**14,051**
Non-interest bearing securities	**5,582**	**997**
Total	**221,957**	**84,867**

NOTE 7: SECURITIES AVAILABLE-FOR-SALE (in HUF mn)

	2007	2006
Available-for-sale securities		
Treasury bills	25,247	112,143
Government bonds	271,111	267,455
Corporate bonds	133,778	75,122
Mortgage bonds	264	392
Other securities	43,555	34,167
	473,955	**489,279**
Provisions for securities available for sale	**(30)**	**(29)**
Total	**473,925**	**489,250**

Securities available-for-sale are measured at fair value in the financial statements of the Group that is their book value.

Approximately 60% and 79% of the available-for-sale securities portfolio was denominated in HUF as at 31 December 2007 and 2006, respectively.

Approximately 19% and 20% of the government bonds were denominated in foreign currency as at 31 December 2007 and 2006, respectively. Approximately 7%, 35%, 29%, 16%, 11%, 2% of this portfolio was denominated in USD, EUR, HRK, BGN, UAH and other currency as at 31 December 2007, and 4%, 50%, 26%, 19% and 1% of this portfolio was denominated in USD, EUR, HRK, BGN and SKK as at 31 December 2006, respectively.

Interest rates on securities available-for-sale ranged from 2% to 16.5% and from 2% to 28.8% as at 31 December 2007 and 2006, respectively.

Interest conditions and the remaining maturities of available-for-sale financial assets can be analyzed as follows:

	2007	2006
Within five years:		
with variable interest	30,672	41,934
with fixed interest	256,643	315,660
	287,315	**357,594**
Over five years:		
with variable interest	66,247	7,262
with fixed interest	85,137	91,384
	151,384	**98,646**
Non-interest bearing securities	**35,256**	**33,039**
Total	**473,955**	**489,279**

An analysis of the change in the allowance for securities available for sale is as follows:

	2007	2006
Balance as at 1 January	29	–
Provisions for securities available for sale	1	29
Balance as at 31 December	**30**	**29**

Certain fixed-rate mortgage bonds and other securities mainly denominated in foreign currency are hedged by derivative financial instruments to reduce the exposure to interest rate risk or the changes in fair value of these assets. In the case of these transactions the hedging relationships is designated and HUF 308 million and HUF 1,527 million net loss that had been recognised directly in equity was removed from equity and recognised in the net profit and loss as at 31 December 2007 and 2006 respectively in line with IAS 39.

The fair value of the hedged bonds was HUF 29,457 million and HUF 21,615 million as at 31 December 2007 and 2006 respectively.

NOTE 8: LOANS, NET OF ALLOWANCE FOR LOAN LOSSES (in HUF mn)

	2007	2006
Loans and trade bills within one year	1,640,455	1,338,653
Loans and trade bills over one year	4,120,640	3,136,049
	5,761,095	**4,474,702**
Allowance for loan losses	(178,658)	(127,611)
Total	**5,582,437**	**4,347,091**

Foreign currency loans represent approximately 69% and 59% of the total loan portfolio, before allowance for losses, as at 31 December 2007 and 2006, respectively.

Loans denominated in HUF, with maturity within one year as at 31 December 2007 and 2006, bear interest rates in the range from 6% to 30% and from 6% to 30%, respectively.

Loans denominated in HUF, with maturity over one year as at 31 December 2007 and 2006, bear interest rates in the range from 4% to 22.8% and from 4% to 22.8%, respectively.

Foreign currency loans as at 31 December 2007 and 2006, bear interest rates in the range from 1% to 40% and from 1.5% to 42%, respectively.

Approximately 3% of the gross loan portfolio represented loans on which interest is not being accrued as at 31 December 2007 and 2006, respectively.

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

	2007		2006	
Commercial loans	2,227,693	39%	1,609,989	36%
Municipality loans	230,819	4%	218,299	5%
Housing loans	1,766,219	30%	1,520,053	34%
Consumer loans	1,536,364	27%	1,126,361	25%
Total	**5,761,095**	**100%**	**4,474,702**	**100%**

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

	2007	2006
Balance as at 1 January	127,611	105,920
Provision for loan losses	58,144	28,559
Write-offs	(6,274)	(6,718)
Foreign currency translation loss/(gain)	(823)	(150)
Balance as at 31 December	**178,658**	**127,611**

The Group issued fixed rate mortgage bonds with the face value of EUR 750 million to finance its mortgaging activity. Since the Group grants most of its mortgage loans in CHF, the Group entered into a cross currency interest rate swap (CCIRS) contract to hedge its exchange rate risk exposure. The hedging relationship can be proved. According to the IAS 39 an amount of HUF 2,359 was recognised on hedgeing derivative instruments as negative fair value adjustment and the same amount is recognised as a positive adjustment on mortgage bonds as at 31 December 2007. The nominal value of loans as designated hedged items is CHF 1,174 million.

NOTE 9: ASSOCIATES AND OTHER INVESTMENTS (in HUF mn)

	2007	2006
Equity investments:		
Unconsolidated subsidiaries	6,741	2,975
Associated companies	998	632
Other investments	2,495	67,539
	10,234	**71,146**
Allowance for permanent diminution in value	(342)	(207)
Total	**9,892**	**70,939**

	2007	2006
Total assets of unconsolidated subsidiaries	**69,265**	**31,876**

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

	2007	2006
Balance as at 1 January	207	2,144
(Release)/Provision for permanent diminution in value	131	(1,892)
Write-offs	–	(70)
Foreign currency translation gain	4	25
Balance as at 31 December	**342**	**207**

NOTE 10: SECURITIES HELD-TO-MATURITY (in HUF mn)

	2007	2006
Hungarian Government discounted Treasury bills	1,140	28,452
Government securities	201,670	218,688
Bonds issued by NBH	97,085	–
Mortgage bonds	13,022	12,631
Other debt securities	4,688	8,509
Total	**317,605**	**268,280**

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

	2007	2006
Within five years:		
with variable interest	30,304	30,773
with fixed interest	228,191	176,092
	258,495	**206,865**
Over five years:		
with variable interest	32,856	37,246
with fixed interest	26,254	24,169
	59,110	**61,415**
Total	**317,605**	**268,280**

Approximately 85% and 81% of the debt securities portfolio was denominated in HUF as at 31 December 2007 and 2006, respectively. In most cases, interests on variable rate bonds are based on the interest rates of 90-day Hungarian Government Treasury bills and are adjusted semi-annually.

Interest rates on fixed interest securities denominated in HUF are ranged from 2.5% to 9.5% and from 2.2% to 10% as at 31 December 2007 and 2006, respectively. Interest on fixed rate and variable rate securities is, in most cases, paid semi-annually.

The fair value of held-to-maturity investments was HUF 310,513 million and HUF 267,589 million as at 31 December 2007 and 2006, respectively.

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

	2007	2006
Balance as at 1 January	–	–
Provision for held-to-maturity securities	168	–
Release of allowance	(120)	–
Balance as at 31 December	**48**	**–**

NOTE 11: PREMISES, EQUIPMENTS AND INTANGIBLE ASSETS, NET (in HUF mn)

For the year ended 31 December 2007:

	Intangible assets and goodwill	Land and buildings	Machinery and equipment	Construction in progress	Total
Cost					
Balance as at 1 January	346,370	110,186	111,398	13,537	581,491
Acquisition of subsidiary	–	–	–	–	–
Net additions	62,896	24,451	29,029	28,976	145,352
Foreign currency translation differences	752	(487)	(167)	(61)	37
Net disposals	**(581)**	**(5,116)**	**(8,613)**	**(25,908)**	**(40,218)**
Balance as at 31 December	**409,437**	**129,034**	**131,647**	**16,544**	**686,662**
Depreciation and Amortization					
Balance as at 1 January	40,110	15,404	61,261	–	116,775
Net charge	15,956	3,575	15,882	–	35,413
Foreign currency translation differences	(69)	(11)	90	–	10
Net disposals	**17**	**(1,860)**	**(5,602)**	**–**	**(7,445)**
Balance as at 31 December	**56,014**	**17,108**	**71,631**	**–**	**144,753**
Net book value					
Balance as at 1 January	306,260	94,782	50,137	13,537	464,716
Balance as at 31 December	**353,423**	**111,926**	**60,016**	**16,544**	**541,909**

An analysis of the changes in the goodwill for the year ended 31 December 2007 is as follows:

	Goodwill
Cost	
Balance as at 1 January	256,685
Additions	38,442
Foreign currency translation differences	1,209
Balance as at 31 December	**296,336**
Net book value	
Balance as at 1 January	256,685
Balance as at 31 December	**296,336**

For the year ended 31 December 2006:

	Intangible assets and goodwill	Land and buildings	Machinery and equipment	Construction in progress	Total
Cost					
Balance as at 1 January	130,604	97,524	91,426	12,430	331,984
Acquisition of subsidiary	12,382	10,395	5,471	763	29,011
Net additions	211,853	17,464	26,635	19,020	274,972
Foreign currency translation differences	(5,725)	512	845	265	(4,103)
Net disposals	**(2,744)**	**(15,709)**	**(12,979)**	**(18,941)**	**(50,373)**
Balance as at 31 December	**346,370**	**110,186**	**111,398**	**13,537**	**581,491**
Depreciation and Amortization					
Balance as at 1 January	28,737	13,367	56,635	–	98,739
Net charge	13,534	4,078	10,191	–	27,803
Foreign currency translation differences	97	134	551	–	782
Net disposals	(2,258)	(2,175)	(6,116)	–	(10,549)
Balance as at 31 December	**40,110**	**15,404**	**61,261**	**–**	**116,775**
Net book value					
Balance as at 1 January	101,867	84,157	34,791	12,430	233,245
Balance as at 31 December	**306,260**	**94,782**	**50,137**	**13,537**	**464,716**

An analysis of the changes in the goodwill for the year ended 31 December 2006 is as follows:

	Goodwill
Cost	
Balance as at 1 January	70,765
Additions	191,827
Foreign currency translation differences	(5,907)
Balance as at 31 December	**256,685**
Net book value	
Balance as at 1 January	70,765
Balance as at 31 December	**256,685**

NOTE 12: OTHER ASSETS (in HUF mn)

	2007	2006
Property held for resale	10,464	12,097
Due from Hungarian Government for interest subsidies	3,552	4,188
Trade receivables	12,237	10,752
Advances for securities and investments	512	766
Taxes recoverable	12,266	6,721
Inventories	12,908	4,724
Receivables from inventory financing	29,213	44,420
Other advances	8,538	8,835
Receivables from leasing activities	48,908	34,145
Receivables due from insurance bond holders	2,665	2,529
Receivables due from pension funds and fund management	2,444	1,614
Prepayments and accrued income	8,807	6,684
Receivables from investment services	1,425	889
Fair value of derivative financial instruments not for trading	11,405	2,107
Other	20,086	20,716
	185,430	**161,187**
Allowance for losses on other assets	**(6,661)**	**(4,076)**
Total	**178,769**	**157,111**

Allowance for losses on other assets mainly consists of allowances for other advances and receivables from leasing activities.

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

	2007	2006
Balance as at 1 January	4,076	3,427
Charge of allowance for losses on other assets	2,726	777
Write-offs	(129)	(59)
Foreign currency translation gain	(12)	(69)
Balance as at 31 December	**6,661**	**4,076**

NOTE 13: DUE TO BANKS AND DEPOSITS FROM THE NATIONAL BANK OF HUNGARY AND OTHER BANKS (in HUF mn)

	2007	2006
Within one year		
in HUF	98,269	25,369
in foreign currency	349,777	318,880
	448,046	**344,249**
Over one year		
in HUF	70,185	50,572
in foreign currency	279,923	265,596
	350,108	**316,168**
Total	**798,154**	**660,417**

Due to banks and deposits from the National Bank of Hungary and other banks payable in HUF within one year as at 31 December 2007 and 2006, bear interest rates in the range from 5.79% to 7.52% and from 4.38% to 12.27%, respectively.

Due to banks and deposits from the National Bank of Hungary and other banks payable in HUF over one year as at 31 December 2007 and 2006, bear interest rates in the range from 3% to 6.28% and from 3% to 12.27%, respectively.

Due to banks and deposits from the National Bank of Hungary and other banks payable in foreign currency within one year as at 31 December 2007 and 2006, bear interest rates in the range from 0.5% to 18.5% and from 0.43% to 12.68%, respectively.

Due to banks and deposits from the National Bank of Hungary and other banks payable in foreign currency over one year as at 31 December 2007 and 2006, bear interest rates in the range from 0.5% to 8% and from 0.5% to 10.5%, respectively.

NOTE 14: DEPOSITS FROM CUSTOMERS (in HUF mn)

	2007	2006
Within one year		
in HUF	2,487,829	2,273,960
in foreign currency	2,385,075	1,825,429
	4,872,904	**4,099,389**
Over one year		
in HUF	107,279	113,708
in foreign currency	58,189	19,056
	165,468	**132,764**
Total	**5,038,372**	**4,232,153**

Deposits from customers payable in HUF within one year as at 31 December 2007 and 2006, bear interest rates in the range from 0.2% to 12% and from 0.2% to 9%, respectively.

Deposits from customers payable in HUF over one year as 31 December 2007 and 2006, bear interest rates in the range from 1.3% to 7.75% and from 0.2% to 8.3%, respectively.

Deposits from customers payable in foreign currency within one year as at 31 December 2007 and 2006, bear interest rates in the range from 0.05% to 18% and from 0.05% to 18%, respectively.

Deposits from customers payable in foreign currency over one year as at 31 December 2007 and 2006, bear interest rates in the range from 0.1% to 19.6% and from 0.1% to 14.8%, respectively.

An analysis of deposits from customers by type, is as follows:

	2007		2006	
Commercial deposits	1,495,636	30%	1,098,083	26%
Municipality deposits	296,147	6%	221,315	5%
Consumer deposits	3,246,589	64%	2,912,755	69%
Total	**5,038,372**	**100%**	**4,232,153**	**100%**

NOTE 15: LIABILITIES FROM ISSUED SECURITIES (in HUF mn)

	2007	2006
With original maturity		
Within one year	221,871	56,377
Over one year	763,394	724,938
Total	**985,265**	**781,315**

28.79% and 58.35% of issued securities are denominated in HUF as at 31 December 2007 and 2006, and bear interest rates in the range from 0.3% to 10.5% and from 0.3% to 9.5%, respectively.

The Bank issued variable-rate bonds with the face value of EUR 500 million at 1 July 2005 due at 1 July 2010. Interest on these bonds is three months EURIBOR+0.16% quarterly.

The Bank issued variable-rate bonds with the face value of EUR 300 million at 20 December 2005 due to 20 December 2010 at 99.81%. Interest on these bonds is three months EURIBOR +0.15%.

On 26 February 2007 the Bank issued EUR 750 million floating rate note due 27 February 2009 at 99.87% under the European Medium Term Note Program (EMTN Program). Interest on these bonds is three month EURIBOR + 0.125% that is payable quarterly.

An analysis of significant issued securities as at 31 December 2007 and 2006, respecively:

	2007	2006
Variable-rate Euro Bonds	392,557	201,713
Mortgage bonds	540,753	520,498
Other securities	51,955	59,103
Total	**985,265**	**781,315**

The Group issued fixed rate mortgage bonds with the face value of EUR 200 million. The Group entered into a cash flow hedging cross currency interest rate swap (CCIRS) contract to hedge its exchange rate risk exposure. All conditions of the designated hedging relationship as described in IAS 39 were met, hence HUF 1,494 million and HUF 1,153 million negative fair value adjustment was recognised in the Consolidated Shareholders' Equity as at 31 December 2007 and 2006, respectively.

NOTE 16: OTHER LIABILITIES (in HUF mn)

	2007	2006
Deferred tax liabilities	5,373	8,337
Taxes payable	9,211	9,003
Giro clearing accounts	21,547	29,873
Accounts payable	18,721	14,940
Insurance liabilities	183,211	162,607
Salaries and social security payable	13,012	14,060
Liabilities from security trading	20,697	9,467
Allowances for losses on off-balance sheet commitments and contingent liabilities	19,759	15,156
Dividends payable	930	712
Advances received from customers	5,631	5,772
Accrued expenses	18,100	14,708
Loan for collection	1,523	1,674
Advance of Government grants for housing purposes	3,890	5,355
Fair value of derivative financial instruments designated as hedge accounting relationship	3,471	3,715
Fair value of derivative financial instruments designated as held for trading	12,920	7,991
Liabilities from trading activities (repurchase agreements)	87	1,267
Other	45,106	33,954
Total	**383,189**	**338,591**

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

	2007	2006
Allowance for litigation	4,621	4,413
Allowance for losses on off-balance sheet commitments and contingent liabilities	9,456	6,663
Allowance for expected pension commitments	409	–
Other allowance for expected liabilities	5,273	3,929
Allowance for housing warranties	–	151
Total	**19,759**	**15,156**

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

	2007	2006
Balance as at 1 January	15,156	7,376
Changes of allowance for possible off-balance sheet commitments and contingent liabilities	4,018	6,982
Release of allowance	–	(509)
Increase due to the acquisition	659	1,357
Foreign currency translation differences	(74)	(50)
Balance as at 31 December	**19,759**	**15,156**

Movements in insurance liabilities can be summarized as follows:

	2007	2006
Balance as at 1 January	162,607	130,354
Net increase in insurance liabilities	20,630	31,379
Increase due to the acquisition	–	830
Foreign currency translation differences	(26)	44
Balance as at 31 December	**183,211**	**162,607**

NOTE 17: SUBORDINATED BONDS AND LOANS

In 1993, the Bank issued HUF 5 billion in bonds, which are subordinated to the other liabilities of the Bank and subscribed by the Hungarian Ministry of Finance. Interest on subordinated bonds and the frequency of payment of interests are based on condition of interest of 2013/C credit consolidated government bonds, which is a variable-rate bond, the interest payable and the rate of interest are fixed twice a year. The semi-annual interest payable was 4.36% as at 20 December 2002, 3.25% as at 20 June 2003, 4.8% as at 20 December 2003, 4.88% as at 20 June 2004 and 6.05% as at 20 December 2004, 5.46% as at 20 June 2005, 3.08% as at 20 December 2005, 3.10% as at 20 June 2006, 3.79% as at 20 December 2006, 4.02% as at 20 June 2007 and 3.76% as at 20 December 2007. The original maturity was 20 years. The proceeds of the subordinated bonds were invested in Hungarian Government bonds with similar interest conditions and maturity.

In December 1996, the Bank obtained a USD 30 million and DEM 31,14 million (15,92 million in EUR) subordinated loan from the European Bank for Reconstruction and Development with the original maturity of 27 December 2006. The maturity date was modified to 27 August 2008 on 22 August 2003. The loan is unsecured, subordinated to the other liabilities and has a twelve-year maturity, with interest payable at six-month LIBOR + 1.4% from 27 December 1996 until 29 December 1997, at six-month LIBOR + 1.0% from 29 December 1997 until 28 June 1999, at six-month LIBOR + 1.7% from 28 June 1999 until 27 December 2003 and at six-month LIBOR + 1.35% from 28 December 2003 until 27 August 2008.

On 4 March 2005, the Bank issued EUR 125 million in bonds, which are subordinated to the other liabilities of the Bank. Interest on subordinated bonds is variable and payable at three-month EURIBOR + 0.55% quarterly. The original maturity of the bonds is 10 years.

On 31 October 2006 the Bank issued perpetual subordinated (UT2) bonds to finance acquisitions. The 500 EUR million nominal value bonds were issued at 99.375% of the face value with 7 November 2006 as payment date. The re-offer spread is 200 basis points over 10 year mid-swap. The bonds are perpetual and callable after year 10. The bonds bear a fixed coupon of 5.875%, with annual interest payments in the first 10 years, and a floating (variable) coupon of 3 months EURIBOR + 300 basis points per annum, quarterly thereafter. The bonds will be introduced to the Luxembourg Stock Exchange.

On 30 August 2006 the Bank updated EMTN Program and increased the Program amount from EUR 1 billion to EUR 3 billion. Under the EMTN Program on 12 September 2006 the Bank issued fixed rate subordinated bonds in a total nominal value of EUR 300 million to finance acquisitions. The EUR 300 million nominal value bonds were issued at 100% of the face value with 19 September 2006 as payment date, and 19 September 2016 as maturity date. The bonds bear a coupon of 5.27%, annual interest payments. On 26 February 2007 the Bank also issued EUR 200 million subordinated notes due 19 September 2016 under the same program.

In December 1999, the CJSC OTP Bank obtained a USD 10 million subordinated loan from the European Bank for Reconstruction and Development with the maturity date of 23 December 2009. The interest on subordinated loan is 8.14%. The repayment of the loan will be completed semi-annually, in five equal instalments, the first repayment date is 23 December 2007.

In 3 July 2003, the CJSC OTP Bank obtained an USD 5 million subordinated loan from the European Bank for Reconstruction and Development with the maturity date of 23 June 2010. The interest on subordinated loan is 7.98%. The repayment of the loan will be completed semi-annually in four equal instalments, the first repayment date is 3 January 2009.

NOTE 18: SHARE CAPITAL (in HUF mn)

	2007	2006
Authorized, issued and fully paid:		
Common shares	28,000	28,000
Total	**28,000**	**28,000**

On 21 April 2007 the law on abolishment of 'Aranyrészvény' (Act XXVI of 2007) came into force. As a result of this, this special voting share was transformed to 10 ordinary shares with the face value of HUF 100. Therefore the registered capital of the Bank consists of 280,000,010 ordinary shares with the face value of HUF 100.

NOTE 19: RETAINED EARNINGS AND RESERVES (in HUF mn)

The reserves of the Bank under Hungarian Accounting Standards were HUF 537,211 million and HUF 397,904 million as at 31 December 2007 and 2006 respectively. Of these amounts, legal reserves represent HUF 152,569 million and HUF 87,675 million as at 31 December 2007 and 2006 respectively. The legal reserves are not available for distribution.
Dividends of HUF 40,320 million for the year 2006 were approved by the Annual General Meeting on 28 April 2007.
The dividend has been determined on the basis of the profit after tax determined in the unconsolidated financial statements according to the Hungarian Accounting Standards.
On 19 October 2006 the Bank sold 14.5 million treasury shares owned by OTP Group through an issue of Income Certificates Exchangeable for Shares („ICES'). Within the transaction 10 million shares owned by the Bank, and 4.5 million shares owned by OTP Fund Management Ltd. were sold during the underwriting period of ICES on the weighted average market price (HUF 7,080) of the Budapest Stock Exchange. The shares have been purchased by Opus Securities S.A., which issued an exchangeable bond with a total face value of EUR 514,274,000 backed by those shares. The exchangeable bonds have been sold at 32% premium over the selling price of the shares. The EUR denominated exchangeable bonds are without final maturity and the investors can exercise the conversion right between year 6 and 10. The bonds carry a fixed coupon of 3.95% during the first 10 years thereafter the Issuer has the right to buy back the bonds at face value. Following the year 10, the bonds carry a coupon of 3 month EURIBOR +3%.
If the Bank pays a dividend for the ordinary shares, the Bank under a subordinated swap contract, will pay the interest of ICES payable to Opus and receives the same amount of money from Opus as the dividend that is payable for the shares held by Opus.

NOTE 20: TREASURY SHARES (in HUF mn)

	2007	2006
Nominal value (Common Shares)	2,340	1,751
Carrying value at acquisition cost	**114,001**	**63,716**

NOTE 21: MINORITY INTEREST (in HUF mn)

	2007	2006
Balance as at 1 January	3,110	491
Minority interest purchased	2,116	2,660
Foreign currency translation difference	171	(54)
Changes due to ownership stucture	(384)	(45)
Minority interest included in net income	340	58
Balance as at 31 December	**5,353**	**3,110**

NOTE 22: OTHER EXPENSES (in HUF mn)

	2007	2006
Provision for securities held-to-maturity	48	37
(Release of Provision)/Provision for permanent diminution in value of equity investments	131	(1,892)
Provision for other assets	2,726	777
Provision for accrued interest	5,612	–
Provision for off-balance sheet commitments and contingent liabilities	4,018	6,982
Administration expenses, including rental	58,499	32,783
Advertising	12,692	9,066
Taxes, other than income taxes	24,139	21,617
Additional tax for banks	6,525	11,153
Services	25,935	28,373
Professional fees	9,358	6,726
Other	14,602	9,629
Total	**164,285**	**125,251**

NOTE 23: INCOME TAXES (in HUF mn)

The Group is presently liable for income tax at rates between 9% and 30% of taxable income. Deferred tax is calculated at the income tax rate of 9% in Montenegro, 10% in Bulgaria and Serbia, 16% in Hungary and Romania, 19% in Slovakia, 20% in Croatia and 24% in Russia and 25% in Ukraine.

A reconciliation of the income tax charges is as follows:

	2007	2006
Current tax	42,134	29,283
Additional banking tax	–	1,369
Deferred tax	(1,730)	854
Total	**40,404**	**31,506**

A reconciliation of the net deferred tax liability is as follows:

	2007	2006
Balance as at 1 January	(8,337)	(2,761)
Acquisition of subsidiaries	(165)	(1,850)
Foreign currency translation gain	202	139
Deferred tax (charge)/credit	1,730	(665)
Recognised in retained earnings and reserves	1,197	(3,200)
Balance as at 31 December	**(5,373)**	**(8,337)**

A reconciliation of the income tax charges is as follows:

	2007	2006
Net income before income taxes	248,952	218,602
Income tax with statutory tax rate	41,923	35,322
Solidarity tax (4%)	**7,445**	**2,678**

Income tax adjustments are as follows:

	2007	2006
Reversal of statutory general provision	(1,896)	(1,441)
Tax effect of amortization of statutory goodwill	(1,762)	(1,318)
Revaluation of investments denominated in foreign currency to historical cost	(2,514)	(846)
Profit on sale of Treasury shares	(779)	–
Fair value of share-based compensations (IFRS 2)	1,025	948
Deferred tax effect of introduction of additional tax (+4%)	–	615
Other	(3,038)	(4,452)
Income tax	40,404	31,506
Effective tax rate	**16.23%**	**14.41%**

A breakdown of the deferred tax assets and liabilities is as follows:

	2007	2006
Allowance for losses on off-balance sheet commitments and contingent liabilities on derivative financial instruments	55	–
Difference in accounting for finance leases	322	135
Fair value adjustment of derivative financial instruments	1,115	160
Adjustment from effective interest rate method	–	241
Repurchase agreements	1,818	94
Temporary differences arising on consolidation	633	658
Other	1,177	1,391
Deferred tax asset	**5,120**	**2,679**

	2007	2006
Premium and discount amortization on investment securities	(233)	(608)
Allowance for losses on off-balance sheet commitments and contingent liabilities on derivative financial instruments	–	(4)
Fair value adjustment of securities held for trading, securities íavailable-for-sale and equity investments (IAS 39)	(301)	(1,310)
Valuation of equity instrument (ICES)	(2,760)	(2,952)
Fixed assets	(3,882)	(3,045)
Accrued losses	(3,317)	(3,097)
Deferred tax liabilities	(10,493)	(11,016)
Net deferred tax liabilities	**(5,373)**	**(8,337)**

NOTE 24: FINANCIAL INSTRUMENTS

A financial instrument is any contract that gives rise to the right to receive cash or another financial asset from another party (financial asset) or the obligation to deliver cash or another financial asset to another party (financial liability).

Financial instruments may result in certain risks to the Group. The most significant risks the Group faces include:

Credit risk

The Group takes on exposure to credit risk which is the risk that a counter-party will be unable to pay amounts in full when due. The Group structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower, or Banks of borrowers, and to geographical and industry segments. Such risks are monitored on a revolving basis and subject to an annual or more frequent review. The exposure to any one borrower including banks and brokers is further restricted by sub-limits covering on and off-balance sheet exposures and daily delivery risk limits in relation to trading items such as forward foreign exchange contracts. Actual exposures against limits are monitored daily.

Exposure to credit risk is managed through regular analysis of the ability of borrowers and potential borrowers to meet interest and capital repayment obligations and by changing these lending limits where appropriate. Exposure to credit risk is also managed in part by obtaining collateral and corporate and personal guarantees.

Market risk

The Group takes on exposure to market risks. Market risks arise from open positions in interest rate, currency and equity products, all of which are exposed to general and specific market movements. The Group applies a 'value at risk' methodology to estimate the market risk of positions held and the maximum losses expected, based upon a number of assumptions for various changes in market conditions. The Management Board sets limits on the value of risk that may be accepted, which is monitored on a daily basis.

Liquidity risk

See Note 33.

Foreign currency risk

See Note 34.

Interest rate risk

See Note 35.

NOTE 25: OFF-BALANCE SHEET ITEMS AND DERIVATIVE FINANCIAL INSTRUMENTS (in HUF mn)

In the normal course of business, the Group becomes a party to various financial transactions that are not reflected on the balance sheet and are referred to as off-balance sheet financial instruments. The following represent notional amounts of these off-balance sheet financial instruments, unless stated otherwise.

(a) Contingent liabilities

	2007	2006
Commitments to extend credit	999,639	854,193
Guarantees arising from banking activities	224,616	183,256
Confirmed letters of credit	12,757	23,800
Legal disputes	6,558	6,311
Others	53,772	41,084
Total	**1,297,342**	**1,108,644**

Commitments to extend credit, from guarantees and letters of credit

The primary purpose of these instruments is to ensure that funds are available to a customer as required. Guarantees and standby letters of credit, which represent irrevocable assurances that the Group will make payments in the event that a customer cannot meet its obligations to third parties, carry the same credit risk as loans. Documentary and commercial letters of credit, which are written undertakings by the Group on behalf of a customer authorising a third party to draw drafts on the Group up to a stipulated amount under specific terms and conditions, are collateralised by the underlying shipments of goods to which they relate and therefore carry less risk than a direct borrowing.

Commitments to extend credit represent unused portions of authorisations to extend credit in the form of loans, guarantees or letters of credit. With respect to credit risk on commitments to extend credit, the Group is potentially exposed to loss in an amount equal to the total unused commitments. However, the likely amount of loss is less than the total unused commitments since most commitments to extend credit are contingent upon customers maintaining specific credit standards.

Guarantees, irrevocable letters of credit and undrawn loan commitments are subject to similar credit risk monitoring and credit policies as utilised in the extension of loans. The management of the Group believes the market risk associated with guarantees, irrevocable letters of credit and undrawn loans commitments to be minimal.

Legal disputes

At the balance sheet date the Group was involved in various claims and legal proceedings of a nature considered normal to its business. The level of these claims and legal proceedings correspond to the level of claims and legal proceedings in previous years.

The Group believes that the various asserted claims and litigations in which it is involved will not materially affect its financial position, future operating results or cash flows, although no assurance can be given with respect to the ultimate outcome of any such claim or litigation. Provisions due to legal disputes were HUF 4,621 million and HUF 4,413 million as at 31 December 2007 and 2006, respectively. (See Note 16.)

(b) Derivatives and other options (nominal amount, unless otherwise stated)

	2007	2006
Foreign currency contracts		
Assets	145,810	70,818
Liabilities	146,795	72,503
Net	(985)	(1,685)
Net fair value	(119)	(1,509)
Foreign currency contracts designated as hedge accounting relationships		
Assets	41,858	474
Liabilities	41,857	474
Net	1	–
Net fair value	–	–
Foreign exchange swaps and interest rate swaps designated as held for trading		
Assets	1,947,648	831,045
Liabilities	1,849,946	789,209
Net	97,702	41,836
Net fair value	2,033	14,531
Foreign exchange swaps and interest rate swaps designated as hedge accounting relationships		
Assets	260,777	263,391
Liabilities	245,626	251,894
Net	15,151	11,497
Net fair value	(5,071)	(2,171)
Option contracts		
Assets	119,004	9,436
Liabilities	119,467	10,477
Net	(463)	(1,041)
Net fair value	25,910	423
Dated stock transactions		
Assets	175	149
Liabilities	175	149
Net	–	–
Net fair value	(1)	3

The Group maintains strict control limits on net open derivative positions, i.e. the difference between purchase and sale contracts, by both amount and term. At any one time the amount subject to credit risk is limited to the current fair value of instruments that are favourable to the Group (i.e. assets), which in relation to derivatives is only a small fraction of the contract or notional values used to express the volume of instruments outstanding. This credit risk exposure is managed as part of the overall lending limits with customers, together with potential exposures from market movements. Collateral or other security is not usually obtained for credit risk exposures on these instruments, except of trading with clients, where the Group in most of the cases requires margin deposits.

At 31 December 2007, the Group has derivative instruments with positive fair values of HUF 75,343 million and negative fair values of HUF 16,391 million. Positive fair values of derivative instruments designated as hedge accounting relationships are included in other assets, while positive fair values of derivative instruments designated as held for trading are included in financial assets at fair value through statements of operations. Negative fair values of derivative instruments are included in other liabilities. Corresponding figures as at 31 December 2006 are HUF 27,816 million and HUF 11,706 million.

Foreign currency contracts
Foreign currency contracts are agreements to exchange specific amounts of currencies at a specified rate of exchange, at a spot date (settlement occurs two days after the trade date) or at a forward date (settlement occurs more than two days after the trade date). The notional amount of these contracts does not represent the actual market or credit risk associated with these contracts.

Foreign currency contracts are used by the Group for risk management and trading purposes. The risk management foreign currency contracts of the Group were used to hedge against exchange rate fluctuations on loans and advances to credit institutions denominated in foreign currency.

Foreign exchange swaps and interest rate swaps
The Group enters into foreign exchange swap and interest rate swap transactions. The swap transaction is a complex agreement concerning to the swap of certain financial instruments, which usually consists of a prompt and one or more futures contracts.

Interest rate swaps obligate two parties to exchange one or more payments calculated with reference to fixed or periodically reset rates of interest applied to a specific notional principal amount. Notional principal is the amount upon which interest rates are applied to determine the payment streams under interest rate swaps. Such notional principal amounts often are used to express the volume of these transactions but are not actually exchanged between the counter-parties.

The interest rate swaps of the Group were used for management of interest rate exposures and have been accounted for at mark-to-market fair value.

Forward rate agreements
A forward rate agreement is an agreement to settle amounts at a specified future date based on the difference between an interest rate index and an agreed upon fixed rate. Market risk arises from changes in the market value of contractual positions caused by movements in interest rates.

The Group limits its exposure to market risk by entering into generally matching or offsetting positions and by establishing and monitoring limits on unmatched positions. Credit risk is managed through approval procedures that establish specific limits for individual counterparties. The Group's forward rate agreements were transacted for management of interest rate exposures and have been accounted for at mark-to-market fair value.

For an analysis of the allowance for losses on off balance sheet commitments and contingent liabilities, see Note 16.

NOTE 26: SHARE-BASED COMPENSATION

The terms of the options relating to the years of 2005 to 2009 were approved by the Annual General Meeting of 2005. The grant date of these options is 29 April 2005. The maximum number of shares which are available is 2.92 million pieces.

The 2006 Annual General Meeting approved a five year share option program for the years of 2006 to 2010 under which options are granted annually. The grant date of these options is 28 April 2006 and the date of the Annual General Meeting of 2007 (27 April 2007) for the amount increased under the modified program.

The exercise price of the options of 2005 is calculated as the average of the market price of OTP shares quoted by the BSE daily during the two month period ending on the last day of the month of the Annual General Meeting.

The exercise prices of the options relating to the years of 2006 to 2010 is calculated as the average of the market price of OTP shares quoted by the BSE daily during the period between 30 April and 30 May in the actual year and decreased by HUF 1,000. In that case if the average price of the shares exceeds by more than HUF 3,000 the exercise price one day before the date of exercise the exercise price would be increased by the amount above the HUF 3,000.

The exercise period of the options granted for the year of 2005 is two years and for the years of 2006 to 2010 is 19 months. The exercise period of the option program for the years of 2006 to 2010 must be opened at 1 June in the actual year. If the options remain unexercised before the end of the exercise period the options expire. Additionally, options are forfeited if the employee leaves the Bank before the options vest.

	For the year ended 31 December 2007		For the year ended 31 December 2006	
	Options (piece of shares)	**Weighted average exercise price** (in HUF)	**Options** (piece of shares)	**Weighted average exercise price** (in HUF)
Outstanding at beginning of period	4,799,825	7,231	3,346,200	6,079
Granted during the period	3,510,000	8,419	3,832,000	7,038
Forfeited during the period	187,250	7,648	218,430	6,536
Exercised during the period	1,444,445	6,706	2,159,945	5,174
Outstanding at the end of the period	6,678,130	7,957	4,799,825	7,231
Exercisable at the end of the period	**2,334,304**	**7,369**	**1,799,825**	**6,536**

The weighted average share price for share options of 2005 and 2006 exercised during the year ended 31 December 2007 was HUF 9,409 at the date of exercise. The options outstanding at 31 December 2007 and as at 31 December 2006 had a weighted average exercise price of HUF 7,957 and HUF 7,231 with a weighted average remaining contractual life of 18 and 22 months, respectively.

The inputs into the Binominal model are as follows:

	Year ended 31 December 2007	Year ended 31 December 2006
Weighted average share price (HUF)	7,663	5,969
Weighted average exercise price (HUF)	7,594	4,882
Expected volatility (%)	29	36
Expected life (average year)	3.18	0.52
Risk free rate (%)	7.01	6.71
Expected dividends (%)	**2.45**	**3.35**

Expected volatility was determined by calculating the historical volatility of the Bank's share price three months prior to the grant date. The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions, and behavioural considerations.

In connection with the share-based compensation programs approved by the Bank and applying IFRS 2, HUF 5,123 million and HUF 5,927 million has been recognised as an expense for the years ended 31 December 2007 and 2006, respectively.

NOTE 27: RELATED PARTY TRANSACTIONS (in HUF mn)

The members of the Board of Directors and the Supervisory Board had credit lines of HUF 169.3 million and HUF 190 million as at 31 December 2007 and 2006. Such credit is made available at normal market conditions.

In the normal course of business, the Bank gives loans and provides services to other related parties at normal market conditions. The amount of these loans was HUF 3,862 million and HUF 438 million, with commitments to extend credit and guarantees of HUF 5,456 million and HUF 108 million as at 31 December 2007 and 2006, respectively.

The amount of loans extended to unconsolidated subsidiaries was HUF 41,899 million and HUF 39,440 million as at 31 December 2007 and 2006, respectively.

The compensation of key management personnel, such as the members of the Board of Directors, members of the Supervisory Board, key employees of the Bank and its major subsidiaries involved in the decision-making process according to the compensation categories defined in IAS 24, is summarised below:

	2007	2006
Short-term employee benefits	7,545	6,530
Other long-term employee benefits	41	3,063
Termination benefits	1,519	127
Share-based compensation	2,459	2,744
Total	**11,564**	**12,464**

NOTE 28: CASH AND CASH EQUIVALENTS (in HUF mn)

	2007	2006
Cash, due from banks and balances with the National Bank of Hungary	353,243	532,625
Compulsory reserve established by the National Bank of Hungary	(158,383)	(135,967)
Total	**194,860**	**396,658**

NOTE 29: ACQUISITIONS (in HUF mn)

(a) Purchase and consolidation of subsidiary undertakings

On 7 March 2006 the Group completed the acquisition of 89.39% of the shares of Niška banka a.d. The total purchase price of Niška banka was EUR 14,21 million. OTP Bank Plc. held 99.95% of Niška banka a.d. as at 18 May 2007, the formation date of OTP banka Srbija a.d., the successor of Kulska banka a.d., Niška banka a.d. and Zepter Banka a.d.
On 13 October 2006 the Group completed the acquisition of 75.10% of shares of Serbian Zepter banka a.d. The total purchase price was USD 41,3 million.

On 30 October 2006 the Bank signed the purchase agreement on acquiring the majority interest in Russian Investsberbank OAO. In the interval between singning the purchase agreement and the takeover of the control, two subsidiary banks of Investsberbank merged into it, so OTP Bank Plc. gained a 96,4% share already in the merged bank. The total purchase price was EUR 477 million.

On 1 June 2006 the Bank signed the sale and purchase agreement for the acquisition of 100% of the shares of Raiffeisenbank Ukraine (RBUA) – renamed as CJSC OTP Bank (Ukraine). OTP Bank Plc. is the single owner of CJSC OTP Bank Ukraine since 20 November 2006. OTP transferred the purchase price of EUR 650 million on 20 November 2006, upon receipt of the necessary approvals.

On 7 July 2006 the Group completed the acqusition of 67% of these shares of Kulska banka a.d. Novi Sad (Kulska banka). The total price was EUR 118,6 million. On 29 August 2006 the Group completed the acqusition of 67% of these shares of Crnogorska komercijalna banka. The total price was EUR 104 million. The control over these companies is exercised from 1 Januray 2007. OTP Bank Plc. held 92.72% of Kulska banka a.d. as at 18 May 2007, the formation date of OTP banka Srbija a.d., the successor of Kulska banka a.d., Niška banka a.d. and Zepter Banka a.d.

On 18 May 2007 the Niska banka a.d. and Zepter banka a.d. merged into the Kulska Banka a.d. The new bank has been renamed as OTP banka Srbija a.d. The OTP Bank holds 91.43% of OTP banka Srbija a.d. as at 31 December 2007.

The fair value of the assets and liabilities acquired, and related goodwill is as follows:

	At acquisition date Kulska banka a.d., CKB	**At acquisition date** Niška banka a.d., Zepter banka a.d., Investsberbank OAO, CJSC OTP Bank
Cash, due from banks, and balances with the National Bank	(11,095)	(36,881)
Placements with other banks, net of allowance for placement losses	(68,528)	(83,148)
Securities held-for-trading	(119)	(44,324)
Securities available-for-sale	(585)	(5,463)
Loans, net of allowance for loan losses	(113,860)	(582,727)
Accrued interest receivable	(898)	(6,294)
Associates and other investments	(217)	(12)
Securities held-to-maturity	(1,287)	(3)
Premises, equipment and intangible assets	(9,378)	(28,611)
Other assets	(2,303)	(4,336)
Due to banks and deposits from the National Bank and other banks	19,268	209,999
Deposits from customers	134,948	444,206
Issued securities	–	17,229
Accrued interest payable	121	4,308
Other liabilities	19,117	12,487
Subordinated bonds and loans	–	11,227
Minority Interest	2,116	3,033
Net assets	(32,700)	(89,310)
Goodwill	(36,698)	(191,274)
Cash consideration	**(69,398)**	**(280,584)**

(b) Analysis of net outflow of cash in respect of purchase of subsidiaries

	2007	**2006**
Cash consideration	(69,398)	(280,584)
Cash acquired	11,095	36,881
Net cash outflow	**(58,303)**	**(243,703)**

NOTE 30: MAJOR SUBSIDIARIES

Equity investments in companies in which the Bank has a controlling interest are detailed below. They are fully consolidated companies and incorporated in Hungary unless indicated otherwise.

Name	Ownership (Direct and Indirect)		Activity
	2007	2006	
OTP Garancia Insurance Ltd.	100.00%	100.00%	insurance
OTP Real Estate Ltd.	100.00%	100.00%	real estate management and development
Merkantil Bank Ltd.	100.00%	100.00%	finance lease
Merkantil Car Ltd.	100.00%	100.00%	finance lease
OTP Building Society Ltd.	100.00%	100.00%	flat finance and reconstruction
Bank Center No. 1. Ltd.	100.00%	100.00%	real estate lease
OTP Factoring Ltd.	100.00%	100.00%	work-out
Inga Two Commercial Ltd.	100.00%	100.00%	property management
OTP Fund Management Ltd.	100.00%	100.00%	fund management
OTP Mortgage Bank Ltd.	100.00%	100.00%	mortgage lending
OTP Funds Servicing and Consulting Ltd.	100.00%	100.00%	fund services
OTP Trade Commercial Ltd.	100.00%	100.00%	trade finance
OTP Real Estate Leasing Ltd.	100.00%	100.00%	real estate leasing
OTP Life Annuity Ltd.	100.00%	100.00%	life annuity services
OTP Banka Slovensko a. s. (Slovakia)	97.23%	97.23%	commercial banking services
DSK Bank EAD (Bulgaria)	100.00%	100.00%	commercial banking services
OTP Bank Romania S.A. (Romania)	100.00%	100.00%	commercial banking services
OTP banka Hrvatska d.d. (Croatia)	100.00%	100.00%	commercial banking services
OTP banka Srbija a.d. (Serbia)	91.43%	–	commercial banking services
Crnogorska komerčijalna banka A.D. (Montenegro)	100.00%	–	commercial banking services
CJSC OTP Bank (Ukraine)	100.00%	100.00%	commercial banking services
Investsberbank OAO (Russia)	97.22%	96.41%	commercial banking services
Niška banka a.d. (Serbia)	–	99.95%	commercial banking services
Zepter banka a.d. (Serbia)	–	75.10%	commercial banking services

NOTE 31: TRUST ACTIVITIES

The Bank acts as a trustee for certain loans granted by companies or employers to their employees, mainly for housing purposes. The ultimate risk for these loans rests with the party advancing the funds. As these loans and related funds are not considered to be assets or liabilities of the Bank, they have been excluded from the accompanying Consolidated Balance Sheet. The total amount of such loans managed by the Bank as a trustee amounted to HUF 45,081 million and HUF 46,212 million as at 31 December 2007 and 2006, respectively.

NOTE 32: CONCENTRATION OF ASSETS AND LIABILITIES

Approximately 9% and 13% of the total assets of the Group consist of receivables from, or securities issued by the Hungarian Government or the National Bank of Hungary as at 31 December 2007 and 2006, respectively.

Liquidity risk is a measure of the extent to which the Group may be required to raise funds to meet its commitments associated with financial instruments. The Group maintains its liquidity profiles in accordance with regulations laid down by the National Bank of Hungary. The following tables provide an analysis of assets, liabilities and shareholders' equity into relevant maturity groupings based on the remaining period from the balance sheet date to the contractual maturity date. It is presented under the most prudent consideration of maturity dates where options or repayment schedules allow for early repayment possibilities.

NOTE 33: MATURITY ANALYSIS OF ASSETS AND LIABILITIES AND LIQUIDITY RISK (in HUF mn)

As at 31 December 2007

	Within 3 months	Within one year and over 3 months	Within 5 years and over one year	Over 5 years	Total
Cash, due from banks and balances with the National Bank of Hungary	348,281	4,962	–	–	353,243
Placements with other banks, net of allowance for placement losses	540,504	72,025	42,127	132	654,788
Financial assets at fair value through statements of operations	65,732	35,038	124,691	60,434	285,895
Securities available-for-sale	27,493	95,423	182,848	168,161	473,925
Loans, net of allowance for loan losses	601,781	957,762	1,637,614	2,385,280	5,582,437
Accrued interest receivable	56,873	3,898	1,276	1,412	63,459
Associates and other investments	–	–	–	9,892	9,892
Securities held-to-maturity	111,014	25,278	124,808	56,457	317,557
Premises, equipment and intangible assets, net	1,258	6,533	118,433	415,685	541,909
Other assets	84,043	29,079	27,999	37,648	178,769
Total Assets	**1,836,979**	**1,229,998**	**2,259,796**	**3,135,101**	**8,461,874**
Due to banks and deposits from the National Bank of Hungary and other banks	338,051	108,821	253,228	98,054	798,154
Deposits from customers	4,326,480	529,282	164,351	18,259	5,038,372
Liabilities from issued securities	18,796	71,194	757,493	137,782	985,265
Accrued interest payable	54,178	2,409	3,332	234	60,153
Other liabilities	151,841	28,644	76,653	126,051	383,189
Subordinated bonds and loans	–	10,111	1,339	289,714	301,164
Total Liabilities	**4,889,346**	**750,461**	**1,256,396**	**670,094**	**7,566,297**
Share capital	–	–	–	28,000	28,000
Retained earnings and reserves	–	–	–	976,225	976,225
Treasury shares	(3,554)	(14,217)	(36,437)	(59,793)	(114,001)
Minority interest	–	–	–	5,353	5,353
Total shareholders' equity	**(3,554)**	**(14,217)**	**(36,437)**	**949,785**	**895,577**
Total liabilities and shareholders' equity	**4,885,792**	**736,244**	**1,219,959**	**1,619,879**	**8,461,874**
Liquidity (deficiency)/excess	**(3,048,813)**	**493,754**	**1,039,837**	**1,515,222**	**–**

As at 31 December 2006

	Within 3 months	Within one year and over 3 months	Within 5 years and over one year	Over 5 years	Total
Cash, due from banks and balances with the National Bank of Hungary	527,708	4,917	–	–	532,625
Placements with other banks, net of allowance for placement losses	449,506	114,327	38,741	41	602,615
Financial assets at fair value through statements of operations	15,360	29,475	49,648	16,093	110,576
Securities available-for-sale	103,294	115,178	154,208	116,570	489,250
Loans, net of allowance for loan losses	469,733	817,115	1,372,814	1,687,429	4,347,091
Accrued interest receivable	48,943	3,757	802	721	54,223
Associates and other investments	–	–	–	70,939	70,939
Securities held-to-maturity	29,297	22,181	155,339	61,463	268,280
Premises, equipment and intangible assets, net	2,312	2,470	362,623	97,311	464,716
Other assets	83,118	33,467	19,968	20,558	157,111
Total Assets	**1,729,271**	**1,142,887**	**2,154,143**	**2,071,125**	**7,097,426**
Due to banks and deposits from the National Bank of Hungary and other banks	224,041	112,581	237,269	86,526	660,417
Deposits from customers	3,531,007	598,147	91,735	11,264	4,232,153
Liabilities from issued securities	23,069	23,395	547,810	187,041	781,315
Accrued interest payable	34,150	8,650	2,991	220	46,011
Other liabilities	132,654	20,798	78,107	107,032	338,591
Subordinated bonds and loans	107	382	11,229	239,008	250,726
Total Liabilities	**3,945,028**	**763,953**	**969,141**	**631,091**	**6,309,213**
Share capital	–	–	–	28,000	28,000
Retained earnings and reserves	–	–	–	820,819	820,819
Treasury shares	(1,746)	–	–	(61,970)	(63,716)
Minority interest	–	–	–	3,110	3,110
Total shareholders' equity	**(1,746)**	**–**	**–**	**789,959**	**788,213**
Total liabilities and shareholders' equity	**3,943,282**	**763,953**	**969,141**	**1,421,050**	**7,097,426**
Liquidity (deficiency)/excess	**(2,214,011)**	**378,934**	**1,185,002**	**650,075**	**–**

NOTE 34: NET FOREIGN CURRENCY POSITION AND FOREIGN CURRENCY RISK (in HUF mn)

As at 31 December 2007

	USD	EUR	CHF	Others	Total
Assets	705,470	1,744,616	1,076,700	1,941,768	5,468,554
Liabilities	(281,588)	(2,297,282)	(141,825)	(1,533,702)	(4,254,397)
Off-balance sheet assets and liabilities, net	(464,046)	507,759	(943,333)	(8,162)	(907,782)
Net position	**(40,164)**	**(44,907)**	**(8,458)**	**399,904**	**306,375**

As at 31 December 2006

	USD	EUR	CHF	Others	Total
Assets	627,445	1,030,482	291,600	1,662,243	3,611,770
Liabilities	(435,419)	(1,608,449)	(2,206)	(1,216,439)	(3,262,513)
Off-balance sheet assets and liabilities, net	(199,146)	297,188	(194,570)	(188,929)	(285,457)
Net position	**(7,120)**	**(280,779)**	**94,824**	**256,875**	**63,800**

The table above provides an analysis of the main currency exposures of the Group. The remaining currencies are shown within 'Others'. Whilst the Group monitors its foreign exchange position for compliance with the regulatory requirements of the National Bank of Hungary and own limit system established in respect of limits on open positions. The measurment of the open foreign currency position of the Group involves monitoring the 'value at risk' limit on the foreign exchange exposure of the Group.

NOTE 35: INTEREST RATE RISK MANAGEMENT (in HUF mn)

Interest rate risk is the risk that the value of a financial instrument will fluctuate due to changes in market interest rates. The length of time for which the rate of interest is fixed on a financial instrument, therefore, indicates to what extent it is exposed to interest rate risk.

The majority of the interest bearing assets of the Group and liabilities are structured to match either short-term assets and short-term liabilities, or long-term assets and liabilities with repricing opportunities within one year, or long-term assets and corresponding liabilities where repricing is performed simultaneously.

In addition, the significant spread existing between the different types of interest bearing assets and liabilities enables the Group to benefit from a high level of flexibility in adjusting for its interest rate matching and interest rate risk exposure.

The following table presents the interest repricing dates of the Group. Variable yield assets and liabilities have been reported according to their next repricing date. Fixed income assets and liabilities have been reported according to their maturity.

As at 31 December 2007

	Within 1 month		Over 1 month and Within 3 months		Over 3 months and Within 12 months		Over 1 year and Within 2 years		Over 2 years		Non-interest-bearing		Total		Total
	HUF	Currency	HUF	Currency	HUF	Currency	HUF	Currency	HUF	Currency	HUF	Currency	HUF	Currency	
ASSETS															
Cash, due from banks and balances with the National Bank of Hungary	176,105	18,694	490	7,718	12	16	–	–	–	–	44,451	105,757	221,058	132,185	353,243
fixed rate	174,741	13,448	–	58	–	–	–	–	–	–	–	–	174,741	13,506	188,247
variable rate	1,359	5,245	490	7,660	12	16	–	–	–	–	–	–	1,861	12,921	14,782
non-interest-bearing	5	1	–	–	–	–	–	–	–	–	44,451	105,757	44,456	105,758	150,214
Placements with other banks, net of allowance for placement losses	21,864	303,762	3,000	6,973	550	115,691	–	1,927	–	165	6	200,850	25,420	629,368	654,788
fixed rate	21,859	296,252	–	3,967	550	58,868	–	1,927	–	135	–	–	22,409	361,149	383,558
variable rate	5	7,510	3,000	3,006	–	56,823	–	–	–	30	–	–	3,005	67,369	70,374
non-interest-bearing	–	–	–	–	–	–	–	–	–	–	6	200,850	6	200,850	200,856
Securities held for trading	24,149	1,225	36,648	1,476	9,270	4,649	7,587	8,241	82,675	40,456	4,688	893	165,017	56,940	221,957
fixed rate	23,165	24	15,141	1,388	9,199	4,339	7,586	8,241	82,675	40,456	–	–	137,766	54,448	192,214
variable rate	984	1,201	21,507	88	71	310	1	–	–	–	–	–	22,563	1,599	24,162
non-interest-bearing	–	–	–	–	–	–	–	–	–	–	4,688	893	4,688	893	5,581
Securities available-for-sale	14,090	22,813	4,922	59,726	77,433	22,436	45,753	5,160	112,590	73,776	28,109	7,117	282,897	191,028	473,925
fixed rate	12,342	767	1,952	1,717	77,194	10,947	45,753	5,160	112,590	73,776	–	–	249,831	92,367	342,198
variable rate	1,748	22,046	2,970	58,009	239	11,489	–	–	–	–	–	–	4,957	91,544	96,501
non-interest-bearing	–	–	–	–	–	–	–	–	–	–	28,109	7,117	28,109	7,117	35,226
Loans, net of allowance for loan lossel	899,026	2,431,583	220,358	744,860	192,480	275,535	94,539	96,759	237,070	336,337	17,081	36,809	1,660,554	3,921,883	5,582,437
fixed rate	9,616	132,870	6,903	115,980	3,801	223,218	1,235	87,918	4,769	299,691	–	–	26,324	859,677	886,001
variable rate	889,410	2,298,713	213,455	628,880	188,679	52,317	93,304	8,841	232,301	36,646	–	–	1,617,149	3,025,397	4,642,546
non-interest-bearing	–	–	–	–	–	–	–	–	–	–	17,081	36,809	17,081	36,809	53,890
Debt securities held-to-maturity	97,085	15,961	38,035	2,286	31,040	1,999	39,882	10,048	65,413	15,808	–	–	271,455	46,102	317,557
fixed rate	97,085	3,460	–	1,909	20,249	1,068	39,882	9,826	65,413	15,327	–	–	222,629	31,590	254,219
variable rate	–	12,501	38,035	377	10,791	931	–	222	–	481	–	–	48,826	14,512	63,338
Fair value of derivative financial instruments	366,501	454,187	645,215	356,623	38,095	33,924	1,237	34,016	1,770	241,366	–	–	1,052,818	1,120,116	2,172,934
fixed rate	273,123	343,091	212,118	182,451	37,545	32,838	1,237	34,016	1,770	241,366	–	–	525,793	833,762	1,359,555
variable rate	93,378	111,096	433,097	174,172	550	1,086	–	–	–	–	–	–	527,025	286,354	813,379

As at 31 December 2007

	Within 1 month		Over 1 month and Within 3 months		Over 3 months and Within 12 months		Over 1 year and Within 2 years		Over 2 years		Non-interest-bearing		Total		Total
	HUF	Currency	HUF	Currency	HUF	Currency	HUF	Currency	HUF	Currency	HUF	Currency	HUF	Currency	
LIABILITIES															
Due to banks and deposits from the National Bank of Hungary and other banks	59,664	287,216	26,138	141,177	81,840	70,053	298	37,633	514	90,195	–	3,426	168,454	629,700	798,154
fixed rate	59,313	207,136	24,936	48,041	156	61,755	29	17,988	1	72,131	–	–	84,435	407,051	491,486
variable rate	351	80,080	1,202	93,136	81,684	8,298	269	19,645	513	18,064	–	–	84,019	219,223	303,242
non-interest-bearing	–	–	–	–	–	–	–	–	–	–	–	3,426	–	3,426	3,426
Deposits from customers	2,081,493	1,758,308	364,691	231,818	49,870	268,089	28,520	36,213	68,984	34,203	1,551	114,632	2,595,109	2,443,263	5,038,372
fixed rate	659,069	740,215	360,674	231,818	49,870	268,089	28,520	36,213	68,984	34,203	–	–	1,167,117	1,310,538	2,477,655
variable rate	1,422,424	1,018,093	4,017	–	–	–	–	–	–	–	–	–	1,426,441	1,018,093	2,444,534
non-interest-bearing	–	–	–	–	–	–	–	–	–	–	1,551	114,632	1,551	114,632	116,183
Liabilities from issued securities	13,155	137,539	27,023	300,178	35,409	10,012	77,342	4,819	130,158	248,516	3	1,111	283,090	702,175	985,265
fixed rate	6	7,229	7,257	1,781	34,988	2,472	77,342	4,819	130,158	248,516	–	–	249,751	264,817	514,568
variable rate	13,149	130,310	19,766	298,397	421	7,540	–	–	–	–	–	–	33,336	436,247	469,583
non-interest-bearing	–	–	–	–	–	–	–	–	–	–	3	1,111	3	1,111	1,114
Fair value of derivative financial instruments in other liabilities	116,423	878,365	33,849	943,177	23,878	19,971	11,796	25,072	5,179	49,559	–	–	191,125	1,916,144	2,107,269
fixed rate	104,131	509,689	26,017	366,880	23,687	19,927	11,796	25,072	5,179	49,559	–	–	170,810	971,127	1,141,937
variable rate	12,292	368,676	7,832	576,297	191	44	–	–	–	–	–	–	20,315	945,017	965,332
Subordinated bonds and loans	–	856	5,000	33,015	–	9,202	–	–	–	253,091	–	–	5,000	296,164	301,164
fixed rate	–	–	–	–	–	–	–	–	–	253,091	–	–	–	253,091	253,091
variable rate	–	856	5,000	33,015	–	9,202	–	–	–	–	–	–	5,000	43,073	48,073
Net position	(671,915)	185,941	491,967	(469,703)	157,883	76,923	71,042	52,414	294,683	32,344	92,781	232,257	436,441	110,176	546,617

As at 31 December 2006

	Within 1 month		Over 1 month and Within 3 months		Over 3 months and Within 12 months		Over 1 year and Within 2 years		Over 2 years		Non-interest-bearing		Total		Total
	HUF	Currency	HUF	Currency	HUF	Currency	HUF	Currency	HUF	Currency	HUF	Currency	HUF	Currency	
ASSETS															
Cash, due from banks and balances with the National Bank of Hungary	385,782	23,280	3,872	1,210	5	4,917	–	–	–	–	46,312	67,247	435,971	96,654	532,625
fixed rate	385,683	11,117	3,842	3	–	–	–	–	–	–	–	–	389,525	11,120	400,645
variable rate	99	12,163	30	1,207	5	4,917	–	–	–	–	–	–	134	18,287	18,421
non-interest-bearing	–	–	–	–	–	–	–	–	–	–	46,312	67,247	46,312	67,247	113,559
Placements with other banks, net of allowance for possible placement losses	31,221	388,297	9,587	10,943	–	73,317	–	113	–	291	–	88,846	40,808	561,807	602,615
fixed rate	27,882	326,559	68	9,608	–	50,360	–	111	–	260	–	–	27,950	386,898	414,848
variable rate	3,339	61,738	9,519	1,335	–	22,957	–	2	–	31	–	–	12,858	86,063	98,921
non-interest-bearing	–	–	–	–	–	–	–	–	–	–	–	88,846	–	88,846	88,846
Securities held for trading	1,226	3,287	2,681	1,083	14,059	13,108	2,274	5,253	13,356	27,543	316	681	33,912	50,955	84,867
fixed rate	1,226	–	2,343	567	13,989	13,108	2,274	5,135	13,356	27,487	–	–	33,188	46,297	79,485
variable rate	–	3,287	338	516	70	–	–	118	–	56	–	–	408	3,977	4,385
non-interest-bearing	–	–	–	–	–	–	–	–	–	–	316	681	316	681	997
Securities available-for-sale	45,372	74	76,937	23,645	37,311	10,719	95,533	9,206	103,695	53,748	29,735	3,275	388,583	100,667	489,250
fixed rate	44,352	74	54,962	1,955	37,071	9,879	95,533	8,619	103,684	50,915	–	–	335,602	71,442	407,044
variable rate	1,020	–	21,975	21,690	240	840	–	587	11	2,833	–	–	23,246	25,950	49,196
non-interest-bearing	–	–	–	–	–	–	–	–	–	–	29,735	3,275	29,735	3,275	33,010
Loans, net of allowance for loan loses	1,063,590	1,401,583	196,139	347,837	103,215	232,017	133,969	231,663	233,275	357,252	29,427	17,124	1,759,615	2,587,476	4,347,091
fixed rate	9,392	93,472	7,135	74,324	8,468	170,078	2,382	70,534	28,364	138,046	–	–	55,741	546,454	602,195
variable rate	1,054,198	1,308,111	189,004	273,513	94,747	61,939	131,587	161,129	204,911	219,206	–	–	1,674,447	2,023,898	3,698,345
non-interest-bearing	–	–	–	–	–	–	–	–	–	–	29,427	17,124	29,427	17,124	46,551
Debt securities held-to-maturity	7,332	14,217	56,102	5,740	28,179	3,456	19,881	2,862	105,046	25,465	–	–	216,540	51,740	268,280
fixed rate	7,332	1,422	14,713	5,182	16,476	2,442	19,881	2,862	105,046	24,905	–	–	163,448	36,813	200,261
variable rate	–	12,795	41,389	558	11,703	1,014	–	–	–	560	–	–	53,092	14,927	68,019
Fair value of derivative financial instruments	103,737	184,270	172,407	280,194	37,099	23,355	27,339	119	91,273	248,441	–	843	431,855	737,222	1,169,077
fixed rate	97,665	82,557	144,143	108,473	16,748	19,490	27,339	119	91,273	248,441	–	–	377,168	459,080	836,248
variable rate	6,072	101,713	28,264	171,721	20,351	3,865	–	–	–	–	–	–	54,687	277,299	331,986
non-interest-bearing	–	–	–	–	–	–	–	–	–	–	–	843	–	843	843

As at 31 December 2006

	Within 1 month		Over 1 month and Within 3 months		Over 3 months and Within 12 months		Over 1 year and Within 2 years		Over 2 years		Non-interest-bearing		Total		Total
	HUF	Currency	HUF	Currency	HUF	Currency	HUF	Currency	HUF	Currency	HUF	Currency	HUF	Currency	
LIABILITIES															
Due to banks and deposits from the National Bank of Hungary and other banks	12,744	172,261	1	285,681	59,600	33,360	1,213	11,518	1,154	53,985	1,229	27,671	75,941	584,476	660,417
fixed rate	12,546	51,134	1	92,251	116	10,624	278	648	1,092	23,582	–	–	14,033	178,239	192,272
variable rate	198	121,127	–	193,430	59,484	22,736	935	10,870	62	30,403	–	–	60,679	378,566	439,245
non-interest-bearing	–	–	–	–	–	–	–	–	–	–	1,229	27,671	1,229	27,671	28,900
Deposits from customers	1,932,959	1,353,337	222,056	158,190	158,382	243,902	19,887	12,508	52,576	2,938	1,808	73,610	2,387,668	1,844,485	4,232,153
fixed rate	1,264,729	433,500	20,615	67,080	15,658	108,352	19,879	11,502	52,576	2,278	–	–	1,373,457	622,712	1,996,169
variable rate	668,230	919,837	201,441	91,110	142,724	135,550	8	1,006	–	660	–	–	1,012,403	1,148,163	2,160,566
non-interest-bearing	–	–	–	–	–	–	–	–	–	–	1,808	73,610	1,808	73,610	75,418
Liabilities from issued securities	8,842	138,280	27,622	99,803	7,405	19,576	33,394	1,614	189,334	253,429	624	1,392	267,221	514,094	781,315
fixed rate	16	8,681	5,900	4,121	7,405	12,266	33,394	1,614	189,334	253,429	–	–	236,049	280,111	516,160
variable rate	8,826	129,599	21,722	95,682	–	7,310	–	–	–	–	–	–	30,548	232,591	263,139
non-interest-bearing	–	–	–	–	–	–	–	–	–	–	624	1,392	624	1,392	2,016
Fair value of derivative financial instruments in other liabilities	14,495	451,947	24,974	409,861	23,425	26,819	847	24,142	101,703	69,142	–	134	165,444	982,045	1,147,489
fixed rate	12,385	165,734	3,982	241,936	9,007	26,819	847	24,142	101,703	69,142	–	–	127,924	527,773	655,697
variable rate	2,110	286,213	20,992	167,925	14,418	–	–	–	–	–	–	–	37,520	454,138	491,658
non-interest-bearing	–	–	–	–	–	–	–	–	–	–	–	134	–	134	134
Subordinated bonds and loans	–	–	–	31,677	5,000	211,677	–	1,003	–	1,369	–	–	5,000	245,726	250,726
fixed rate	–	–	–	31,677	5,000	211,677	–	1,003	–	1,369	–	–	5,000	245,726	250,726
Net position	(330,780)	(100,817)	243,072	(314,560)	(33,944)	(174,445)	223,655	198,431	201,878	331,877	102,129	75,209	406,010	15,695	421,705

NOTE 36: EARNINGS PER SHARE

Consolidated Earnings per share attributable to the common shares of the Group are determined based on dividing consolidated net income for the year attributable to common shareholders, by the weighted average number of common shares outstanding during the period.

	2007	2006
Consolidated net income (in HUF mn)	208,208	187,051
Weighted average number of common shares outstanding during the year for calculating basic EPS (piece)	261,699,756	259,171,517
Consolidated Basic Earnings per share (in HUF)	796	722
Weighted average number of common shares outstanding during the year for calculating diluted EPS (piece)	262,326,040	261,948,322
Consolidated Diluted Earnings per share (in HUF)	**794**	**714**

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

Diluted Earnings per share are determined after additionally taking into consideration the option rights granted.

NOTE 37: NET GAIN OR LOSS REALIZED ON FINANCIAL INSTRUMENTS (in HUF mn)

As at 31 December 2007

	Net interest gain and loss	Net non-interest gain and loss	Provision	Equity
Cash, due from banks and balances with the National Bank of Hungary	12,825	–	–	–
Placements with other banks, net of allowance for placements losses	22,729	–	(41)	–
Securities held for trading	7,272	(353)	–	–
Securities available-for-sale	34,145	1,345	–	(1,073)
Loans, net of allowance for loan losses	561,391	28,985	(58,144)	–
Securities held-to-maturity	29,938	–	–	–
Derivative financial instruments	30,174	(2,040)	–	–
Due to banks and deposits from the National Bank of Hungary and other banks	(31,294)	–	–	–
Deposits from customers	(168,853)	101,991	–	–
Issued securities	(50,197)	–	–	–
Subordinated bonds and loans	(16,438)	54	–	–
Total	**431,692**	**129,982**	**(58,185)**	**(1,073)**

NOTE 38: SENSITIVITY ANANLYSIS (in HUF mn)

38.1. Market Risk sensitivity analysis

The VaR risk measure estimates the potential loss in pre-taxation profit over a given holding period for a specified confidence level.
The VaR methodology is a statistically defined, probability-based approach that takes into account market volatilities as well as risk diversification by recognising offsetting positions and correlations between products and markets. Risks can be measured consistently across all markets and products, and risk measures can be aggregated to arrive at a single risk number. The one-day 99% VaR number used by the Group reflects the 99% probability that the daily loss will not exceed the reported VaR.

VaR methodologies are employed to calculate daily risk numbers include the historical and variance-covariance approaches. In addition to these two methodologies, Monte Carlo simulations are applied to the various portfolios on a monthly basis to determine potential future exposure.

The VaR of the trading portfolio can be summarized as follows:

Historical VaR (99%, one-day) by risk type	Average 2007	2006
Foreign exchange	443	657
Interest rate	559	887
Equity instruments	96	–
Diversification	(262)	(575)
Total VaR exposure	**836**	**969**

While VaR captures the Group's daily exposure to currency and interest rate risk, sensitivity analysis evaluates the impact of a reasonably possible change in interest or foreign currency rates over a year.
The longer time frame of sensitivity analysis complements VaR and helps the Group to assess its market risk exposures. Details of sensitivity analysis for foreign currency risk are set out in 38.2. below and, for interest rate risk, in 38.3. below.

38.2. Foreign currency sensitivity analysis

The following table details the Group's sensitivity to a increase and decrease in the HUF exchange rate against the foreign currencies, over a 3 months period. Monte Carlo simulation is used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the reasonably possible change in foreign exchange rates.
The sensitivity analysis includes outstanding foreign currency denominated monetary items at the Group members and the strategic open positions related to foreign activities of the Bank also. The strategic open position related to the foreign operations was EUR 570 million and EUR 570 million as of 31 December 2007 and 2006, respectively. A positive number below indicates an increase in profit where the HUF strengthens against foreign currency.
For a weakening of the HUF against FX, there would be an equal and opposite impact on the profit, and the balances below would be negative.

Probability	Effects to the P&L in 3 months period (in HUF billion)	
	2007	2006
1%	(16.4)	(19.9)
5%	(11.0)	(11.0)
25%	(4.2)	(3.0)
50%	0.3	0.7
25%	3.7	4.3
5%	6.4	7.0
1%	6.9	7.5

Notes:

(1) The short-term loss on the strategic open position is compensated by the long-term exchange rate gain on the foreign operations.

(2) The currency rates were closed to the strenght limit of the fluctuation band as of 31 December 2007 and 2006, therefore the probability of the short-term loss is higher.

38.3 Interest rate sensitivity analysis

The sensitivity analyses below have been determined based on the exposure to interest rates for both derivatives and non-derivative instruments at the balance sheet date.
The analysis is prepared assuming the amount of assets and liabilities outstanding at the balance sheet date was outstanding for the whole year. The analyses were prepared by assuming only the adversing interest rate changes. The main assumptions were as follows:

- Floating rate assets and liabilities were repriced to the modelled benchmark yields at the repricing dates assuming the unchanged marge compared to the last repricing.
- Fixed rate assets and liabilities were repriced at the contractual maturity date.
- As for liabilities with discretionary repricing feature by the Bank were assumed to be repriced with two-weeks delay, assuming no change in the marge compared to the last repricing date.
- The assets and liabilities with interest rate lower than 0.3% assumed to be unchanged during the whole period.

The simulations were prepared by assuming two scenarios:
0.50% – 0.75% decrease in average HUF yields (probable scenario)
1% – 1.50% decrease in average HUF yields (alternative scenario)

The net interest income in a one year period after 31 December 2007 would be decreased by HUF 853 million (probable scenario) and HUF 4.674 million (alternative scenario) as a result of these simulations.

The effects of the parallel shifts of the yield-curves to the net interest income on a one year period can be summarized as follows:

Description	Effects to the net interest income in one year period	
	2007	2006
HUF (0.1%) parallel shift	(354)	(198)
EUR (0.1%) parallel shift	(41)	(83)
USD (0.1%) parallel shift	(79)	(117)
Total	**(474)**	**(398)**

38.4 Equity price sensitivity analysis

The Group has no significant equity instruments held in 2007 and 2006 therefore is not exposed to significant equity price risk.

NOTE 39: SEGMENT REPORTING (in HUF mn)

Geographical segments provide products or services within a particular economic environment that is subject to different risks and rewards that are different to those of components operating in other economic environments. Geographical segments are the primary reporting segments.

Business segments are distinguishable components of the Group that provide products or services that are subject to risks and reward that are different to those of other business segments. Business segments are the secondary reporting segments.

39.1. Primary reporting format by geographical segments

	Hungary	Slovakia	Montenegro	Bulgaria	Romania	Croatia	Serbia	Russia	Ukraine	Elimination	Consolidated
Interest income											
External	481,193	21,147	11,775	61,951	13,860	21,535	8,812	70,761	55,946	–	746,980
Inter-segment	28,258	15	–	3,076	–	–	–	21	–	(31,370)	–
Total	**509,451**	**21,162**	**11,775**	**65,027**	**13,860**	**21,535**	**8,812**	**70,782**	**55,946**	**(31,370)**	**746,980**
Non-interest income											
External	237,978	6,259	5,779	18,699	6,481	7,288	9,171	26,364	10,275	–	328,294
Inter-segment	1,642	–	–	608	365	–	31	–	–	(2,646)	–
Total	**239,620**	**6,259**	**5,779**	**19,307**	**6,846**	**7,288**	**9,202**	**26,364**	**10,275**	**(2,646)**	**328,294**
Segment income before income taxes	183,895	1,563	2,422	29,122	(3,758)	4,513	636	10,687	19,258	614	248,952
Income taxes	–	–	–	–	–	–	–	–	–	–	(40,404)
Net income after income taxes	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**208,548**
Segment assets	5,504,957	404,216	260,493	1,043,173	256,641	456,818	117,510	491,791	746,904	(820,629)	8,461,874
Segment liabilities	5,242,727	378,091	249,904	891,392	225,629	381,882	71,318	390,455	558,972	(824,073)	7,566,297
Capital expenditure	11,525	1,550	–	10,307	3,287	1,425	340	542	–	–	28,976
Depreciation	23,169	1,046	398	3,082	1,011	904	738	3,920	1,359	–	35,627
Allowance for loan and placement losses	**17,661**	**1,656**	**1,403**	**9,116**	**789**	**1,849**	**3,975**	**18,754**	**2,981**	**–**	**58,184**

39.2. Secondary segment information by business segments

	Finance segment	Insurance segment*	Other segment	Total
Total segment income	945,006	105,745	24,523	1,075,274
Segment net income before income taxes	230,845	6,680	11,427	248,952
Segment assets	8,177,903	192,933	91,038	8,461,874
Capital expenditure	21,574	4,093	3,309	28,976

* The insurance segment includes OTP Garancia and its insurance subsidiaries, and OTP Life Annuity Ltd.

NOTE 40: PLANNED SALE OF THE INSURANCE BUSINESS (in HUF mn)

Based on an agreement signed on 11 February 2008, subject to the prior approval of the Hungarian Financial Supervisory Authority, upon signing of the contractual documentation that is subject to the receipt of all necessary regulatory and competition approvals and certain other conditions, Groupama S.A. will undertake to buy 100 % of the shares in OTP Garancia Insurance Ltd. as well as to acquire the minority shares held by the local subsidiaries of OTP Bank Plc. in the Romanian, Slovakian and Bulgarian subsidiaries of OTP Garancia Insurance Ltd. (see Note 42).

The assets, liabilities, equity and net income of the insurance business line do not represent significant portion of the Group's consolidated assets, liabilities, equity and net income, therefore the Group doesn't apply the requirements of IFRS 5 for the above transaction, therfore the assets, liabilities, shareholders equity and net income of the insurance business line are included in the the attached consolidated financial statements as of and for the years ended 31 December 2007 and 2006, respectively (insurance business line does not include OTP Life Annuity Ltd.).

Recognition of the assets, liabilities, shareholders equity and net income of insurance business line:

	2007
Financial assets at fair value through statements of operations	107,760
Securities available-for-sale	56,301
Other assets	19,044
Total assets	**183,105**
Insurance technical reserves	183,211
Other liabilities	5,796
Total liabilities	**189,007**
Shareholders' equity	**10,731**

	2007
Net interest income	11,017
Insurance premium	83,591
Other income	5,349
Insurance expense	69,204
Other expenses	23,320
Income taxes	1,775
Net income	**5,658**

Recognition of cash flow of the insurance business line:

	2007
Net Cash Provided by Operating Activities	16,922
Net Cash Used in Investing Activities	(14,233)
Net Cash Provided by Financing Activities	(815)
Net Increase in Cash and Cash Equivalents	**1,874**

NOTE 41: SIGNIFICANT EVENTS DURING THE YEAR ENDED 31 DECEMBER 2007

On 26 February 2007 under the EMTN Program the Bank issued floating rate bonds due 2009 with the face value of EUR 750 million for the purpose of general bank financing.
On 26 February 2007 under the same program to support the capital position the Bank reissued EUR 200 million subordinated bonds to the EUR 300 million subordinated bonds that had been issued at 19 September 2006 (as the value date). The maturity of the bonds is 19 September 2016.

Serbian subsidiaries of OTP Bank Plc., Niška banka a.d. Niš, Zepter banka a.d. Beograd and Kulska banka a.d. Novi Sad held an extraordinary general meeting on 23 March 2007.
The resolution for the merger of the three banks was approved at the forum of shareholders. In possession of the requisite Hungarian and Serbian licenses, as at 21 May 2007 (also the first day of business) the merged credit institution operates under the name of OTP Banka Srbija a.d. Novi Sad in the territory of the Republic of Serbia, with its headquarters located in Novi Sad.

OTP Bank Plc. has launched a bond issue program of HUF 100,000 million (one hundred thousand million) as at 2 August 2007.
The Committee for Product Development, Marketing and Pricing of OTP Bank Plc. adopted the resolution no. 71/2007 about the bond issue program on 13 March 2007. The Information Memorandum related to the program and this announcement were approved by the Hungarian Financial Supervisory Authority with resolution no. E-III/10.350/2007 dd. 1 August 2007.
The Information Memorandum is valid for 12 months from the date of the announcement.

The subscription period of the index linked OTPX2010A Bond between 3 December 2007 and 21 December 2007 ended successfully. The Bonds could be subscribed in the domestic branches of OTP Bank Plc. The investors subscribed the total of HUF 1,393,200,000. OTP Bank Plc. accepted all of the subscriptions, HUF 1,393,200,000 amount of OTPX2010A bonds was issued. The maturity date of the bonds is 21 December 2010. The interest rate of the bonds is 9% in the first period.

According to the 8/2004 and 9/2006 resolutions of the Annual General Meetings of OTP Bank Plc., relevant paragraphs have been changed according to the law on abolishing the voting preference share of the State ('golden share'). The XXVI. Law of 2007 came into effect on 21 April 2007. On that day according to the relevant paragraphs of AGMs the voting preference shares stipulations ceased existing, thus 1 preference voting share with HUF 1000 face value has been transformed into 10 ordinary shares with HUF 100 face value. The transaction was registrated at the Registry Court on 18 June 2007, and the shares were introduced to the Budapest Stock Exchange on 18 September 2007.

On 28 August 2007 the Bank, the 100% owner of CJSC OTP Bank Ukraine, has increased the registered capital of its subsidiary by UAH 134,786,915, thus the share capital of CJSC OTP Bank is UAH 654,585,309.

On 31 August 2007 OTP Bank Plc., the 96.81% owner of OTP Fund Servicing and Consulting Ltd., has increased the registered capital of its subsidiary by HUF 1,020 million, thus the share capital of Fund Servicing and Consulting Ltd. is HUF 2,350 million.

On 4 September 2007 OTP Bank Plc., the 100% owner of OTP Mortgage Bank Ltd., has increased the registered capital of its subsidiary by HUF 7,000 million, thus the share capital of OTP Mortgage Bank Ltd. is HUF 27,000 million.

On 12 September 2007 OTP Bank Plc., the 100% owner of OTP Bank Romania S.A., has increased the registered capital of its subsidiary by EUR 20 million (RON 65,437,920), thus the share capital of OTP Bank Romania S.A is RON 432,909,120.

On 10 October 2007 OTP Bank Plc., the 91.43% owner of OTP banka Srbija a.d. has increased the registered capital of its subsidiary by EUR 64.5 million, thus the share capital of OTP Banka Srbija a.d. is EUR 81.3 million.

On the initiative of OTP Bank Plc. the OTP Financing Cyprus Company Limited was incorporated on 31 October 2007. The company has a capital of EUR 1,000 and is under 100% ownership of OTP Bank Plc.

OTP Bank Plc. purchased the 100% of the participation interests of Donskoy Narodny Bank (DNB) on 12 November 2007. The Bank will pay a purchase price close to USD 40.95 million after all the required Russian and Hungarian official licences and permits have been obtained. The purchase price shall be transferred to the seller at the expected closing time of the deal, at the beginning of 2008.

OTP Financing Netherlands B.V. was incorporated on 28 November 2007 as the fully-owned subsidiary of OTP Bank Plc. The company has a capital of EUR 90,000.
On 22 November 2007 OTP Bank Plc., the 100% owner of DSK Bank EAD has increased the registered capital of its subsidiary by BGN 60,000,000 thus the share capital of DSK Bank EAD is BGN 153,984,000.

The direct and indirect interest of the Bank in Investsberbank OAO has increased to 97.22% during 2007 due to continuous share purchasing.

NOTE 42: POST BALANCE SHEET EVENTS

On 9 January 2008 the Bank, the 100% owner of CJSC OTP Bank Ukraine, has increased the registered capital of its subsidiary by UAH 247,972,709 thus the share capital of CJSC OTP Bank is UAH 902,558,018.

On 17 January 2008 - effective from 29 November 2007 - the Bank, the 100% owner of OTP Life Annuity Ltd., has increased the registered capital of its subsidiary by HUF 5 million, the equity reserve of its subsidiary by HUF 745 million, thus the share capital of OTP Life Annuity Ltd. is HUF 505 million.

On 26 February 2008 the renaming of Investsberbank OAO came into force. The bank has been renamed as OTP Bank OAO.

On 11 February 2008, subject to the prior approval of the Hungarian Financial Supervisory Authority, upon signing of the contractual documentation that is subject to the receipt of all necessary regulatory and competition approvals and certain other conditions, Groupama S.A. will undertake to buy 100% of the shares in OTP Garancia Insurance Ltd. as well as to acquire the minority shares held by the local subsidiaries of OTP Bank Plc. in the Romanian, Slovakian and Bulgarian subsidiaries of OTP Garancia Insurance Ltd. As a result of the transaction, Groupama S.A. will acquire 100% of both the life and non-life insurance businesses of OTP Bank Plc. in Hungary, Slovakia, Romania and Bulgaria. The total consideration for the acquisition and distribution partnership is HUF 164 billion or approximately EUR 617 million.

Furthermore, as part of the transaction and subject to certain conditions, OTP Bank Plc. and Groupama S.A. will enter into co-operation agreements allowing for (in some jurisdictions exclusive) cross-selling of banking and insurance products through the respective parties' branch networks in Hungary, Slovakia, Romania, Bulgaria, Ukraine, Russia, Serbia, Montenegro and Croatia.

As part of this strategic co-operation between OTP Bank Plc. and Groupama S.A., subject to certain conditions, Groupama S.A. will undertake to buy up to 8%. of the shares in OTP Bank Plc, in two steps. In order to facilitate the transaction, subject to the agreements to be entered into by the relevant parties and the completion of the transaction, Deutsche Bank AG, London Branch will, upon completion of the transaction, deliver approximately 5% of OTP Bank Plc. shares to Groupama S.A. If the above referred conditions (such as the receipt of regulatory approvals) were not satisfied and therefore the transaction would not be completed, Deutsche Bank AG, London Branch would cash-settle the agreement entered into with OTP Bank Plc.

Deloitte.

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INDEPENDENT AUDITORS' REPORT

To the Shareholders and Board of Directors of OTP Bank Plc.

We have audited the accompanying unconsolidated financial statements of OTP Bank Plc., which comprise the unconsolidated balance sheet as at December 31, 2007, and the related unconsolidated income statement, statement of changes in equity and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes, included on pages 109 to 151 of this Annual Report.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these unconsolidated financial statements in accordance with International Financial Reporting Standards as adopted by the European Union. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility

Our responsibility is to express an opinion on these unconsolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the unconsolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the unconsolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the unconsolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the unconsolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Audit.Tax.Consulting.Financial Advisory.

Member of
Deloitte Touche Tohmatsu

Registered by the Budapest Court of Registration
Company Reg. No.: 01-09-071057

Opinion

In our opinion, the unconsolidated financial statements present fairly, in all material respects, the unconsolidated financial position of OTP Bank Plc. as of December 31, 2007, and of its unconsolidated financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

Without qualifying our opinion, we draw attention to Note 2.3 to the unconsolidated financial statements which states that the consolidated financial statements of OTP Group prepared in accordance with International Financial Reporting Standards have been issued separately. The consolidated financial statements of OTP Group as of and for the year ended December 31, 2007 were audited by us and our report dated March 17, 2008 expressed an unqualified opinion.

Budapest, March 17, 2008

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Deloitte Auditing and Consulting Ltd.

Balance Sheet

(unconsolidated, based on IFRS, as at 31 December 2007, in HUF million)

	Note	2007	2006
Cash, due from banks and balances with the National Bank of Hungary	3	229,644	429,325
Placements with other banks, net of allowance for placement losses	4	725,458	657,939
Financial assets at fair value through statements of operations	5	123,371	61,085
Securities available-for-sale	6	320,615	348,859
Loans, net of allowance for loan losses	7	2,188,632	1,751,678
Accrued interest receivable		46,421	44,398
Investments in subsidiaries	8	630,703	583,298
Securities held-to-maturity	9	558,510	504,111
Premises, equipment and intangible assets, net	10	110,273	100,721
Other assets	11	177,047	25,283
Total assets		**5,110,674**	**4,506,697**
Due to banks and deposits from the National Bank of Hungary and other banks	12	590,748	557,857
Deposits from customers	13	2,955,035	2,690,098
Liabilities from issued securities	14	394,196	202,050
Accrued interest payable		18,411	16,175
Other liabilities	15	138,111	122,398
Subordinated bonds and loans	16	298,914	247,865
Total liabilities		**4,395,415**	**3,836,443**
Share capital	17	28,000	28,000
Retained earnings and reserves	18	741,467	644,000
Treasury shares	19	(54,208)	(1,746)
Total shareholders' equity		**715,259**	**670,254**
Total liabilities and shareholders' equity		**5,110,674**	**4,506,697**

The accompanying notes to unconsolidated financial statements on pages 113 to 151 form an integral part of these unconsolidated financial statements.

Profit and Loss Account

(unconsolidated, based on IFRS, for the year ended 31 December 2007, in HUF million)

	Note	2007	2006
Interest Income:			
Loans		199,770	167,058
Placements with other banks		104,968	73,004
Due from banks and balances with the National Bank of Hungary		11,754	24,053
Securities held for trading		2,808	2,189
Securities available-for sale		24,952	25,485
Securities held-to-maturity		51,298	40,128
Total Interest Income		395,550	331,917
Interest Expense:			
Due to banks and deposits from the National Bank of Hungary and other banks		65,939	36,492
Deposits from customers		110,504	81,167
Liabilities from issued securities		16,151	6,722
Subordinated bonds and loans		16,086	4,372
Total Interest Expense		208,680	128,753
Net Interest Income		**186,870**	**203,164**
Provision for loan and placement losses	4, 7	21,453	25,443
Net interest income after provision for loan and placement losses		**165,417**	**177,721**
Non-Interest Income:			
Fees and commissions		153,449	147,668
Foreign exchange gains/(losses), net		633	(14,465)
Gains on securities, net		2,232	870
(Losses)/gains on real estate transactions, net		(54)	77
Dividend income		18,920	16,252
Other		4,717	44,849
Total Non-Interest Income		179,897	195,251
Non-Interest Expenses:			
Fees and commissions		20,611	21,163
Personnel expenses		71,018	65,405
Depreciation and amortization		20,035	17,391
Other	20	71,868	81,527
Total Non-Interest Expenses		183,532	185,486
Income before income taxes		**161,782**	**187,486**
Income taxes	21	20,101	17,298
Net income		**141,681**	**170,188**
Earnings per share (in HUF)			
Basic	32	508	635
Diluted	32	507	629

The accompanying notes to unconsolidated financial statements on pages 113 to 151 form an integral part of these unconsolidated financial statements.

Statement of Cash Flow

(unconsolidated, based on IFRS, for the year ended 31 December 2007, in HUF million)

Operating activities	Note	2007	2006
Income before income taxes		**161,782**	**187,486**
Income tax paid		(24,101)	(25,913)
Depreciation and amortization		20,035	17,391
Provision for loan and placement losses		21,453	25,443
Provision for permanent diminution in value of investments in subsidiaries	8	56	10
Allowance for losses of other assets	11	351	151
Allowance for losses on off-balance sheet commitments and contingent liabilities, net	15	512	5,827
Share-based compensation	12, 24, 33	5,123	5,927
Unrealised losses on fair value adjustment of securities held for trading		688	1,435
Unrealised gains on fair value adjustment of derivative financial instruments		(1,620)	(13,676)
Net increase in financial assets through statements of operations		(24,698)	(11,700)
Net increase in accrued interest receivables		(2,023)	(3,122)
Net (increase)/decrease in other assets, excluding advances for investments and before provisions for losses		(45,697)	22,400
Net increase in accrued interest payable		2,236	10,440
Net increase in other liabilities		8,070	20,392
Net cash provided by operating activities		**122,167**	**242,491**
Investing activities			
Net decrease in placements with other banks, before provision for placement losses		(199,711)	(264,280)
Net decrease in securities available-for-sale		25,422	14,466
Net increase in investments in subsidiaries, before provision for permanent diminution in value		(47,461)	(359,427)
Net (increase)/decrease in securities held-to-maturity		(54,399)	17,686
Net (increase)/decrease in advances for investments included in other assets		(2)	1
Net increase in loans, before provision for loan losses		(458,407)	(301,613)
Net additions to premises, equipment and intangible assets		(29,088)	(12,543)
Net cash used in investing activities		**(763,646)**	**(905,710)**
Financing activities			
Net increase in due to banks and deposits from the National Bank of Hungary and other banks		32,891	302,646
Net increase in deposits from customers		264,937	183,641
Net increase/(decrease) in liabilities from issued securities		192,146	(217)
Increase in subordinated bonds and loans		51,049	200,842
(Issuance of)/ dividend on equity instrument (ICES)		(2,715)	39,364
Net change in treasury shares		(56,359)	42,138
Net increase in the compulsory reserve established by the National Bank of Hungary		(21,459)	(16,539)
Dividends paid		(40,151)	(55,119)
Net cash provided by financing activities		**420,339**	**696,756**
Net (decrease)/increase in cash and cash equivalents		**(221,140)**	**33,537**
Cash and cash equivalents at the beginning of the year		294,581	261,044
Cash and cash equivalents at the end of the year		**73,441**	**294,581**
Analysis of cash and cash equivalents			
Cash, due from banks and balances with the National Bank of Hungary		429,325	379,249
Compulsory reserve established by the National Bank of Hungary		(134,744)	(118,205)
Cash and cash equivalents at the beginning of the year		294,581	261,044
Cash, due from banks and balances with the National Bank of Hungary	3, 26	229,644	429,325
Compulsory reserve established by the National Bank of Hungary	3, 26	(156,203)	(134,744)
Cash and cash equivalents at the end of the year		**73,441**	**294,581**

The accompanying notes to unconsolidated financial statements on pages 113 to 151 form an integral part of these unconsolidated financial statements.

Statement of Changes in Shareholders' Equity

(unconsolidated, based on IFRS, for the year ended 31 December 2007, in HUF million)

	Share Capital	Retained Earnings and Reserves	Treasury Shares	Total
Balance as at 1 January 2006	**28,000**	**486,051**	**(40,752)**	**473,299**
Net income	–	170,188	–	170,188
Fair value adjustment of securities available-for-sale recognised directly through equity, net	–	(5,502)	–	(5,502)
Share-based compensation	–	5,927	–	5,927
Profit on ICES - exchangeable bond transaction recognised through equity		39,364		39,364
Dividend for the year 2005	–	(55,160)	–	(55,160)
Profit on sale of treasury shares	–	3,132	–	3,132
Sale of treasury shares	–	–	39,006	39,006
Balance as at 31 December 2006	**28,000**	**644,000**	**(1,746)**	**670,254**
Net income	–	141,681	–	141,681
Fair value adjustment of securities available-for-sale recognised directly through equity, net	–	(2,018)	–	(2,018)
Fair value adjustment of derivative financial instruments recognised directly through equity, net	–	(387)	–	(387)
Share-based compensation	–	5,123	–	5,123
Profit on ICES - exchangeable bond transaction recognised through equity	–	(2,715)	–	(2,715)
Dividend for the year 2006	–	(40,320)	–	(40,320)
Loss on sale of treasury shares	–	(3,897)	–	(3,897)
Purchase of treasury shares	–	–	(52,462)	(52,462)
Balance as at 31 December 2007	**28,000**	**741,467**	**(54,208)**	**715,259**

The accompanying notes to unconsolidated financial statements on pages 113 to 151 form an integral part of these unconsolidated financial statements.

NOTES TO UNCONSOLIDATED IFRS FINANCIAL STATEMENTS AS AT 31 DECEMBER 2007

NOTE 1: ORGANIZATION AND BASIS OF FINANCIAL STATEMENTS

1.1. General information

OTP Bank Plc. (the 'Bank' or 'OTP') was established on 31 December 1990, when the predecessor State-owned company was transformed into a limited liability company. The Bank's registered office address is 16, Nador Street, Budapest 1051.

In 1995, the shares of the Bank were introduced to the Budapest and the Luxembourg stock exchanges and were also listed on SEAQ London and PORTAL (USA).

As at 31 December 2007 approximately 95% of the Bank's shares were held by domestic and foreign private and institutional investors. The remaining shares are owned by employees (2%) and the Bank (3%).

The Bank provides a full range of commercial banking services through a nationwide network of 388 branches in Hungary.

As at 31 December 2007 the number of employees at the Bank was 8,494. The average number of employees in the year ended 31 December 2007 was 8,281.

1.2. Accounting

The Bank maintains its accounting records and prepares its statutory accounts in accordance with the commercial, banking and fiscal regulations prevailing in Hungary. The functional currency of the Bank is the Hungarian Forint ('HUF').
Some of the accounting principles prescribed for statutory purposes are different from those generally recognized in international financial markets. Due to the fact that the Bank is listed on international and national stock exchanges, the Bank is obliged to present its financial position according to the International Financial Reporting Standards. Certain adjustments have been made to the Bank's Hungarian unconsolidated statutory accounts (see Note 34), in order to present the unconsolidated financial position and results of operations of the Bank in accordance with all standards and interpretations approved by the International Accounting Standards Board (IASB), which are referred to as International Financial Reporting Standards (IFRS). These standards and interpretations were previously called International Accounting Standards (IAS).
The unconsolidated financial statements have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union (the 'EU') except for the matters discussed in 2.3. IFRS as adopted by

the EU do not currently differ from IFRS as issued by the IASB, except for portfolio hedge accounting under IAS 39 which has not been approved by the EU. As the Bank does not apply portfolio hedge accounting under IAS 39, there is no impact on these unconsolidated financial statements, had it been approved by the EU at the balance sheet date.

The Financial Statements were authorised for issue on 17 March 2008.

1.2.1. The effect of adopting new and revised International Financial Reporting Standards effective from 1 January 2007

In the current year, the Bank has adopted IFRS 7 Financial Instruments: Disclosures which is effective for annual reporting periods beginning on or after 1 January 2007, and the consequential amendments to IAS 1 Presentation of Financial Statements.

The impact of the adoption of IFRS 7 and the changes to IAS 1 has been to expand the disclosures provided in these financial statements regarding the Bank's financial instruments and management of capital.

Four Interpretations issued by the International Financial Reporting Interpretations Committee are effective for the current period. These are:

– IFRIC 7: Applying the Restatement Approach under IAS 29, Financial Reporting in Hyperinflationary Economies;
– IFRIC 8: Scope of IFRS 2;
– IFRIC 9: Reassessment of Embedded Derivatives;
– IFRIC 10: Interim Financial Reporting and Impairment.

The adoption of these Interpretations has not led to any changes in accounting policies of the Bank and had no significant impact on the 2007 unconsolidated financial statements.

1.2.2. Changes in Accounting Policies arising from the Adoption of New IFRSs and Amendments to IASs effective 1 January 2008

At the date of authorisation of these financial statements, other than the Standards and Interpretations adopted by the Bank, the following Interpretations were in issue but not yet effective:

– IAS 23: (Revised) Borrowing Costs (effective for accounting periods beginning on or after 1 January 2009);
– IFRS 8: Operating Segments (effective for accounting periods beginning on or after 1 January 2009);
– IFRIC 13: Customer Loyalty Programmes (effective for accounting periods beginning on or after 1 July 2008);
– IFRIC 11 IFRS 2: Bank and Treasury Share Transactions (effective 1 March 2007);
– IFRIC 12: Service Concession Arrangements (effective 1 January 2008);
– IFRIC 14 IAS 19: The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction (effective 1 January 2008).

The directors anticipate that all of the above Interpretations will be adopted in financial statements of the Bank for the period commencing 1 January 2008 and that the adoption of those Interpretations will have no material impact on the financial statements of the Bank in the period of initial application.

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

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

2.1. Basis of presentation

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

The presentation of unconsolidated financial statements in conformity with IFRS requires the management of the Bank to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities as at the date of the financial statements and their reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Future changes in economic conditions, business strategies, regulatory requirements, accounting rules and other factors could result in a change in estimates that could have a material impact on future financial statements.

2.2. Foreign currency translation

Monetary assets and liabilities denominated in foreign currencies are translated into HUF at exchange rates quoted by the National Bank of Hungary ('NBH') as at the date of the financial statements. Income and expenses arising in foreign currencies are converted at the rate of exchange on the transaction date. Resulting foreign exchange gains or losses are recorded to the Unconsolidated Statement of Operations.

2.3. Consolidated financial statements

These financial statements present the unconsolidated financial position and results of operations of the Bank. Consolidated financial statements are currently being prepared by the Bank and consolidated net income and shareholders' equity differs significantly from that presented in these unconsolidated financial statements. See Note 2.8 for the description of the method of accounting for investments in subsidiaries and associated companies in these unconsolidated financial statements. The consolidated financial statements and the unconsolitated financial statements will be published on the same date.

2.4. Securities held-to-maturity

Investments in securities are accounted for on a settlement date basis and are initially measured at fair value. At subsequent reporting dates, securities that the Bank has the expressed intention and ability to hold to maturity (held-to-maturity securities) are measured at amortised cost, less any impairment losses recognised to reflect irrecoverable amounts. The annual amortisation of any discount or premium on the acquisition of a held-to-maturity security is aggregated with other investment income receivable over the term of the investment so that the revenue recognised in each period represents a constant yield on the investment.

Held-to-maturity investments include securities, which the Bank has the ability and intent to hold to maturity. Such securities comprise mainly securities issued by the Hungarian Government and mortgage bonds.

2.5. Financial assets at fair value through statement of operations

2.5.1. Securities held for trading

Investments in securities are accounted for on a settlement date basis and are initially measured at fair value. Held for trading investments are measured at subsequent reporting dates at fair value. Unrealised gains and losses on held for trading securities are recognised in profit/loss and included in the Unconsolidated Statement of Operations for the period. Such securities consist of discounted and interest bearing Treasury bills, Hungarian Government bonds, mortgage bonds and other securities. Other securities include shares in commercial companies and shares in investment funds.

2.5.2. Derivative financial instruments

In the normal course of business, the Bank is a party to contract for derivative financial instruments, which represent a very low initial investment compared to the notional value of the contract. The derivative financial instruments used include interest rate forward or swap agreements and currency forward or swap agreements. These financial instruments are used by the Bank to hedge interest rate risk and currency exposures associated with its transactions in the financial markets.

Derivative financial instruments are initially measured at fair value and at subsequent reporting dates at their fair value. Fair values are obtained from quoted market prices, discounted cash flow models and options pricing models as appropriate. Changes in the fair value of derivative financial instruments that do not qualify for hedge accounting are recognised in profit/loss and included in the Unconsolidated Statement of Operations for the period. All derivatives are carried as assets when fair value is positive and as liabilities when fair value is negative.

2.5.3. Derivative financial instruments designated as a fair-value or cash flow hedge

Changes in the fair value of derivatives that are designated and qualify as fair value hedges and that prove to be highly effective in relation to the hedged risk, are recorded in the Unconsolidated Statement of Operations along with the corresponding change in fair value of the hedged asset or liability that is attributable to the specific hedged risk. The ineffective element of the hedge is charged directly to the Unconsolidated Statement of Operations.

Changes in fair value of derivatives that are designated and qualify as cash flow hedges and that prove to be highly effective in relation to hedged risk, are recognised in the reserve among shareholders' equity. Amounts deferred in equity are transferred to the Unconsolidated Statement of Operations and classified as revenue or expense in the periods during which the hedged assets and liabilities affect the Unconsolidated Statement of Operation for the period. The ineffective element of the hedge is charged directly to the Unconsolidated Statement of Operations.

Certain derivative transactions, while providing effective economic hedges under risk management positions of the Bank, do not qualify for hedge accounting under the specific rules of IAS 39 and are therefore treated as derivatives held for trading with fair value gains and losses charged directly to the Unconsolidated Statement of Operations.

2.6. Securities available-for-sale

Investments in securities are accounted for on a settlement date basis and are initially measured at fair value. Available-for-sale investments are measured at subsequent reporting dates at fair value. Unrealised gains and losses on available-for-sale financial instruments are recognised directly in equity, unless such available-for-sale security is part of an effective fair value hedge. Such gains and losses will be reported when realised in profit and loss for the applicable period. Such securities consist of discounted Treasury bills, Hungarian Government bonds, mortgage bonds and other securities. Other securities include shares in investment funds, bonds issued by companies and foreign government bonds.

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

Those available-for-sale financial assets that do not have a quoted market price and whose fair value cannot be reliably measured by other models mentioned above, are measured at cost, less allowance for permanent diminution in value, when appropriate.

2.7. Loans, placements with other banks and allowance for loan and placement losses

Loans and placements with other banks are stated at the principal amounts outstanding, net of allowance for loan or placement losses, respectively. Interest is accrued and credited to income based on the principal amounts outstanding. When a borrower is unable to meet payments as they come due or, in the opinion of the management, there is an indication that a borrower may be unable to meet payments as they come due, all unpaid interest is reversed and accruals are stopped.

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

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

2.8. Investments in subsidiaries

Investments in subsidiaries comprise those investments where the Bank, through direct and indirect ownership interest, has the power to govern the financial and operating policies of the investee.
Investments in subsidiaries are recorded at the cost of acquisition, less allowance for permanent diminution in value, when appropriate.

2.9. Sale and repurchase agreements

Where debt or equity securities are sold under a commitment to repurchase them at a pre-determined price, they remain on the balance sheet and the consideration received is recorded in Due to Banks. Conversely, debt or equity securities purchased under a commitment to resell are not recognised in the balance sheet and the consideration paid is recorded in Placement with other Banks. Interest is accrued evenly over the life of the repurchase agreement.

2.10. Premises, equipments and intangible assets

Premises, equipments and intangible assets are stated at cost, less accumulated depreciation and amortization and impairment, if any.
The depreciable amount (book value less residual value) of the non-current assets must be allocated over their useful life. Depreciation and amortization are computed using the straight-line method over the estimated useful lives of the assets based on the following annual percentages:

Buildings	1–2%
Machinery and equipment	8–33.3%
Leased assets	16.7–33.3%
Vehicles	15–20%
Software	20–33.3%
Property rights	16.7%

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

At each balance sheet date, the Bank reviews the carrying value of its tangible and intangible assets to determine if there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated to determine the extent (if any) of the impairment loss. Where it is not possible to estimate the recoverable amount of an individual asset, the Bank estimates the recoverable amount of the cash-generating unit to which the asset belongs. Where the carrying value of premises, equipment and other tangible fixed assets is greater than the estimated recoverable amount, it is written down immediately to the estimated recoverable amount.

2.11. Leases

Assets held under finance leases, which confer rights and obligations similar to those attached to owned assets, are capitalised at their fair value and depreciated over the useful lives of assets. The capital element of each future lease obligation is recorded as a liability, while the interest elements are charged to the Unconsolidated Statement of Operations over the period of the leases to produce a constant rate of charge on the balance of capital payments outstanding.

Payments made under operating leases are charged to the Unconsolidated Statement of Operations on a straight-line basis over the term of the lease. When an operating lease is terminated before the lease period has expired, any payment required to be made to the lessor by way of penalty is recognised as an expense in the period in which termination takes place.

2.12. Treasury shares

Treasury shares are shares which are purchased on the stock exchange and the over-the-counter market by the Bank and are presented in the Unconsolidated Balance Sheet at acquisition cost as a deduction from shareholders' equity. Gains and losses on the sale of treasury shares are credited or charged directly to retained earnings and reserves.

2.13. Interest income and interest expense

Interest income and expense are recognised in the Unconsolidated Statement of Operations on an accrual basis based on the IAS 18.

2.14. Income taxes

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

2.15. Off-balance sheet commitments and contingent liabilities

In the ordinary course of its business, the Bank has entered into off-balance sheet commitments such as guarantees, commitments to extend credit and letters of credit and transactions with financial instruments. The provision for losses on commitments and contingent liabilities is maintained at a level adequate to absorb probable future losses. Management determines the adequacy of the allowance based upon reviews of individual items, recent loss experience, current economic conditions, the risk characteristics of the various categories of transactions and other pertinent factors.

The Bank recognises a provision when it has a present obligation as a result of a past event; it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation; and a reliable estimate can be made of the obligation.

2.16. Share-based payments

The Bank has applied the requirements of IFRS 2 Share-based Payment. In accordance with the transitional provisions, IFRS 2 has been applied to all grants of equity instruments after 7 November 2002 that were unvested as at 1 January 2005.

The Bank issues equity-settled share-based payments to certain employees. Equity-settled share-based payments are measured at fair value at the date of grant. The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the year, based on the Bank's estimate of shares that will eventually vest. Fair value is measured by use of a binomial model. The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions, and behavioural considerations.

2.17. Unconsolidated statement of cash flows

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

2.18. Comparative figures

Certain amounts in the 2006 unconsolidated financial statements have been reclassified to conform with the current year presentation.

2.19. Significant accounting estimates and decisions in the application of accounting policies

The presentation of financial statements in conformity with IFRS requires the management of the Bank to make judgement about estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities as at the date of the financial statements and their reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Significant areas of subjective judgement include:

(a) Impairment of loans and advances

The Bank regularly assesses its loan portfolio for impairment. Management determines the adequacy of the allowances based upon reviews of individual loans and placements, recent loss experience, current economic conditions, the risk characteristics of the various categories of loans and other pertinent factors.

(b) Valuation of instruments without direct quotations

Financial instruments without direct quotations in an active market are valued using the valuation model technique. The models are regularly reviewed and each model is calibrated for the most recent available market data. While the models are built only on available data, their use is subject to certain assumptions and estimates (eg. for correlations, volatilities, etc). Changes in the model assumptions may affect the reported market value of the relevant financial instruments.

(c) Provisions

The Bank is involved in a number of ongoing legal disputes. Based upon historical experience and expert reports, the Bank assesses the developments in these cases, and the likelihood and the amount of potential financial losses which are appropriately provided for. (see Note 15)

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

	2007	2006
Cash on hand:		
in HUF	50,601	45,909
in foreign currency	3,486	3,066
	54,087	**48,975**
Due from banks and balances with NBH:		
Within one year:		
in HUF	162,268	369,617
in foreign currency	13,289	10,733
	175,557	**380,350**
Total	**229,644**	**429,235**

Based on the requirements for compulsory reserves set by the National Bank of Hungary, the balance of the compulsory reserves amounted to approximately HUF 156,203 million and HUF 134,744 million as at 31 December 2007 and 2006 respectively.

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

	2007	2006
Within one year:		
In HUF	35,330	37,741
In foreign currency	289,789	242,892
	325,119	**280,633**
Over one year:		
In HUF	3,000	3,300
In foreign currency	397,339	374,006
	400,339	**377,306**
Total	**725,458**	**657,939**

Placements with other banks in foreign currency as at 31 December 2007 and 2006 bear interest rates in the range from 1% to 11.99% and from 0.43% to 11.76% respectively.

Placements with other banks in HUF as at 31 December 2007 and 2006 bear interest rates in the range from 6.7% to 8.94% and from 7% to 9.55% respectively.

NOTE 5: FINANCIAL ASSETS AT FAIR VALUE THROUGH STATEMENT OF OPERATIONS (in HUF mn)

	2007	2006
Securities held for trading		
Hungarian Government discounted Treasury bills	2,147	1,562
Hungarian Government interest bearing Treasury bills	2,406	5,710
Government bonds	47,964	25,744
Mortgage bonds	3,549	2,741
Other securities	4,318	318
	60,384	**36,075**
Derivative financial instruments designated as held for trading	62,987	25,010
Total	**123,371**	**61,085**

Securities held for trading are measured at fair value in the financial statements of the Bank which approximates book value.

Approximately 100% of the held for trading securities portfolio was denominated in HUF as at 31 December 2007 and 2006 respectively.

The 100% of the government bond portfolio was denominated in HUF as at 31 December 2007 and 2006 respectively.

Interest rates on securities held for trading ranged from 5.5% to 11.1% and from 5.5% to 12% as at 31 December 2007 and 2006 respectively.

Interest conditions and the remaining maturities of held for trading securities can be analysed as follows:

	2007	2006
Within five years:		
variable interest	369	391
fixed interest	33,918	27,648
	34,287	**28,039**
Over five years:		
variable interest	–	18
fixed interest	21,779	7,700
	21,779	**7,718**
Non interest-bearing securities	**4,318**	**318**
Total	**60,384**	**36,075**

NOTE 6: SECURITIES AVAILABLE-FOR-SALE (in HUF mn)

	2007	2006
Securities available-for-sale		
Government bonds	41,773	17,317
Mortgage bonds	161,545	212,419
Other securities	117,297	119,123
Total	**320,615**	**348,859**

Securities available-for-sale are measured at fair value in the financial statements of the Bank which approximates book value.

Approximately 67% and 68% of the available-for-sale securities portfolio was denominated in HUF as at 31 December 2007 and 2006 respectively.

The 88% and 71.2% of the government bonds were denominated in HUF as at 31 December 2007 and 2006 respectively. The whole government bond portfolio denominated in foreign currency was denominated in EUR as at 31 December 2007 and 2006 respectively.

Interest rates on avaible-for-sale securities ranged from 3% to 10% and from 2.5% to 12% as at 31 December 2007 and 2006 respectively.

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

	2007	2006
Within five years:		
variable interest	63,187	96,378
fixed interest	171,723	109,520
	234,910	**205,898**
Over five years:		
variable interest	56,519	27,573
fixed interest	17,240	104,740
	73,759	**132,313**
Non interest-bearing securities	**11,946**	**10,648**
Total	**320,615**	**348,859**

Certain fixed-rate mortgage bonds and other securities mainly denominated in foreign currency are hedged by derivative financial instruments to reduce the exposure to interest rate risk or the changes in fair value of these assets. In the case of these transactions the hedging relationships is designated and HUF 298 million and HUF 1,867 million net loss that had been recognised directly in equity was removed from equity and recognised in the net profit and loss as at 31 December 2007 and 2006 respectively in line with IAS 39.

The fair value of the hedged mortgage bonds was HUF 16,557 million and HUF 20,805 million as at 31 December 2007 and 2006 respectively. The fair value of the other bonds hedged was HUF 30,491 million and HUF 21,615 million as at 31 December 2007 and 2006 respectively.

NOTE 7: LOANS, NET OF ALLOWANCE FOR LOAN LOSSES (in HUF mn)

	2007	2006
Short-term loans and trade bills (within one year)	563,007	585,537
Long-term loans and trade bills (over one year)	1,654,445	1,197,162
	2,217,452	**1,782,699**
Allowance for loan losses	(28,820)	(31,021)
Total	**2,188,632**	**1,751,678**

Loans denominated in foreign currency represent approximately 58% and 45% of the loan portfolio, before allowance for losses as at 31 December 2007 and 2006 respectively.

Loans denominated in HUF, with a maturity within one year as at 31 December 2007 and 2006 bear interest rates in the range from 10% to 30% respectively.

Loans denominated in HUF with the maturity over one year as at 31 December 2007 and 2006 bear interest rates in the range from 4% to 22.8% respectively.

Foreign currency loans as at 31 December 2007 and 2006 bear interest rates in the range from 2% to 18% and from 1.6% to 17% respectively.

Approximately 2% and 3% of the gross loan portfolio represented loans on which interest is not being accrued as at 31 December 2007 and 2006 respectively.

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

	2007		2006	
Commercial loans	1,446,354	64%	1,004,605	56%
Municipality loans	214,428	10%	210,159	12%
Housing loans	211,504	10%	259,583	14%
Consumer loans	280,925	13%	241,479	14%
Mortgage backed loans	64,241	3%	66,873	4%
Total	**2,217,452**	**100%**	**1,782,699**	**100%**

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

	2007	2006
Balance as at 1 January	31,021	22,162
Provision for loan losses	21,453	25,443
Write-offs	(23,654)	(16,584)
Balance as at 31 December	**28,820**	**31,021**

The Bank sells non-performing loans without recourse at estimated fair value to a wholly owned subsidiary, OTP Factoring Ltd. See Note 25.

NOTE 8: INVESTMENTS IN SUBSIDIARIES (in HUF mn)

	2007	2006
Investments in subsidiaries:		
Controlling interest	630,805	583,496
Significant interest	75	75
Other	938	786
	631,818	**584,357**
Allowance for permanent diminution in value	**(1,115)**	**(1,059)**
Total	**630,703**	**583,298**

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

	2007	2006
Balance as at 1 January	1,059	3,508
Release of permanent diminution in value	56	10
Write-offs	–	(2,459)
Balance as at 31 December	**1,115**	**1,059**

Investments in subsidiaries in companies in which the Bank has a controlling interest are detailed below.

All companies are incorporated in Hungary unless indicated otherwise.

	2007		2006	
	% Held (direct and indirect)	Cost	% Held (direct and indirect)	Cost
CJSC OTP Bank (Ukraine)	100.00%	182,537	100.00%	168,654
DSK Bank EAD (Bulgaria)	100.00%	86,831	100.00%	79,163
OTP Banka Hrvatska d.d. (Croatia)	100.00%	65,065	100.00%	59,941
OTP banka Srbija a.d. Novi Sad*	91.43%	55,997	–	–
Investsberbank OAO (Russia)	97.22%	50,078	96.41%	49,337
OTP Bank Romania S.A. (Romania)	100.00%	38,117	100.00%	33,034
Crnogorska komercijalna banka A.D. (Montenegro)	100.00%	29,130	100.00%	26,580
OTP Mortgage Bank Company Ltd.	100.00%	27,000	100.00%	20,000
Invest Oil OOO (Russia)	100.00%	21,224	100.00%	21,220
Megaform Inter OOO (Russia)	100.00%	17,704	100.00%	17,700
AlyansReserv OOO (Russia)	100.00%	11,147	100.00%	11,143
OTP Banka Slovensko a.s. (Slovakia)	97.23%	10,038	97.23%	10,038
OTP Garancia Insurance Ltd.	100.00%	7,472	100.00%	7,472
Bank Center No. 1. Ltd.	100.00%	7,330	100.00%	7,330
INGA Two Ltd.	100.00%	5,892	100.00%	5,892
Air-Invest Ltd.	100.00%	3,854	100.00%	3,674
OTP Fund Servicing and Consulting Ltd.	100.00%	2,392	100.00%	1,372
OTP Building Society Ltd.	100.00%	1,950	100.00%	1,950
OTP Fund Management Ltd.	100.00%	1,653	100.00%	1,653
Merkantil Bank Ltd.	100.00%	1,600	100.00%	1,600
OTP Life Annuity Ltd.	100.00%	1,250	100.00%	500
OTP Real Estate Ltd.	100.00%	1,228	100.00%	1,228
OTP Card Factory Ltd.	100.00%	450	100.00%	450
OTP Flat Lease Ltd.	100.00%	410	100.00%	410
OTP Factoring Ltd.	100.00%	150	100.00%	150
Kulska banka a.d. Novi Sad (Serbia)*	–	–	83.19%	38,637
Zepter banka a.d. Beograd (Serbia)*	–	–	75.10%	8,911
Niška banka a.d. (Serbia)*	–	–	99.95%	4,107
Other	–	306	–	1,350
Total		**630,805**		**583,496**

NOTE 9: HELD-TO-MATURITY INVESTMENTS (in HUF mn)

	2007	2005
Government securities	172,125	185,088
Hungarian Government discounted Treasury bills	341	28,095
Bonds issued by NBH	97,085	–
Mortgage bonds	288,959	289,328
Other debt securities	–	1,600
Total	**558,510**	**504,111**

* OTP Bank Plc.'s Serbian subsidiaries, Niška banka a.d. Niš, Zepter banka a.d. Beograd and Kulska banka a.d. Novi Sad made a decision on the merger of the three banks on 23 March 2007. The merged credit institution operates under the name of OTP banka Srbija a.d. Novi Sad from 21 May 2007 in the territory of the Republic of Serbia, with its headquarters located in Novi Sad.

Interest conditions and the remaining maturities of held-to-maturity investments can be analysed as follows:

	2007	2006
Within five years:		
variable interest	16,765	16,792
fixed interest	485,475	369,875
	502,240	**386,667**
Over five years:		
variable interest	30,657	34,898
fixed interest	25,613	82,546
	56,270	**117,444**
Total	**558,510**	**504,111**

The 100% of the securities portfolio was denominated in HUF as at 31 December 2007 and 2006 respectively. In most cases, interest on variable rate securities is based on the interest rates of 90 day Hungarian Government Treasury bills and is adjusted semi-annually.

Interest rates on fixed interest securities denominated in HUF ranged from 5.5% to 10% and from 6% to 10% as at 31 December 2007 and 2006 respectively. Interest on fixed rate and variable rate securities is, in most cases, paid semi-annually.

The fair value of held-to-maturity investments was HUF 562,404 million and HUF 508,147 million as at 31 December 2007 and 2006 respectively.

NOTE 10: PREMISES, EQUIPMENT AND INTANGIBLE ASSETS (in HUF mn)

For the year ended 31 December 2007:

	Intangible assets	Land and buildings	Machinery and equipment	Construction in progress	Total
Cost					
Balance as at 1 January 2007	64,186	49,624	67,653	5,998	187,461
Net additions	16,108	7,107	7,390	175	30,780
Net disposals	(22)	(1,430)	(5,928)	–	(7,380)
Balance as at 31 December 2007	**80,272**	**55,301**	**69,115**	**6,173**	**210,861**
Depreciation and Amortization					
Balance as at 1 January 2007	33,342	8,443	44,955	–	86,740
Net additions	10,669	1,288	8,078	–	20,035
Net disposals	(5)	(320)	(5,862)	–	(6,187)
Balance as at 31 December 2007	**44,006**	**9,411**	**47,171**	**–**	**100,588**
Net book value					
Balance as at 1 January 2007	30,844	41,181	22,698	5,998	100,721
Balance as at 31 December 2007	**36,266**	**45,890**	**21,944**	**6,173**	**110,273**

For the year ended 31 December 2006:

	Intangible assets	Land and buildings	Machinery and equipment	Construction in progress	Total
Cost					
Balance as at 1 January 2006	53,565	57,675	60,471	6,414	178,125
Net additions	10,664	4,368	9,013	–	24,045
Net disposals	(43)	(12,419)	(1,831)	(416)	(14,709)
Balance as at 31 December 2006	**64,186**	**49,624**	**67,653**	**5,998**	**187,461**
Depreciation and Amortization					
Balance as at 1 January 2006	25,168	8,556	38,832	–	72,556
Net additions	8,182	1,301	7,908	–	17,391
Net disposals	(8)	(1,414)	(1,785)	–	(3,207)
Balance as at 31 December 2006	**33,342**	**8,443**	**44,955**	**–**	**86,740**
Net book value					
Balance as at 1 January 2006	28,397	49,119	21,639	6,414	105,569
Balance as at 31 December 2006	**30,844**	**41,181**	**22,698**	**5,998**	**100,721**

NOTE 11: OTHER ASSETS (in HUF mn)

	2007	2006
Property held for sale	14	4
Due from Government for interest subsidies	2,860	4,009
Trade receivables	5,649	6,505
Advances for securities and investments	510	508
Taxes recoverable	7,279	114
Inventories	473	406
Other advances	1,767	1,313
Credits sold under deferred payment scheme	119	76
Receivables from OTP Mortgage Bank Company Ltd.*	144,927	1,618
Receivables from investing services	1,425	889
Prepayments and accrued income	6,441	5,062
Fair value of derivative financial instruments designated as hedge accounting relationships	2,309	1,967
Other	4,649	3,858
	178,422	**26,329**
Allowance for losses on other assets	**(1,375)**	**(1,046)**
Total	**177,047**	**25,283**

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

	2007	2006
Balance as at 1 January	1,046	902
Provision for losses	351	151
Write-offs	(22)	(7)
Balance as at 31 December	**1,375**	**1,046**

* The Bank under a syndication agreement administrated mortgage loans with recourse to OTP Mortgage Bank Ltd.

NOTE 12: DUE TO BANKS AND DEPOSITS FROM THE NATIONAL BANK OF HUNGARY AND OTHER BANKS (in HUF mn)

	2007	2006
Within one year:		
in HUF	124,641	26,905
in foreign currency	173,276	247,234
	297,917	**274,139**
Over one year:		
in HUF	70,065	50,447
in foreign currency	222,766	233,271
	292,831	**283,718**
Total	**590,748**	**557,857**

Due to banks and deposits from the National Bank of Hungary and other banks payable in HUF within one year as at 31 December 2007 and 2006 bear interest rates in the range from 6.5% to 7.52% and from 7% to 8% respectively.

Due to banks and deposits from the National Bank of Hungary and other banks payable in HUF over one year as at 31 December 2007 and 2006 bear interest rates in the range from 3% to 6.28% and from 3% to 6% respectively.

Due to banks and deposits from the National Bank of Hungary and other banks payable in foreign currency within one year as at 31 December 2007 and 2006 bear interest rates in the range from 1% to 10.5% and from 0.48% to 5.4% respectively.

Due to banks and deposits from the National Bank of Hungary and other banks payable in foreign currency over one year as at 31 December 2007 and 2006 bear interest rates in the range form 2.69% to 6.15% and from 1.78% to 6.72% respectively.

NOTE 13: DEPOSITS FROM CUSTOMERS (in HUF mn)

	2007	2006
Within one year:		
in HUF	2,462,047	2,280,834
in foreign currency	483,208	397,523
	2,945,255	**2,678,357**
Over one year:		
in HUF	9,780	11,741
	9,780	**11,741**
Total	**2,955,035**	**2,690,098**

Deposits from customers payable in HUF within one year as at 31 December 2007 and 2006 bear interest rates in the range from 0.2% to 12% and from 0.2% to 9% respectively.

Deposits from customers payable in HUF over one year as at 31 December 2007 and 2006 bear interest rates in the range from 1.3% to 7% and from 0.2% to 8.3% respectively.

Deposits from customers payable in foreign currency as at 31 December 2007 and 2006 bear interest rates in the range from 0.1% to 6% and from 0.1% to 5.6% respectively.

An analysis of deposits from customers by type, is as follows:

	2007		2006	
Commercial deposits	906,160	31%	708,981	26%
Municipality deposits	204,545	7%	168,379	6%
Consumer deposits	1,844,330	62%	1,812,738	68%
Total	**2,955,035**	**100%**	**2,690,098**	**100%**

NOTE 14: LIABILITIES FROM ISSUED SECURITIES (in HUF mn)

	2007	2006
With original maturity:		
Within one year	245	337
Over one year	393,951	201,713
Total	**394,196**	**202,050**

Liabilities from issued securities denominated in HUF bear interest rates in the range from 0.3% to 9% as at 31 December 2007 and 2006 respectively.

Liabilities from issued securities denominated in foreign currency bear interest rates in the range from 4.8% to 5% and from 3.5% to 3.8% as at 31 December 2007 and 2006 respectively.

The Bank issued variable-rate bonds with the face value of EUR 500 million at 1 July 2005 due at 1 July 2010 at 99.9%. Interest on these bonds is three month EURIBOR +0.16% that is payable quarterly.

The Bank issued variable-rate bonds with the face value of EUR 300 million at 20 December 2005, due at 20 December 2010 at 99,81%. Interest on these bonds is three month EURIBOR +0.15% that is payable quarterly.

On 26 February 2007 the Bank issued EUR 750 million floating rate note due 27 February 2009 at 99,87% under the EMTN program (European Medium Term Note Program). Interest on these bonds is three month EURIBOR +0.125% that is payable quarterly.

NOTE 15: OTHER LIABILITIES (in HUF mn)

	2007	2006
Taxes payable	4,269	4,696
Deferred tax liabilities	2,969	5,831
Giro clearing accounts	19,017	26,142
Accounts payable	10,902	7,197
Salaries and social security payable	8,372	9,343
Liabilities from security trading	20,697	9,459
Allowances for losses on off-balance sheet commitments, contingent liabilities	14,221	13,709
Dividends payable	792	623
Accrued expenses	11,245	8,904
Advancement of Government grants for housing purposes	3,666	5,245
Loans for collection	1,523	1,674
Fair value of derivative financial instruments designated as hedge accounting relationships	612	472
Fair value of derivative financial instruments designated as held for trading	22,543	11,618
Liabilities from trading activities (repurchase agreement)	87	1,267
Other	17,196	16,218
Total	**138,111**	**122,398**

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

	2007	2006
Allowance for litigation	2.845	2.481
Allowance for other off-balance sheet commitments, contingent liabilities	6,524	8,210
Other allowance (for expected liabilities)	4,852	3,018
Total	**14,221**	**13,709**

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

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

	2007	2006
Balance as at 1 January	13,709	7,882
Allowance for off-balance sheet commitments and contingent liabilities, net	512	5,827
Balance as at 31 December	**14,221**	**13,709**

NOTE 16: SUBORDINATED BONDS AND LOANS

In 1993 the Bank issued HUF 5 billion in bonds, which are subordinated to the other liabilities of the Bank and subscribed by the Hungarian Ministry of Finance. Interest on subordinated bonds and the frequency of payment of interests are based on condition of interest of 2013/C credit consolidated government bonds, which is a variable-rate bond, the interest payable and the rate of interest are fixed twice a year.

The semi-annual interest payable was 4.36% as at 20 December 2002, 3.25% as at 20 June 2003, 4.8% as at 20 December 2003, 4.88% as at 20 June 2004, 6.05% as at 20 December 2004, 5.46% as at 20 June 2005, and 3.08% as at 20 December 2005, 3.1% as at 20 June 2006 and 3.79% as at 31 December 2006, 4.02% as at 20 June 2007 and 3.76% as at 20 December 2007. The original maturity was 20 years. The proceeds of the subordinated bonds were invested in Hungarian Government bonds with similar interest conditions and maturity.

In December 1996 the Bank obtained a USD 30 million and DEM 31.14 million (15.92 million in EUR) subordinated loan from the European Bank for Reconstruction and Development with the original maturity of 27 December 2006. The maturity date was modified to 27 August 2008 on 22 August 2003. The loan is unsecured, subordinate to the other liabilities and has a twelve-year maturity, with interest payable at six-month LIBOR +1.4% from 27 December 1996 until 29 December 1997, at six-month LIBOR +1.0% from 29 December 1997 until 28 June 1999, at six-month LIBOR +1.7% from 28 June 1999 until 27 December 2003 and at six-month LIBOR +1.35% from 28 December 2003 until 27 August 2008.

On 4 March 2005 the Bank issued EUR 125 million in bonds, which are subordinated to the other liabilities of the Bank. Interest on subordinated bonds is variable and payable at three-month EURIBOR +0.55% quarterly. The original maturity of the bonds is 10 years.

On 31 October 2006 the Bank issued perpetual subordinated (UT2) bonds to finance acquisitions. The 500 EUR million nominal value bonds were issued at 99.375 % of the face value with 7 November 2006 as payment date. The re-offer spread is 200 basis points over the 10 year mid-swap. The bonds are perpetual and callable after year 10.

The bonds bear a fixed coupon of 5.875%, with annual interest payments in the first 10 years, and a floater (variable) coupon of 3 months EURIBOR +300 basis points per annum, quaterly thereafter. The bonds were introduced to the Luxembourg Stock Exchange.
On 30 August 2006 the Bank updated EMTN Program and increased the Program amount from EUR 1 billion to EUR 3 billion.
Under the EMTN Program on 12 September 2006 the Bank issued fixed rate subordinated bonds in a total nominal value of EUR 300 million to finance acquisitions. The EUR 300 million nominal value bonds were issued at 100% of the face value with 19 September 2006 as payment date, and 19 September 2016 as maturity date. The bonds bear a coupon of 5.27%, with annual interest payments.
On 26 February 2007 the Bank also issued EUR 200 million subordinated notes due 19 September 2016 under the same program.

NOTE 17: SHARE CAPITAL (in HUF mn)

	2007	2006
Authorized, issued and fully paid:		
Common shares	28,000	28,000
Total	**28,000**	**28,000**

On 21 April 2007 the law on abolishment of „aranyrészvény' (Act XXVI of 2007) came into force. As a result of this, this special voting share was transformed to 10 ordinary shares with the face value of HUF 100. Therefore, the registered capital of the Bank consists of 280,000,010 ordinary shares with the face value of HUF 100.

NOTE 18: RETAINED EARNINGS AND RESERVES

The reserves of the Bank under Hungarian Accounting Standards were HUF 537,211 million and HUF 397,904 million as at 31 December 2007 and 2006 respectively. Of these amounts, legal reserves represent HUF 152,569 million and HUF 87,675 million as at 31 December 2007 and 2006 respectively. The legal reserves are not available for distribution.
Dividends of HUF 40,320 million for the year 2006 were approved by the Annual General Meeting on 28 April 2007.
The dividend has been determined on the basis of the profit after tax determined in the unconsolidated financial statements according to the Hungarian Accounting Standards.
On 19 October 2006 the Bank sold 14.5 million treasury shares owned by OTP Group through an issue of Income Certificates Exchangeable for Shares („ICES'). Within the transaction 10 million shares owned by OTP Bank, and 4.5 million shares owned by OTP Fund Management Ltd. were sold during the underwriting period of ICES on the weighted average market price (HUF 7,080) of the Budapest Stock Exchange. The shares have been purchased by Opus Securities S.A., which issued an exchangeable bond with a total face value of EUR 514,274,000 backed by those shares. The exchangeable bonds have been sold at 32% premium over the selling price of the shares. The EUR denominated

exchangeable bonds are without final maturity and the investors can exercise the conversion right between year 6 and 10. The bonds carry a fixed coupon of 3.95% during the first 10 years thereafter the Issuer has the right to buy back the bonds at face value. Following the year 10, the bonds carry a coupon of 3 month EURIBOR +3%.

If the Bank pays a dividend for the ordinary shares, the Bank, under a subordinated swap contract, will pay the interest of ICES payable to Opus and receives the same amount of money from Opus than the dividend that is payable for the shares held by Opus.

NOTE 19: TREASURY SHARES (in HUF mn)

	2007	2006
Nominal Value	610	21
Carrying Value at aquisition cost	**54,208**	**1,746**

NOTE 20: OTHER EXPENSES (in HUF mn)

	2007	2006
Provision for permanent diminution in value of investments in subsidiaries	56	10
Provision for other assets	351	151
Provision for losses on off-balance sheet commitments and contingent liabilities	512	5,827
Administration expenses, including rent	23,996	21,749
Advertising	5,129	5,053
Taxes, other than income tax	16,903	26,844
Services	17,803	16,952
Professional fees	2,762	2,497
Other	4,356	2,444
	71,868	**81,527**

NOTE 21: INCOME TAXES (in HUF mn)

The Bank is presently liable for income tax at a rate of 16% of taxable income. From 1 September 2006 an additional 4% special tax was introduced. In the calculation of deferred tax the 20% tax rate was taken into account.

A breakdown of the income tax expense is:

	2007	2006
Current tax	22,169	16,474
Deferred tax	(2,068)	824
Total	**20,101**	**17,298**

A reconciliation of the deferred tax liability is as follows:

	2007	2006
Balance as at 1 January	(5,831)	(2,793)
Deferred tax charge	2,068	(824)
Tax effect of fair value adjustment of available-for-sale securities recognised through equity	794	(2,214)
Balance as at 31 December	**(2,969)**	**(5,831)**

A breakdown of the deferred tax liability is as follows:

	2007	2006
Difference in accounting for finance leases	510	287
Repurchase agreement	1,818	94
Fair value adjustment of derivative financial instruments	378	–
Deferred tax asset	2,706	381
Fair value adjustment of held for trading and available-for-sale financial assets	(1,021)	(1,663)
Premium and discount amortization on investment securities	(339)	(24)
Fair value adjustment of derivative financial instruments	–	(244)
Valuation of equity instrument (ICES)	(2,760)	(2,952)
Difference in depreciation and amortization	**(1,555)**	**(1,329)**
Deferred tax liabilities	**(5,675)**	**(6,212)**
Net deferred tax liabilities	**(2,969)**	**(5,831)**

A reconciliation of the income tax charge is as follows:

	2007	2006
Income before income taxes	161,782	187,486
Income tax with statutory tax rate (16%)	25,885	29,998
Special tax (4%)	5,763	2,139
Income tax adjustments are as follows:		
Reversal of statutory general provision	(1,819)	(1,366)
Reversal of statutory goodwill and negative goodwill	(1,762)	(1,318)
Revaluation of investments denominated in foreign currency to historical cost	(2,514)	(842)
Profit on sale of treasury shares	(779)	–
Fair value of share-based compensations	1,025	948
Dividend income	(3,027)	(2,600)
Permanent differences related to issued equity instruments	(389)	(2,832)
Assets granted without obligation of repayment from subsidiaries	–	(6,022)
Effect of an expected increase in the rate of income tax (+4%)	**–**	**165**
Other	(2,282)	(972)
Income tax	**20,101**	**17,298**
Effective tax rate	**12.4%**	**9.2%**

NOTE 22: FINANCIAL INSTRUMENTS

A financial instrument is any contract that gives rise to the right to receive cash or another financial asset from another party (financial asset) or the obligation to deliver cash or another financial asset to another party (financial liability).
Financial instruments may result in certain risks to the Bank. The most significant risks the Bank faces include:

Credit risk

The Bank takes on exposure to credit risk which is the risk that a counter-party will be unable to pay amounts in full when due. The Bank structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower, or Banks of borrowers, and to geographical and industry segments. Such risks are monitored on a revolving basis and subject to an annual or more frequent review. The exposure to any borrower including banks and brokers is further restricted by sublimits covering on- and off-balance sheet exposures and daily delivery risk limits in relation to trading items such as forward foreign exchange contracts. Actual exposures against limits are monitored daily.

Exposure to credit risk is managed through regular analysis of the ability of borrowers and potential borrowers to meet interest and capital repayment obligations and by changing these lending limits where appropriate. Exposure to credit risk is also managed in part by obtaining collateral and corporate and personal guarantees.

Market risk

The Bank takes on exposure to market risks. Market risks arise from open positions in interest rate, currency and equity products, all of which are exposed to general and specific market movements. The Bank applies a 'value at risk' methodology to estimate the market risk of positions held and the maximum losses expected, based upon a number of assumptions for various changes in market conditions.
The Management Board sets limits on the value of risk that may be accepted, which is monitored on a daily basis.

Liquidity risk

See Note 29.

Foreign currency risk

See Note 30.

Interest rate risk

See Note 31.

NOTE 23: OFF-BALANCE SHEET ITEMS AND DERIVATIVE FINANCIAL INSTRUMENTS (in HUF mn)

In the normal course of business, the Bank becomes a party to various financial transactions that are not reflected on the balance sheet and are referred to as off-balance sheet financial instruments. The following represent notional amounts of these off-balance sheet financial instruments, unless stated otherwise.

(a) Contingent liabilities and commitments

	2007	2006
Commitments to extend credit	749,015	689,963
Guarantees arising from banking activities	255,406	194,189
Confirmed letters of credit	5,892	16,560
Legal disputes	5,708	5,698
Contingent liabilities related to OTP Mortgage Bank Ltd.	38,702	30,363
Other	5,178	3,242
Total	**1,059,901**	**940,015**

Commitments to extend credit, from guarantees and letters of credit

The primary purpose of these instruments is to ensure that funds are available to a customer as required. Guarantees and standby letters of credit, which represent irrevocable assurances that the Bank will make payments in the event that a customer cannot meet its obligations to third parties, carry the same credit risk as loans.

Documentary and commercial letters of credit, which are written undertakings by the Bank on behalf of a customer authorising a third party to draw drafts on the Bank up to a stipulated amount under specific terms and conditions, are collateralised by the underlying shipments of goods to which they relate and therefore carry less risk than a direct borrowing.

Commitments to extend credit represent unused portions of authorisations to extend credit in the form of loans, guarantees or letters of credit. With respect to credit risk on commitments to extend credit, the Bank is potentially exposed to loss in an amount equal to the total unused commitments. However, the likely amount of loss is less than the total unused commitments since most commitments to extend credit are contingent upon customers maintaining specific credit standards.

Guarantees, irrevocable letters of credit and undrawn loan commitments are subject to similar credit risk monitoring and credit policies as utilised in the extension of loans.
The management of the Bank believes the market risk associated with guarantees, irrevocable letters of credit and undrawn loans commitments to be minimal.

Legal disputes

At the balance sheet date the Bank was involved in various claims and legal proceedings of a nature considered normal to its business. The level of these claims and legal proceedings correspond to the level of claims and legal proceedings in previous years.

The Bank believes that the various asserted claims and litigations in which it is involved will not materially affect its financial position, future operating results or cash flows, although no assurance can be given with respect to the ultimate outcome of any such claim or litigation. Provision due to legal disputes were HUF 2,845 million and HUF 2,481 million as at 31 December 2007 and 2006 respectively. (See Note 15)

Contingent liabilities related to OTP Mortgage Bank Ltd.

Under a syndication agreement with its fully owned subsidiary, OTP Mortgage Bank Ltd., the Bank guarantees, in return for an annual fee, to purchase all mortgage loans held by OTP Mortgage Bank Ltd. that become non-performing. OTP Mortgage Bank Ltd. utilises credit risk monitoring and credit policies for the granting of loans similar to those used by the Bank.
Provision due to recourse agreements were HUF 3,870 million and HUF 3,036 million as at 31 December 2007 and 2006 respectively.

(b) Derivatives (nominal amount, unless otherwise stated)

	2007	2006
Foreign currency contracts designated as held for trading		
Assets	97,699	37,825
Liabilities	99,161	38,653
Net	(1,462)	(828)
Net fair value	(649)	(482)
Foreign exchange swaps and interest rate swaps designated as held for trading		
Assets	2,063,109	951,605
Liabilities	1,980,414	921,045
Net	82,695	30,560
Net fair value	15,413	13,871
Interest rate swaps designated in hedge accounting relationships		
Assets	20,041	19,611
Liabilities	17,320	18,286
Net	2,721	1,325
Net fair value	1,478	1,072
Option contracts		
Assets	123,467	9,436
Liabilities	123,520	10,477
Net	(53)	(1,041)
Net fair value	25,900	423
Forward security agreements designated as held for trading		
Assets	175	149
Liabilities	175	149
Net	–	–
Net fair value	(1)	3

The Bank maintains strict control limits on net open derivative positions, i.e. the difference between purchase and sale contracts, by both amount and term. At any time the amount subject to credit risk is limited to the current fair value of instruments that are favourable to the Bank (i.e. assets), which in relation to derivatives is only a small fraction of the contract or notional values used to express the volume of instruments outstanding. This credit risk exposure is managed as part of the overall lending limits with customers, together with potential exposures from market movements. Collateral or other security is not usually obtained for credit risk exposures on these instruments, except of trading with clients, where the Bank in most of the cases requires margin deposits.

As at 31 December 2007 the Bank has derivative instruments with positive fair values of HUF 65,296 million and negative fair values of HUF 23,155 million. Positive fair values of derivative instruments designated as hedge accounting relationships are included in other assets, while positive fair values of derivative instruments designated as held for trading are included in financial assets at fair value through statements of operations. Negative fair values of derivative instruments are included in other liabilities. Corresponding figures as at 31 December 2006 are HUF 26,977 million and HUF 12,090 million.

Foreign currency contracts

Foreign currency contracts are agreements to exchange specific amounts of currencies at a specified rate of exchange, at a spot date (settlement occurs two days after the trade date) or at a forward date (settlement occurs more than two days after the trade date). The notional amount of these contracts does not represent the actual market or credit risk associated with these contracts.

Foreign currency contracts are used by the Bank for risk management and trading purposes. The Bank's risk management foreign currency contracts were used to hedge against exchange rate fluctuations on loans and advances to credit institutions denominated in foreign currency.

Foreign exchange swaps and interest rate swaps

The Bank enters into foreign-exchange swap and interest rate swap transactions. The swap transaction is a complex agreement concerning to the swap of certain financial instruments, which usually consist of a prompt and one or more futures contracts.

Interest rate swaps obligate two parties to exchange one or more payments calculated with reference to fixed or periodically reset rates of interest applied to a specific notional principal amount. Notional principal is the amount upon which interest rates are applied to determine the payment streams under interest rate swaps.

Such notional principal amounts are often used to express the volume of these transactions but are not actually exchanged between the counter-parties. The Bank's interest rate swaps were used for management of interest rate exposures and have been accounted for at mark-to-market fair value.

Forward rate agreements

A forward rate agreement is an agreement to settle amounts at a specified future date based on the difference between an interest rate index and an agreed upon fixed rate. Market risk arises from changes in the market value of contractual positions caused by movements in interest rates.

The Bank limits its exposure to market risk by entering into generally matching or offsetting positions and by establishing and monitoring limits on unmatched positions. Credit risk is managed through approval procedures that establish specific limits for individual counter-parties. The Bank's forward rate agreements were transacted for management of interest rate exposures and have been accounted for at mark-to-market fair value.

For an analysis of the allowance for possible losses on off balance sheet commitments and contingent liabilities, see Note 15.

NOTE 24: SHARE-BASED COMPENSATION

The terms of the options relating to the years of 2005 to 2009 were approved by the Annual General Meeting of 2005. The grant date of these options is 29 April 2005. The maximum number of shares which are available is 2.92 million pieces.

The 2006 Annual General Meeting approved a five year share option program for the years of 2006 to 2010 under which options are granted annually. The grant date of these options is 28 April 2006 and the date of the Annual General Meeting of 2007 (27 April 2007) for the amount increased under the modified program.

The exercise price of the options of 2005 is calculated as the average of the market price of OTP shares quoted by the BSE daily during the two month period ending on the last day of the month of the Annual General Meeting.

The exercise prices of the options relating to the years of 2006 to 2010 is calculated as the average of the market price of OTP shares quoted by the BSE daily during the period between 30 April and 30 May in the actual year and decreased by HUF 1,000. In that case if the average price of the shares exceeds by more than HUF 3,000 the exercise price one day before the date of exercise the exercise price would be increased by the amount above the HUF 3,000.

The exercise period of the options granted for the year of 2005 is two years and for the years of 2006 to 2010 is 19 months. The exercise period of the option program for the years of 2006 to 2010 must be opened at 1 June in the actual year. If the options remain unexercised before the end of the exercise period the options expire. Additionally, options are forfeited if the employee leaves the Bank before the options vest.

	For the year ended 31 December 2007		For the year ended 31 December 2006	
	Options (piece of shares)	Weighted average exercise price (in HUF)	Options (piece of shares)	Weighted average exercise price (in HUF)
Outstanding at beginning of period	4,799,825	7,231	3,346,200	6,079
Granted during the period	3,510,000	8,419	3,832,000	7,038
Forfeited during the period	187,250	7,648	218,430	6,536
Exercised during the period	1,444,445	6,706	2,159,945	5,174
Outstanding at the end of the period	6,678,130	7,957	4,799,825	7,231
Exercisable at the end of the period	**2,334,304**	**7,369**	**1,799,825**	**6,536**

The weighted average share price for share options of 2005 and 2006 exercised during the year ended 31 December 2007 was HUF 9,409 at the date of exercise. The options outstanding at 31 December 2007 and as at 31 December 2006 had a weighted average exercise price of HUF 7,957 and HUF 7,231 with a weighted average remaining contractual life of 18 and 22 months, respectively.

The inputs into the Binominal model are as follows:

	Year ended 31 December 2007	Year ended 31 December 2006
Weighted average share price (HUF)	7,663	5,969
Weighted average exercise price (HUF)	7,594	4,882
Expected volatility (%)	29	36
Expected life (average year)	3.18	0.52
Risk free rate (%)	7.01	6.71
Expected dividends (%)	**2.45**	**3.35**

Expected volatility was determined by calculating the historical volatility of the Bank's share price three months prior to the grant date. The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions, and behavioural considerations.

In connection with the share-based compensation programs approved by the Bank and applying IFRS 2, HUF 5,123 million and HUF 5,927 million has been recognised as an expense for the years ended 31 December 2007 and 2006 respectively.

NOTE 25: RELATED PARTY TRANSACTIONS

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

During the years ended 31 December 2007 and 2006 the Bank sold, without recourse, non-performing loans and the related accrued interest receivable to OTP Factoring Ltd. for HUF 8,479 million and HUF 8,190 million respectively. The gross book value of such credits were HUF 29,873 million and HUF 20,309 million respectively, with a corresponding allowance for loan losses of HUF 19,547 million and HUF 7,762 million respectively. The underlying mortgage rights were also transferred to OTP Factoring Ltd. Losses related to such transactions are recorded in the unconsolidated financial statements, among for loans and placement losses, which were HUF 1,847 million and HUF 4,357 million as at 31 December 2007 and 2006 respectively.

Commissions received by the Bank from OTP Building Society in relation to finalised customer contracts were HUF 1,949 million and HUF 1,743 million for the years ended 31 December 2007 and 2006 respectively.

Insurance premiums paid by the Bank to OTP Garancia Insurance were HUF 3,149 million and HUF 1,732 million for the years ended 31 December 2007 and 2006 respectively.

Commissions received by the Bank from OTP Fund Management in relation to custody activity were HUF 437 million and HUF 578 million, in relation to trading activity were HUF 5,066 million and HUF 4,842 million for the years ended 31 December 2007 and 2006 respectively.

Commissions paid by the Bank to OTP Real Estate in relation to its activity were HUF 1,413 million and HUF 1,696 million for the years ended 31 December 2007 and 2006 respectively.

The Bank under a syndication agreement administrated mortgage loans with recourse to OTP Mortgage Bank Ltd. of HUF 269,300 million and 157,617 million during the years ended 31 December 2007 and 2006 (including interest). The book value of these receivables were HUF 269,205 million and HUF 157,504 million respectively.

During the year ended 31 December 2007, the Bank received HUF 50,111 million in fees and commissions from OTP Mortgage Bank Ltd. For the year ended 31 December 2006 such fees and commissions were HUF 50,493 million. Such fees and commissions are related to services provided to OTP Mortgage Bank Ltd. under the syndication agreement.

In the normal course of business, the Bank enters into other transactions with its subsidiaries, the amounts and volumes of which are not significant to these unconsolidated financial statements taken as a whole. The Bank provide loans to subsidiaries, and collect deposits.

Loans provided to Merkantil Car Ltd. were HUF 41,896 million and HUF 65,389 million as at 31 December 2007 and 2006 respectively.

Loans provided to OTP Trade Ltd. were HUF 29,584 million and HUF 49,216 million as at 31 December 2007 and 2006 respectively.

Loans provided to OTP Flat Lease Ltd. were HUF 15,458 million and HUF 5,245 million as at 31 December 2007 and 2006 respectively.

Loans provided to OTP Financing Cyprus Co. Ltd. were HUF 258,621 million as at 31 December 2007.

Loans provided to OTP Financing Netherlands B. V. were HUF 50,670 million as at 31 December 2007.

Deposits from OTP Garancia Insurance Ltd. were HUF 7,328 million and HUF 170 million as at 31 December 2007 and 2006 respectively.

Deposits from OTP Building Society Ltd. were HUF 17,622 million and HUF 5 million as at 31 December 2007 and 2006 respectively.

Loans provided to Investsberbank OAO were HUF 63,675 million and HUF 4,136 million as at 31 December 2007 and 2006 respectively.

Loans provided DSK Bank EAD were HUF 139,671 million and HUF 84,462 million as at 31 December 2007 and 2006 respectively, deposits from DSK Bank EAD were HUF 58,741 and HUF 96,396 million as at 31 December 2007 and 2006 respectively.

Loans provided to OTP Banka Hrvatska Group were HUF 30,478 million and HUF 24,660 million as at 31 December 2007 and 2006 respectively.

Loans provided to OTP banka Srbija were HUF 22,889 million and HUF 15,390 million as at 31 December 2007 and 2006 respectively.

Loans provided to Merkantil Bank Ltd. were HUF 175,567 million and HUF 136,469 million as at 31 December 2007 and 2006 respectively.

Loans provided to OTP Bank Romania S.A. were HUF 98,525 million and HUF 98,398 million as at 31 December 2007 and 2006 respectively.

Loans provided to CJSC OTP Bank were HUF 61,692 million and HUF 185,720 million as at 31 December 2007 and 2006 respectively.

The members of the Board of Directors and the Supervisory Board have credit lines of HUF 169,3 million and HUF 190 million as at 31 December 2007 and 2006 respectively. Such credit is made available at normal market conditions.

In the normal course of business, the Bank gives loans and provides services to other related parties at normal market conditions. The amount of these loans was HUF 3,862 million and HUF 438 million, with commitments to extend credit and guarantees of HUF 5,456 million and HUF 108 million as at 31 December 2007 and 2006 respectively.

The compensation of key management, such as the members of the Board of Directors, the members of the Supervisory Board and the employees involved in the decision-making process according to the compensation categories defined in IAS 24, is summarised below:

Compensations	2007	2006
Short-term employee benefits	2,700	3,189
Redundancy payments	1,500	–
Share-based compensations	2,459	2,744
Total	**6,659**	**5,933**

NOTE 26: CASH AND CASH EQUIVALENTS (in HUF mn)

	2007	2006
Cash, due from banks and balances with the NBH	229,644	429,325
Compulsory reserve established by the NBH	(156,203)	(134,744)
Total	**73,441**	**294,581**

NOTE 27: TRUST ACTIVITIES

The Bank acts as a trustee for certain loans granted by companies or employers to their employees, mainly for housing purposes. The ultimate risk for these loans rests with the party advancing the funds. As these loans and related funds are not considered to be assets or liabilities of the Bank, they have been excluded from the accompanying Unconsolidated Balance Sheet. The total amount of such loans managed by the Bank as a trustee amounted to HUF 45,081 million and HUF 46,212 million as at 31 December 2007 and 2006 respectively.

NOTE 28: CONCENTRATION OF ASSETS AND LIABILITIES

Approximately 10% and 14% of the total assets of the Bank consisted of receivables from, or securities issued by, the Hungarian Government or the National Bank of Hungary as at 31 December 2007 and 2006 respectively. Approximately 9% and 11% of the Bank's total assets consisted of securities issued by the OTP Mortgage Bank Ltd. as at 31 December 2007 and 2006 respectively. There were no other significant concentrations of the assets or liabilities of the Bank as at 31 December 2007 and 2006 respectively.

NOTE 29: MATURITY ANALYSIS OF ASSETS AND LIABILITIES AND LIQUIDITY RISK (in HUF mn)

Liquidity risk is a measure of the extent to which the Bank may be required to raise funds to meet its commitments associated with financial instruments. The Bank maintains its liquidity profiles in accordance with regulations laid down by the National Bank of Hungary. The following tables provide an analysis of assets, liabilities and shareholders' equity into relevant maturity groupings based on the remaining period from the balance sheet date to the contractual maturity date. It is presented under the most prudent consideration of maturity dates where options or repayment schedules allow for early repayment possibilities.

As at 31 December 2007

	Within 3 months	Within one year and over 3 months	Within 5 years and over one year	Over 5 years	Total
Cash, due from banks and balances with the National Bank of Hungary	229,644	–	–	–	229,644
Placements with other banks, net of allowance for placement losses	254,245	70,874	388,037	12,302	725,458
Financial assets at fair value through statement of operations	26,396	22,485	45,624	28,866	123,371
Securities available-for-sale	95	35,149	199,665	85,706	320,615
Loans, net of allowance for loan losses	131,755	414,334	1,012,213	630,330	2,188,632
Accrued interest receivable	46,071	300	48	2	46,421
Investments in subsidiaries	–	–	–	630,703	630,703
Securities held-to-maturity	97,920	142,583	261,737	56,270	558,510
Premises, equipment and intangible assets, net	–	–	92,622	17,651	110,273
Other assets	164,111	10,820	77	2,039	177,047
Total assets	**950,237**	**696,545**	**2,000,023**	**1,463,869**	**5,110,674**
Due to banks and deposits from the National Bank of Hungary and other banks	294,010	3,907	228,722	64,109	590,748
Deposits from customers	2,794,724	150,531	8,948	832	2,955,035
Liabilities from issued securities	245	–	393,951	–	394,196
Accrued interest payable	18,411	–	–	–	18,411
Other liabilities	98,317	22,187	15,614	1,993	138,111
Subordinated bonds and loans	–	9,212	–	289,702	298,914
Total liabilities	**3,205,707**	**185,837**	**647,235**	**356,636**	**4,395,415**
Share capital	–	–	–	28,000	28,000
Retained earnings and reserves	–	–	–	741,467	741,467
Treasury shares	(3,554)	(14,217)	(36,437)	–	(54,208)
Total shareholders' equity	**(3,554)**	**(14,217)**	**(36,437)**	**769,467**	**715,259**
Total liabilities and shareholders' equity	**3,202,153**	**171,620**	**610,798**	**1,126,103**	**5,110,674**
Liquidity (deficiency)/excess	**(2,251,916)**	**524,925**	**1,389,225**	**337,766**	**–**

As at 31 December 2006

	Within 3 months	Within one year and over 3 months	Within 5 years and over one year	Over 5 years	Total
Cash, due from banks and balances with the National Bank of Hungary	429,325	–	–	–	429,325
Placements with other banks, net of allowance for placement losses	184,107	96,526	297,510	79,796	657,939
Financial assets at fair value through statement of operations	14,464	15,848	21,031	9,742	61,085
Securities available-for-sale	–	60,507	145,392	142,960	348,859
Loans, net of allowance for loan losses	132,812	436,207	588,502	594,157	1,751,678
Accrued interest receivable	44,362	36	–	–	44,398
Investments in subsidiaries	–	–	–	583,298	583,298
Securities held-to-maturity	22,523	19,009	345,135	117,444	504,111
Premises, equipment and intangible assets, net	–	–	83,143	17,578	100,721
Other assets	17,720	5,823	245	1,495	25,283
Total assets	**845,313**	**633,956**	**1,480,958**	**1,546,470**	**4,506,697**
Due to banks and deposits from the National Bank of Hungary and other banks	269,291	4,848	220,567	63,151	557,857
Deposits from customers	2 380,141	298,216	11,499	242	2,690,098
Liabilities from issued securities	337	–	201,713	–	202,050
Accrued interest payable	16,175	–	–	–	16,175
Other liabilities	92,258	15,128	13,025	1,987	122,398
Subordinated bonds and loans	–	–	9,766	238,099	247,865
Total liabilities	**2 758,202**	**318,192**	**456,570**	**303,479**	**3,836,443**
Share capital	–	–	–	28,000	28,000
Retained earnings and reserves	–	–	–	644,000	644,000
Treasury shares	(1,746)	–	–	–	–1,746
Total shareholders' equity	**(1,746)**	**–**	**–**	**672,000**	**670,254**
Total liabilities and shareholders' equity	**2,756,456**	**318,192**	**456,570**	**975,479**	**4,506,697**
Liquidity (deficiency)/excess	**(1,911,143)**	**315,764**	**1,024,388**	**570,991**	**–**

NOTE 30: NET FOREIGN CURRENCY POSITION AND FOREIGN CURRENCY RISK (in HUF mn)

As at 31 December 2007

	USD	EUR	CHF	Others	Total
Assets	542,607	982,164	715,792	565,159	2,805,722
Investments in subsidiaries	–	(29,135)	–	(538,821)	(567,956)
Liabilities	(109,108)	(1 309,605)	(135,431)	(30,368)	(1 584,512)
Off-balance sheet assets and liabilities, net	(479,265)	97,133	(574,874)	10,748	(946,258)
Net position	**(45,766)**	**(259,443)**	**5,487**	**6,718**	**(293,004)**

As at 31 December 2006

	USD	EUR	CHF	Others	Total
Assets	322,329	767,170	384,907	597,840	2,072,246
Investments in subsidiaries	–	(26,580)	–	(503,017)	(529,597)
Liabilities	(139,415)	(937,742)	(163,607)	(95,084)	(1,336,568)
Off-balance sheet assets and liabilities, net	(174,865)	(5,664)	(203,790)	5,100	(379,219)
Net position	**8,049**	**(202,816)**	**17,510**	**4,119**	**(173,138)**

The assets category contains foreign currency-investments in subsidiaries that are measured at cost, and are deducted from the net position calculation.
The table above provides an analysis of the Bank's main currency exposures.
The remaining currencies are shown within 'Others'. Whilst the Bank monitors its foreign exchange position for compliance with the regulatory requirements of the National Bank of Hungary and own limit system established in respect of limits on open positions.
The measurement of the Bank's open foreign currency position involves monitoring the 'value at risk' limit on the foreign exchange exposure of the Bank.

NOTE 31: INTEREST RATE RISK MANAGEMENT

Interest rate risk is the risk that the value of a financial instrument will fluctuate due to changes in market interest rates. The length of time for which the rate of interest is fixed on a financial instrument, therefore, indicates to what extent it is exposed to interest rate risk.

The majority of the Bank's interest bearing assets and liabilities are structured to match either short-term assets and short-term liabilities, or long-term assets and liabilities with repricing opportunities within one year, or long-term assets and corresponding liabilities where repricing is performed simultaneously.

In addition, the significant spread existing between the different types of interest bearing assets and liabilities enables the Bank to benefit from a high level of flexibility in adjusting for its interest rate matching and interest rate risk exposure.

The following table presents the interest repricing dates of the Bank. Variable yield assets and liabilities have been reported according to their next repricing date. Fixed income assets and liabilities have been reported according to their maturity.

As at 31 December 2007

	Within 1 month		Over 1 month and Within 3 months		Over 3 months and Within 12 months		Over 1 year and Within 2 years		Over 2 years		Non-interest-bearing		Total		Total
	HUF	Currency	HUF	Currency	HUF	Currency	HUF	Currency	HUF	Currency	HUF	Currency	HUF	Currency	
ASSETS															
Cash, due from banks and balances with the National Bank of Hungary	168,212	13,289	–	–	–	–	–	–	–	–	44,657	3,486	212,869	16,775	229,644
fixed rate	168,212	13,289	–	–	–	–	–	–	–	–	–	–	168,212	13,289	181,501
variable rate	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–
non-interest-bearing	–	–	–	–	–	–	–	–	–	–	44,657	3,486	44,657	3,486	48,143
Placements with other banks	34,780	385,154	3,000	188,622	550	113,352	–	–	–	–	–	–	38,330	687,128	725,458
fixed rate	34,780	192,056	–	63	550	32,984	–	–	–	–	–	–	35,330	225,103	260,433
variable rate	–	193,098	3,000	188,559	–	80,368	–	–	–	–	–	–	3,000	462,025	465,025
non-interest-bearing	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–
Securities held for trading	401	–	2,432	–	6,865	–	12,245	–	34,123	–	4,317	1	60,383	1	60,384
fixed rate	401	–	2,135	–	6,794	–	12,244	–	34,123	–	–	–	55,697	–	55,697
variable rate	–	–	297	–	71	–	1	–	–	–	–	–	369	–	369
non-interest-bearing	–	–	–	–	–	–	–	–	–	–	4,317	1	4,317	1	4,318
Securities available-for-sale	22,727	6,540	2,119	57,838	31,452	12,342	–	4,653	148,330	22,668	11,200	746	215,828	104 787	320,615
fixed rate	–	–	–	–	12,458	853	–	4,653	148,330	22,668	–	–	160,788	28,174	188,962
variable rate	22,727	6,540	2,119	57,838	18,994	11,489	–	–	–	–	–	–	43,840	75,867	119,707
non-interest-bearing	–	–	–	–	–	–	–	–	–	–	11,200	746	11,200	746	11,946
Loans, net of allowance for loan losses	718,099	609,275	186,173	638,107	1,367	31,007	278	123	3,958	245	–	–	909,875	1,278,757	2,188,632
fixed rate	5,533	–	44	62	184	62	278	123	3,958	245	–	–	9,997	492	10,489
variable rate	712,566	609,275	186,129	638,045	1,183	30,945	–	–	–	–	–	–	899,878	1,278,265	2,178,143
non-interest-bearing	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–
Securities held-to-maturity	97,085	–	37,300	–	150,174	–	108,344	–	165,607	–	–	–	558,510	–	558,510
fixed rate	97,085	–	–	–	140,051	–	108,344	–	165,607	–	–	–	511,087	–	511,087
variable rate	–	–	37,300	–	10,123	–	–	–	–	–	–	–	47,423	–	47,423
Fair value of derivative financial instruments	288,643	453,246	645,215	347,062	38,095	33,901	1,237	33,994	1,770	683	–	–	974,960	868,886	1,843,846
fixed rate	195,265	342,150	212,118	182,451	37,545	,32,815	1,237	33,994	1,770	683	–	–	447,935	592,093	1,040,028
variable rate	93,378	111,096	433,097	164,611	550	1,086	–	–	–	–	–	–	527,025	276,793	803,818

As at 31 December 2007

	Within 1 month		Over 1 month and Within 3 months		Over 3 months and Within 12 months		Over 1 year and Within 2 years		Over 2 years		Non-interest-bearing		Total		Total
	HUF	Currency	HUF	Currency	HUF	Currency	HUF	Currency	HUF	Currency	HUF	Currency	HUF	Currency	
LIABILITIES															
Due to banks and deposits from the National Bank of Hungary and other banks	86,054	223,769	26,138	167,446	82,487	1,265	26	–	1	3,562	–	–	194,706	396,042	590,748
fixed rate	84,188	130,829	24,935	659	153	1,265	26	–	1	3,562	–	–	109,303	136,315	245,618
variable rate	1,866	92,940	1,203	166,787	82,334	–	–	–	–	–	–	–	85,403	259,727	345,130
non-interest-bearing	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–
Deposits from customers	2,090,732	321,364	349,174	107,262	31,915	54,212	6	370	–	–	–	–	2,471,827	483,208	2,955,035
fixed rate	668,459	243,725	344,667	107,262	31,915	54,212	6	370	–	–	–	–	1,045,047	405,569	1,450,616
variable rate	1,422,273	77,639	4,507	–	–	–	–	–	–	–	–	–	1,426,780	77,639	1,504,419
non-interest-bearing	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–
Liabilities from issued securities	1,639	126,540	–	266,017	–	–	–	–	–	–	–	–	1,639	392,557	394,196
fixed rate	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–
variable rate	1,639	126,540	–	266,017	–	–	–	–	–	–	–	–	1,639	392,557	394,196
Fair value of derivative financial instruments in other liabilities	39,191	699,462	33,849	943,177	23,878	19,903	11,796	25,051	5,179	219	–	–	113,893	1,687,812	1,801,705
fixed rate	26,899	509,689	26,017	366,880	23,687	19,903	11,796	25,051	5,179	219	–	–	93,578	921,742	1,015,320
variable rate	12,292	189,773	7,832	576,297	191	–	–	–	–	–	–	–	20,315	766,070	786,385
Subordinated bonds and loans	–	–	5,000	31,635	–	9,202	–	–	–	253,077	–	–	5,000	293,914	298,914
fixed rate	–	–	–	–	–	–	–	–	–	253,077	–	–	–	253,077	253,077
variable rate	–	–	5,000	31,635	–	9,202	–	–	–	–	–	–	5,000	40,837	45,837
Net position	(887,669)	96,369	462,078	(283,908)	90,223	106,020	110,276	13,349	348,608	(233,262)	60,174	4,233	183,690	(297,199)	(113,509)

As at 31 December 2006

	Within 1 month		Over 1 month and Within 3 months		Over 3 months and Within 12 months		Over 1 year and Within 2 years		Over 2 years		Non-interest-bearing		Total		Total
	HUF	Currency	HUF	Currency	HUF	Currency	HUF	Currency	HUF	Currency	HUF	Currency	HUF	Currency	
ASSETS															
Cash, due from banks and balances with the National Bank of Hungary	369,617	10,733	–	–	–	–	–	–	–	–	45,909	3,066	415,526	13,799	429,325
fixed rate	369,617	10,733	–	–	–	–	–	–	–	–	–	–	269,617	10,733	380,350
variable rate	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–
non-interest-bearing	–	–	–	–	–	–	–	–	–	–	45,909	3,066	45,909	3,066	48,975
Placements with other banks	31,522	212,551	9,519	254,308	–	150,039	–	–	–	–	–	–	41,041	616,898	657,939
fixed rate	27,968	62,674	–	71,148	–	84,878	–	–	–	–	–	–	27,968	218,700	246,668
variable rate	3,554	149,877	9,519	183,160	–	65,161	–	–	–	–	–	–	13,073	398,198	411,271
non-interest-bearing	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–
Securities held for trading	1,226	–	2,931	–	14,159	–	2,485	–	14,956	–	316	2	36,073	2	36,075
fixed rate	1,226	–	2,593	–	14,088	–	2,485	–	14,956	–	–	–	35,348	–	35,348
variable rate	–	–	338	–	71	–	–	–	–	–	–	–	409	–	409
non-interest-bearing	–	–	–	–	–	–	–	–	–	–	316	2	316	2	318
Securities available-for-sale	20,998	21,728	–	44,317	46,519	–	12,334	–	147,383	44,932	10,400	248	237,634	111,225	348,859
fixed rate	–	–	–	–	9,611	–	12,334	–	147,383	44,932	–	–	169,328	44,932	214,260
variable rate	20,998	21,728	–	44,317	36,908	–	–	–	–	–	–	–	57,906	66,045	123,951
non-interest-bearing	–	–	–	–	–	–	–	–	–	–	10,400	248	10,400	248	10,648
Loans, net of allowance for loan losses	731,689	517,029	186,664	262,447	4,717	8,390	490	–	27,021	–	13,231	–	963,812	787,866	1,751,678
fixed rate	2,878	–	126	–	815	–	490	–	27,021	–	–	–	31,330	–	31,330
variable rate	728,811	517,029	186,538	262,447	3,902	8,390	–	–	–	–	–	–	919,251	787,866	1,707,117
non-interest-bearing	–	–	–	–	–	–	–	–	–	–	13,231	–	13,231	–	13,231
Securities held-to-maturity	6,977	–	55,367	–	27,511	–	139,531	–	274,725	–	–	–	504,111	–	504,111
fixed rate	6,977	–	14,712	–	16,476	–	139,531	–	274,725	–	–	–	452,421	–	452,421
variable rate	–	–	40,655	–	11,035	–	–	–	–	–	–	–	51,690	–	51,690
Fair value of derivative financial instruments	115,879	185,814	172,407	280,194	37,099	23,355	27,339	119	91,273	8,756	–	–	443,997	498,238	942,235
fixed rate	109,838	84,101	144,143	108,473	16,748	19,490	27,339	119	91,273	8,756	–	–	389,341	220,939	610,280
variable rate	6,041	101,713	28,264	171,721	20,351	3,865	–	–	–	–	–	–	54,656	277,299	331,955

As at 31 December 2006

	Within 1 month		Over 1 month and Within 3 months		Over 3 months and Within 12 months		Over 1 year and Within 2 years		Over 2 years		Non-interest-bearing		Total		Total
	HUF	Currency	HUF	Currency	HUF	Currency	HUF	Currency	HUF	Currency	HUF	Currency	HUF	Currency	
LIABILITIES															
Due to banks and deposits from the National Bank of Hungary and other banks	13,736	228,510	–	219,018	60,531	2,768	271	–	1,093	21,360	1,721	8,849	77,352	480,505	557,857
fixed rate	13,676	118,362	–	60,832	111	2,649	271	–	1093	21,360	–	–	15,151	203,203	218,354
variable rate	60	110,148	–	158,186	60,420	119	–	–	–	–	–	–	60,480	268,453	328,933
non-interest-bearing	–	–	–	–	–	–	–	–	–	–	1,721	8,849	1,721	8,849	10,570
Deposits from customers	1,941,489	266,216	207,523	62,907	143,289	67,769	8	188	–	–	266	443	2,292,575	397,523	2,690,098
fixed rate	1,267,104	96,231	6,082	15,441	–	–	–	–	–	–	–	–	1,273,186	111,672	1,384,858
variable rate	674,385	169,985	201,441	47,466	143,289	67,769	8	188	–	–	–	–	1,019,123	285,408	1,304,531
non-interest-bearing	–	–	–	–	–	–	–	–	–	–	266	443	266	443	709
Liabilities from issued securities	337	125,944	–	75,769	–	–	–	–	–	–	–	–	337	201,713	202,050
fixed rate	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–
variable rate	337	125,944	–	75,769	–	–	–	–	–	–	–	–	337	201,713	202,050
Fair value of derivative financial instruments in other liabilities	6,815	289,026	24,974	409,861	23,425	26,819	847	24,076	52,363	69,142	–	–	108,424	818,924	927,348
fixed rate	4,705	187,080	3,982	241,936	9,007	26,819	847	24,076	52,363	69,142	–	–	70,904	549,053	619,957
variable rate	2,110	101,946	20,992	167,925	14,418	–	–	–	–	–	–	–	37,520	269,871	307,391
Subordinated bonds and loans	–	–	–	31,570	5,000	211,295	–	–	–	–	–	–	5,000	242,865	247,865
fixed rate	–	–	–	31,570	5,000	211,295	–	–	–	–	–	–	5,000	242,865	247,865
Net position	(684,469)	38,159	194,391	42,141	(102,240)	(126,867)	181,053	(24,145)	501,902	(36,814)	67,869	(5,976)	158,506	(113,502)	45,004

NOTE 32: EARNINGS PER SHARE

Earnings per share attributable to the Bank's common shares are determined based on dividing net income for the year attributable to common shareholders, after the deduction of declared preference dividends, by the weighted average number of common shares outstanding during the year.

	2007	2006
Net income (in HUF mn)	141,681	170,188
Weighted average number of common shares outstanding during the year for calculating basic EPS (piece)	278,742,688	267,934,682
Basic Earnings per share (in HUF)	508	635
Weighted average number of common shares outstanding during the year for calculating diluted EPS (piece)	279,368,972	270,711,487
Diluted Earnings per share (in HUF)	**507**	**629**

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

Diluted Earnings per share are determined after additionally taking into consideration the option rights granted.

NOTE 33: NET GAIN OR LOSS REALIZED ON FINANCIAL INSTRUMENTS

As at 31 December 2007

	Net interest gain and loss	Net non-interest gain and loss	Provision	Equity
Cash, due from banks and balances with the National Bank of Hungary	11,754	–	–	–
Placements with other banks, net of allowance for placement losses	41,920	–	–	–
Securities held for trading	2,807	(353)	–	–
Securities available-for-sale	24,952	1,345	–	(2,523)
Loans	194,803	51,326	(21,453)	–
Securities held-to-maturity	51,298	–	–	–
Derivative financial instruments	20,928	(1,853)	–	(484)
Due to banks and deposits from the National Bank of Hungary and other banks	(22,471)	–	–	–
Deposits from customers	(106,884)	73,850	–	–
Issued securities	(16,151)	–	–	–
Subordinated bonds and loans	(16,086)	54	–	–
Total	**186,870**	**124,369**	**(21,453)**	**(3,007)**

NOTE 34: SENSITIVITY ANALYSIS

34.1. Market risk sensitivity analysis

The VaR risk measure estimates the potential loss in pre-taxation profit over a given holding period for a specified confidence level.
The VaR methodology is a statistically defined, probability-based approach that takes into account market volatilities as well as risk diversification by recognising offsetting positions and correlations between products and markets. Risks can be measured consistently across all markets and products, and risk measures can be aggregated to arrive at a single risk number. The one-day 99% VaR number used by the Group reflects the 99% probability that the daily loss will not exceed the reported VaR.

VaR methodologies are employed to calculate daily risk numbers include the historical and variance-covariance approaches. In addition to these two methodologies, Monte Carlo simulations are applied to the various portfolios on a monthly basis to determine potential future exposure.

The VaR of the trading portfolio can be summarized as follows:

Historical VaR (99%, one-day) by risk type	Average (in HUF mn) 2007	2006
Foreign exchange	158	126
Interest rate	130	136
Equity instruments	96	–
Diversification	(141)	(62)
Total VaR exposure	**243**	**200**

While VaR captures the OTP's daily exposure to currency and interest rate risk, sensitivity analysis evaluates the impact of a reasonably possible change in interest or foreign currency rates over a year. The longer time frame of sensitivity analysis complements VaR and helps the OTP to assess its market risk exposures. Details of sensitivity analysis for foreign currency risk are set out in 34.2 below and, for interest rate risk, in 34.3 below.

34.2. Foreign currency sensitivity analysis

The following table details the OTP's sensitivity to a increase and decrease in the HUF exchange rate against the EUR, over a 3 months period. Monte Carlo simulation is used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items as strategic open positions related to foreign activities. The strategic open position related

to the foreign operations were EUR 570 million and EUR 570 million as of 31 December 2007 and 2006 respectively. A positive number below indicates an increase in profit where the HUF strengthens against the EUR. For a weakening of the HUF against the EUR, there would be an equal and opposite impact on the profit, and the balances below would be negative.

Probability	Effects to the P&L in 3 months period (in HUF billion)	
	2007	2006
1%	(16.7)	(20.3)
5%	(11.3)	(11.3)
25%	(4.3)	(3.1)
50%	0.3	0.7
25%	3.8	4.4
5%	6.5	7.1
1%	7.0	7.7

Notes:

(1) The short term loss on the strategic open position is compensated by the long-term exchange rate gain on the foreign operations.

(2) The currency rates were closed to the strenght limit of the fluctuation band as of 31 December 2007 and 2006, therefore the probability of the short-term loss is higher.

34.3 Interest rate sensitivity analysis

The sensitivity analysis below have been determined based on the exposure to interest rates for both derivatives and non-derivative instruments at the balance sheet date.
The analysis is prepared assuming the amount of assets and liabilities outstanding at the balance sheet date was outstanding for the whole year. The analysis were prepared by assuming only the adversing interest rate changes. The main assumptions were as follows:

- Floating rate assets and liabilities were repriced to the modelled benchmark yields at the repricing dates assuming the unchanged marge compared to the last repricing.
- Fixed rate assets and liabilities were repriced at the contractual maturity date.
- As for liabilities with discretionary repricing feature by the Bank were assumed to be repriced with two-weeks delay, assuming no change in the marge compared to the last repricing date.
- The assets and liabilities with interest rate lower than 0.3% assumed to be unchanged during the whole period.

The simulations were prepared by assuming two scenarios:

0.50% – 0.75% decrease in average HUF yields (probable scenario)
1% – 1.50% decrease in average HUF yields (alternative scenario)

The net interest income in a one year period after 31 December 2007 would be decreased by HUF 350 million (probable scenario) and HUF 2,720 million (alternative scenario) as a result of these simulations.

The effects of the parallel shifts of the yield-curves to the net interest income on a one-year period can be summarized as follows:

Description	Effects to the net interest income in one year period (in HUF million)	
	2007	2006
HUF (0.1%) parallel shift	(195)	(98)
EUR (0.1%) parallel shift	(36)	(78)
USD (0.1%) parallel shift	18	(32)
Total	**(213)**	**(208)**

34.4 Equity price sensitivity analysis

The Bank has not significant equity instruments held in 2007 and 2006 therefore is not exposed to significant equity price risk.

NOTE 35: RECONCILIATION OF FINANCIAL STATEMENTS PREPARED UNDER HUNGARIAN ACCOUNTING STANDARDS AND FINANCIAL STATEMENTS PREPARED UNDER IFRS (in HUF mn)

	Retained Earnings and Reserves 1 January 2007	Net income for the year ended 31 December 2007	Dividend	Direct Movements on Reserves	Retained Earnings and Reserves as at 31 December 2007
Hungarian financial statements	**525,152**	**119,883**	**–**	**2**	**645,037**
Adjustments to Hungarian financial statements:					
Reversal of statutory general provision	34,175	9,094	–	–	43,269
Premium and discount amortization of financial instruments measured at amortised cost	120	1,574	–	–	1,694
Allowance for possible loan losses	(1,340)	–	–	–	(1,340)
Differences in carrying value of subsidiaries	799	–	–	–	799
Difference in accounting for finance leases	(1,437)	(1,114)	–	–	(2,551)
Fair value adjustment of held for trading and available-for-sale financial assets	8,315	(688)	–	(2,523)	5,104
Fair value adjustment of derivative financial instruments	1,218	(2,622)	–	(484)	(1,888)
Profit on sale of Treasury Shares	–	3,897	–	(3,897)	–
Reversal of statutory goodwill and negative goodwill	24,822	8,810	–	–	33,632
Revaluation of investments denominated in foreign currency to historical cost	3,396	12,571	–	–	15,967
Difference in accounting of repo transactions	(471)	(8,618)	–	–	(9,089)
Reclassification of direct charges	–	2	–	(2)	–
Share-based compensation	–	(5,123)	–	5,123	–
Profit on ICES - exchangeabled bond transaction recognised through equity	14,762	1,947	–	(2,907)	13,802
Deferred taxation	(5,831)	2,068	–	794	(2,969)
Dividend payable for 2006	40,320	–	(40,320)	–	–
International financial statements	**644,000**	**141,681**	**(40,320)**	**(3,894)**	**741,467**

NOTE 36: SIGNIFICANT EVENTS DURING THE YEAR ENDED 31 DECEMBER 2007

On 26 February 2007 under the EMTN Program the Bank issued floating rate bonds due 2009 with the face value of EUR 750 million for the purpose of general bank financing. On 26 February 2007 under the same program to support the capital position the Bank reissued EUR 200 million subordinated bonds to the EUR 300 million subordinated bonds that had been issued at 19 September 2006 (as the value date). The maturity of the bonds is 19 September 2016.

Serbian subsidiaries of OTP Bank Plc., Niška banka a.d. Niš, Zepter banka a.d. Beograd and Kulska banka a.d. Novi Sad held an extraordinary general meeting on 23 March 2007. The resolution for the merger of the three banks was approved at the forum of shareholders. In possession of the requisite Hungarian and Serbian licenses, as at 21 May 2007 (also the first day of business) the merged credit institution operates under the name of OTP banka Srbija a.d. Novi Sad in the territory of the Republic of Serbia, with its headquarters located in Novi Sad.

OTP Bank Plc. has launched a bond issue program of HUF 100,000 million (one hundred thousand million) as at 2 August 2007. The Committee for Product Development, Marketing and Pricing of OTP Bank Plc. adopted the resolution no. 71/2007 about the bond issue program on 13 March 2007. The Information Memorandum related to the program and this announcement were approved by the Hungarian Financial Supervisory Authority with resolution no. E-III/10.350/2007 dd. 1 August 2007. The Information Memorandum is valid for 12 months from the date of the announcement.

The subscription period of the index linked OTPX2010A Bond between 3 December 2007 and 21 December 2007 ended successfully. The Bonds could be subscribed in the domestic branches of OTP Bank Plc. The investors subscribed the total of HUF 1,393,200,000. OTP Bank Plc. accepted all of the subscriptions, HUF 1,393,200,000 amount of OTPX2010A bonds was issued. The maturity date of the bonds is 21 December 2010. The interest rate of the bonds is 9% in the first period.

According to the 8/2004 and 9/2006 resolutions of the Annual General Meetings of OTP Bank Plc., relevant paragraphs have been changed according to the law on abolishing the voting preference share of the State ('golden share'). The XXVI. Law of 2007 came into effect on 21 April 2007. On that day according to the relevant paragraphs of AGMs the voting preference shares stipulations ceased existing, thus 1 preference voting share with HUF 1,000 face value has been transformed into 10 ordinary shares with HUF 100 face value. The transaction was registrated at the Registry Court on 18 June 2007, and the shares were introduced to the Budapest Stock Exchange on 18 September 2007.

On 28 August 2007 the Bank, the 100% owner of CJSC OTP Bank Ukraine, has increased the registered capital of its subsidiary by UAH 134,786,915, thus the share capital of CJSC OTP Bank is UAH 654,585,309.

On 31 August 2007 OTP Bank Plc., the 96.81% owner of OTP Fund Servicing and Consulting Ltd., has increased the registered capital of its subsidiary by HUF 1,020 million, thus the share capital of Fund Servicing and Consulting Ltd. is HUF 2,350 million.

On 4 September 2007 OTP Bank Plc., the 100% owner of OTP Mortgage Bank Ltd., has increased the registered capital of its subsidiary by HUF 7,000 million, thus the share capital of OTP Mortgage Bank Ltd. is HUF 27,000 million.

On 12 September 2007 OTP Bank Plc., the 100% owner of OTP Bank Romania S.A., has increased the registered capital of its subsidiary by EUR 20 million (RON 65,437,920), thus the share capital of OTP Bank Romania S.A is RON 432,909,120.

On 10 October 2007 OTP Bank Plc., the 91.43% owner of OTP banka Srbija a.d. has increased the registered capital of its subsidiary by EUR 64.5 million, thus the share capital of OTP banka Srbija a.d. is EUR 81.3 million.

On the initiative of OTP Bank Plc. the OTP Financing Cyprus Company Limited was incorporated on 31 October 2007. The company has a capital of EUR 1,000 and is under 100 % ownership of OTP Bank Plc.

OTP Bank Plc. purchased the 100% of the participation interests of Donskoy Narodny Bank (DNB) on 12 November 2007.

The Bank will pay a purchase price close to USD 40.95 million after all the required Russian and Hungarian official licences and permits have been obtained. The purchase price shall be transferred to the seller at the expected closing time of the deal, at the beginning of 2008.

OTP Financing Netherlands B.V. was incorporated on 28 November 2007 as the fully-owned subsidiary of OTP Bank Plc. The company has a capital of EUR 90,000.

On 22 November 2007 OTP Bank Plc., the 100% owner of DSK Bank EAD has increased the registered capital of its subsidiary by BGN 60,000,000 thus the share capital of DSK Bank EAD is BGN 153,984,000.

The direct and indirect interest of the Bank in Investsberbank OAO has increased to 97.22% during 2007 due to continuous share purchasing.

NOTE 37: POST BALANCE SHEET EVENTS

On 9 January 2008 the Bank, the 100% owner of CJSC OTP Bank Ukraine, has increased the registered capital of its subsidiary by UAH 247,972,709 thus the share capital of CJSC OTP Bank is UAH 902,558,018.

On 17 January 2008 – effective from 29 November 2007 – the Bank, the 100% owner of OTP Life Annuity Ltd., has increased the registered capital of its subsidiary by HUF 5 million, the equity reserve of its subsidiary by HUF 745 million, thus the share capital of OTP Life Annuity Ltd. is HUF 505 million.

Subject to the prior approval of the Hungarian Financial Supervisory Authority, upon signing of the contractual documentation that is subject to the receipt of all necessary regulatory and competition approvals and certain other conditions, Groupama S.A. will undertake to buy 100% of the shares in OTP Garancia Insurance Ltd. as well as to acquire the minority shares held by the local subsidiaries of OTP Bank Plc. in the Romanian, Slovak and Bulgarian subsidiaries of OTP Garancia Insurance Ltd. The total cost of the transaction and the distributive partnership is HUF 164 billion (approximately EUR 617 million). As a result of the transaction, Groupama S.A. will acquire 100% of both the life and non-life insurance businesses of OTP Bank Plc. in Hungary, Slovakia, Romania and Bulgaria. Furthermore, as part of the transaction and subject to certain conditions, OTP Bank Plc. and Groupama S.A. will enter into co-operation agreements allowing for (in some jurisdictions exclusive) cross-selling of banking and insurance products through the respective parties' branch networks in Hungary, Slovakia, Romania, Bulgaria, Ukraine, Russia, Serbia, Montenegro and Croatia. As part of this strategic co-operation between OTP Bank Plc. and Groupama S.A., subject to certain conditions, Groupama S.A. will undertake to buy up to 8%. of the shares in OTP Bank Plc, in two steps. In order to facilitate the transaction, subject to the agreements to be entered into by the relevant parties and the completion of the transaction, Deutsche Bank AG, London Branch will, upon completion of the transaction, deliver approximately 5% of OTP Bank Plc. shares to Groupama S.A. If the above referred conditions (such as the receipt of regulatory approvals) were not satisfied and therefore the transaction would not be completed, Deutsche Bank AG, London Branch would cash-settle the agreement entered into with OTP Bank Plc.

Corporate Governance

Senior Management of OTP Bank and Executive Members of the Board of Directors

Dr. Sándor Csányi
Chairman & CEO

Dr. Sándor Csányi (55) graduated from the College of Finance and Accounting in 1974 with a bachelor's degree in business administration and in 1980 from the Budapest University of Economics with a degree in economics. He is an economist with a specialisation in finance, and is also a qualified pricing specialist and certified auditor. After graduation he worked at the Revenue Directorate and then at the Secretariat of the Ministry of Finance, after which he was Head of Department at the Ministry of Agriculture and Food Industry between 1983 and 1986. Between 1986 and 1989 he worked as Head of Department at Magyar Hitel Bank Rt. He was deputy CEO of K&H Bank from 1989-92. Since 1992 he has been Chairman & CEO of OTP Bank Plc., where he is responsible for the Bank's strategy and overall operation. He is a member of the Board of Directors of Europay and the Hungarian oil and gas company MOL, and is chairman of the Hungarian Banking Association. As of 31 December 2007 he owned 200,000 ordinary OTP shares (while the total number of OTP shares held by him directly and indirectly was 3,302,000).

Dr. István Gresa
Deputy CEO
Credit Approval and Risk Management Division

Dr. István Gresa (55) graduated from the College of Finance and Accounting in 1974 and received a degree in economics from the Budapest University of Economics in 1980. He earned a Ph.D. from the same establishment in 1983. He has worked in the banking sector since 1989. Between 1989 and 1993 he was branch manager of Budapest Bank's Zalaegerszeg branch. From 1993 he was director of OTP Bank's Zala County Directorate, and from 1998 he served as the director of the bank's West Transdanubian Region. Since March 1 2006 he has been Deputy CEO of OTP Bank and the Head of the Credit Approval and Risk Management Division. As of 31 December 2007 he held 63,758 ordinary OTP shares.

Antal Kovács
*Deputy CEO **
Retail Division

Antal Kovács (55) graduated from the Budapest University of Economics with a degree in economics in 1985. He started his professional career in 1990 at the Nagyatád branch of K&H Bank where he worked as a branch manager between 1993 and 1995. From 1995 he started working for OTP Bank Plc., first as a county director and from 1998 as the managing director of OTP Bank's South Transdanubian Region.
He received additional training at the International Bankers' School and the World Trade Institute. He has been a member of OTP Bank's Supervisory Board since 2004.
As of 31 December 2007 he held 33,000 ordinary OTP shares.

*from 1 July 2007

Csaba Lantos
*Member of the Board of Directors, **
Deputy CEO
Retail Division

Csaba Lantos (46) graduated in economics and sociology from the Budapest University of Economics in 1986. Between 1986 and 1988 he worked as a bond dealer at Budapest Bank Rt., then from 1989-94 he was the director of Creditanstalt Securities and, until 1997, its deputy managing director and the managing director of Creditanstalt Securities Investment Fund Management. Until 2000 he was CEO at CA IB Securities, and since the autumn of 2000 he has served as the deputy CEO of OTP Bank. Since 1990 he has been a member of the Council of the Budapest Stock Exchange, and since 1993 he has served as the Chairman of the Board of Directors of the Central Clearing House and Depository Ltd. (KELER). Since 2001 he has been a member of OTP Bank's Board of Directors. As of 30 June 2007 he held 80,116 ordinary OTP shares.

* until 30 June 2007

Géza Lenk
Deputy CEO *

Géza Lenk (61) graduated from the Budapest University of Economics with a degree in economics in 1970, and in 1977 he earned a post-graduate degree in International Business Relations. He graduated from the International Banker's School in London in 1982. He went on to work at the Hungarian National Bank, then as CEO of the General Enterprise Bank. From 1988, he was Chairman and CEO of K&H Bank, and was the Vice Chairman and Deputy CEO of Trigon Bank AG Wien from 1996. He worked as the head of the MKB Leasing and Finance Group from 1998 and was the Chairman and CEO of Reorg Rt. from 1999. Since 2000 he has been Deputy CEO of OTP Bank, in charge of the Credit Approval and Risk Management Division, and since March of 2006 he has been an advisor to the Chairman. Between 2001 and 28 April 2006 he was a member of OTP Bank Plc.'s Board of Directors. As of 2 April 2007 he held 100,000 ordinary OTP shares.

*until 2 April 2007

Dr. Antal Pongrácz

Member of the Board of Directors, Deputy CAO Staff Division

Dr. Antal Pongrácz (62) graduated from the Budapest University of Economics and earned a Ph.D. in 1971. From 1969 he worked as an analyst at the Petrochemical Investment Company, then as a group manager at the Revenue Directorate until 1975. From 1976 he worked in various management positions at the Ministry of Finance. After that he was the first Deputy Chairman of the State Office for Youth and Sports. Between 1988 and 1990 he was the first Deputy CEO of OTP Bank. Between 1991 and 1994 he was the CEO, and then Chairman & CEO, of the European Commercial Bank Rt. Between 1994 and 1998 he was the Chairman and CEO of Szerencsejáték Rt., then in 1998-99 he served as CEO of Hungarian flagship carrier, Malév. Since 2001 he has worked as the managing director of OTP Bank's Central Management Division and more recently as Deputy CEO. He has been a member of OTP Bank's Board of Directors since 2002.
As of 31 December 2007 he held 230,000 ordinary OTP shares.

Ákos Takáts

Deputy CEO IT and Bank Operations Division

Ákos Takáts (48) graduated from the University of Horticulture and Food Industry in 1982 and earned a degree in engineering in 1985. He has worked in the banking sector since 1987. Between 1989 and 1993 he was employed as a systems administrator at Investbank Rt. From 1993 he served as a deputy head of department at OTP Bank Plc., then, from 1995, he was managing director of the bank's IT Development Directorate. Since October 1 2006 he has served as OTP Bank Plc.'s Deputy CEO and the head of the IT and Logistics Division.
As of 31 December 2007 he held a total of 143,347 ordinary OTP shares.

Dr. László Urbán

Deputy CEO Strategic and Financial Division

Dr. László Urbán (49), economist, graduated from the Budapest University of Economics with a specialisation in finance in 1982. He has worked in the financial sector since 1995. He worked in Washington D.C. for the World Bank, and then served as ABN-AMRO Bank's director for planning and controlling. Between 1998 and 2000 he was Deputy CEO of Business Affairs at Postabank, and from 2000-2005 he was a manager at Citigroup New York, responsible for global product development. From 2005 he served as the director of the Hungarian National Bank and the director of the General Secretariat. Since 15 January 2007 he has been OTP Bank's Deputy CEO, and head of the Strategic and Financial Division.
As of 31 December 2007 he held a total of 539 ordinary OTP shares.

László Wolf

Deputy CEO Commercial Banking Division

László Wolf (48) graduated from the Budapest University of Economics in 1983. After graduation he worked at the Bank Relations Department of the Hungarian National Bank for 8 years, after which he served as head of Treasury at BNP-KH-Dresdner Bank between 1991 and 1993. From April 1993 he was managing director of OTP Bank's Treasury Directorate, and since 1994 he has been Deputy CEO of the Commercial Banking Division.
As of 31 December 2007 he held 807,640 ordinary OTP shares.

Non-executive Members of the Board of Directors OTP Bank

Mihály Baumstark

Member of the Board of Directors,
Chairman & CEO
Csányi Vinery Ltd.

Mihály Baumstark (59) holds degrees in agricultural engineering and agricultural economics.
He was employed by the Ministry of Agriculture and Food Industry between 1978 and 1989. Prior to leaving the Ministry he worked as the deputy head of the Accounting Department. He went on to join Hubertus Rt. as its managing director, and from 1999 he was the deputy CEO, and then Chairman & CEO, of Villányi Vinery Ltd. (now Csányi Vinery Ltd.). He has been a non-executive member of OTP Bank's Board of Directors since 1999. As of 31 December 2007 he held 50,000 ordinary OTP shares.

Dr. Tibor Bíró

Member of the Board of Directors,
Head of Department
Budapest College of Business

Dr. Tibor Bíró (56) graduated from the Budapest University of Economics with a degree in business administration. He was the Head of the Financial Department of the City Council of Tatabánya from 1978-82. He began teaching at the College of Finance and Accounting in 1982 and has been head of department since 1992. He is a chartered public accountant and a registered auditor. He is a member of the Budapest Directorate of the Hungarian Chamber of Auditors. He has been a non-executive member of OTP Bank's Board of Directors since 1992. As of 31 December 2007 he held 44,000 ordinary OTP shares.

Péter Braun

Member of the Board of Directors,
Electrical Engineer,
Former Deputy CEO
OTP Bank

Péter Braun (72) earned a degree in electrical engineering from the Budapest Technical University. Between 1954 and 1989 he worked for the Research Institute for Electrical Energy, with his last position there being Head of Department. After that, he was the managing director of K&H Bank Rt., working in its Computer and Information Centre. He is a member of GIRO Rt.'s Board of Directors, and was Deputy CEO of OTP Bank Plc. from 1993 until his retirement in 2001. He has been a member of OTP Bank's Board of Directors since 1997. As of 31 December 2007 he held 599,905 ordinary OTP shares.

Dr. István Kocsis

Member of the Board of Directors,
CEO
Hungarian Power Companies Ltd.

Dr. István Kocsis (56) graduated from the Budapest Technical University as a mechanical engineer. From 1991 until 1993 he served as department head at the Ministry of Trade and Industry and later as Deputy Undersecretary. Between 1993 and 1996 he was managing director and deputy CEO of ÁPV Rt. Between 1996 and 1997 he was deputy CEO of ÁPV Rt. Later he became head of department at RWE Energie AG, then the general director of ÉMÁSZ Rt., and later the CEO of Paks Nuclear Power Plant. He has been the CEO of Hungarian Power Companies Ltd. since 2005. He has been a non-executive member of OTP Bank's Board of Directors since 1997. As of 31 December 2007 he held 83,500 ordinary OTP shares.

Dr. Sándor Pintér

Member of the Board of Directors,
Chairman & CEO
CIVIL Security Service Ltd.

Dr. Sándor Pintér (60) graduated from the Police Academy in 1978 and earned a degree in law from the Law Faculty of Eötvös Loránd University of Arts and Sciences (ELTE) in 1986. From 1970 he held various positions at the Ministry of the Interior, and in December 1996 he retired as National Police Chief. Between 1998 and 2002 he was the Minister of the Interior of Hungary. Between 29 April 1997 and 7 July 1998 he was a member of OTP Bank's Board of Directors. Between 2003 and 2006 he was a member of OTP Bank's Supervisory Board, and since 28 April 2006 he has been a member of OTP Bank's Board of Directors. As of 31 December 2007 he held 49,350 ordinary OTP shares.

Dr. László Utassy

Member of the Board of Directors,
Chairman-CEO
OTP Garancia Insurance Ltd.

Dr. László Utassy (56) graduated from the Law Faculty of ELTE in 1978, and earned a further degree in economics, with a specialisation in insurance, from the Budapest University of Economics in 1995. He held various positions at the State Insurance Company and then at ÁB-AEGON Rt. between 1978 and 1995. From 1996 he was the CEO of OTP Garancia Insurance, and then its Chairman & CEO. He has been the chairman of MABISZ (Association of Hungarian Insurers) since March 2001. He has been a member of OTP Bank Plc.'s Board of Directors since 2001. As of 31 December 2007 he held 90,000 ordinary OTP shares.

Dr. József Vörös

Member of the Board of Directors,
General Deputy Rector
Pécs University

Dr. József Vörös (57) graduated from the Budapest University of Economics in 1974. In 1984 he earned a masters degree and in 1993 a Ph.D. in economics from the Hungarian Academy of Sciences. Between 1990 and 1993 he was dean of the Faculty of Business and Economics of Janus Pannonius University (JPTE). In 1993 he attended a course in management for senior executives at Harvard University. From 1994 he was a professor at JPTE, and since 2003 until 2007 he has been the general Deputy Rector of Pécs University. From 2007, President of the Economic Council at Pécs University Since 1992 he has been a non-executive member of OTP Bank's Board of Directors. As of 31 December 2007 he held 115,000 ordinary OTP shares.

Members of the Supervisory Board of OTP Bank*

Tibor Tolnay

Chairman of the Supervisory Board,
Chairman & CEO
Magyar Építők Ltd.

Tibor Tolnay (57) graduated from the Budapest Technical University with a degree in architecture and received another degree from the Budapest University of Economics. In 1972 he was appointed CEO of Magyar Építők Ltd. He has been a member of OTP Bank's Supervisory Board since 1992. As of 31 December 2007 he held 80,580 ordinary OTP shares.

Dr. Gábor Nagy

Deputy Chairman of the Supervisory Board, Head of Codification Group
Ministry of Finance Accounting Division

Dr. Gábor Nagy (71) graduated from the Budapest University of Economics and is a certified auditor. Between 1974 and 1977 he worked at the Institute of Further Education at the Ministry of Finance. Since 1977 he has been employed by the Ministry of Finance. He has been a member of the OTP Bank's Supervisory Board since 1991 and has been Deputy Chairman of the Supervisory Board since 1992. As of 31 December 2007 he held 130,000 ordinary OTP shares.

Dr. Gábor Horváth

Member of the Supervisory Board
lawyer

Dr. Gábor Horváth (52) earned a degree in law in Budapest from ELTE. From 1983 he worked for the Hungarian State Development Bank. From 1986 he worked for a law office and from 1990 for the Ministry of Finance, the Hungarian State Institute for Research and the Municipality of Budapest as a private, independent lawyer.
He has been a member of the OTP Bank's Supervisory Board since 1995.
As of 31 December 2007 he held 10,000 ordinary OTP shares.

Klára Vécsei

Member of the Supervisory Board
Deputy Managing Director
OTP Bank North-East Hungary Region

Klára Vécsei (56) is a representative of OTP Bank's employees. She is an economist and received her degree from the Budapest University of Economics.
She has been employed by OTP Bank Plc. since 1970. Between 1982 and 1992 she was deputy head of the Accounting and Controlling Department and served as chief accountant from 1994. Currently she is the deputy managing director of the Northern Hungary Region. She has represented the Bank's employees on the Supervisory Board since 1991. As of 31 December 2007 she held 4,000 ordinary OTP shares.

* Mr. Antal Kovács has been a member of OTP Bank's Supervisory Board since 2004.

Information for Shareholders

General company data

Date of foundation:

31 December 1990, registered by the Metropolitan Court of Budapest as Court of Registration on October 28, 1991 under company registration number 01-10-041585. The latest Bylaws may be requested from the company or may be downloaded from the Bank's website.

Legal predecessor:

Országos Takarékpénztár, founded 1 March 1949

Registered head office of OTP Bank Plc..

H-1051 Budapest, Nádor utca 16.
Telephone: (+36-1) 473-5000
Fax: (+36-1) 473-5955

Share capital:

OTP Bank's share capital as at 31 December 2007 was HUF 28,000,001,000, consisting of 280,000,010 ordinary shares of nominal value HUF 100 each. According to the XXVI. law came into effect on 21 April 2007 the voting preference shares stipulations ceased existing, thus 1 preference voting share with HUF 1000 face value has been transformed into 10 ordinary shares with HUF 100 face value.
On 18 June 2007 the transformation was registered by the Court of Registry.
On 18 September 2007, the 10 ordinary shares have been listed on the Budapest Stock Exchange.

Ownership structure as at 31 December 2007:

	Shareholder	Ownership share
Domestic shareholders	State budgetary organisations	0.3%
	Managers and employees	2.0%
	OTP Bank Plc.	2.9%
	Other domestic investors	9.4%
Foreign shareholders	Foreign investors	85.4%
Total		100.0%

Stock exchange listing

The ordinary shares of OTP Bank Plc. are listed on the Budapest Stock Exchange under category 'A', and the global depository receipts (GDRs) representing the ordinary shares that are traded abroad are listed on the Luxemburg Stock Exchange. (1 GDR represents to 2 ordinary shares.) Regulation S GDRs are traded on the London SEAQ International, and Rule 144A GDRs are traded in the PORTAL system. The custodian bank for OTP GDRs is the Bank of New York, and the safekeeping bank is OTP Bank Plc. (Stock exchange symbol for OTP Bank shares: OTP, Reuters: OTP.BU)

Participation and voting rights at the General Meeting

Shareholders may exercise their right of participation and their voting rights at the General Meeting in person or by proxy. The letters of proxy must be set forth in a notarised deed or a private document of full probative force. In the event that a shareholder is represented at the General Meeting by its legal representative (e.g. director, managing director, mayor etc.), the deed issued by the court or court of registration concerning the right of representation, or a certificate testifying to the election of the mayor, must be presented at the venue of the General Meeting. The letters of proxy must be handed over during the period and at the location specified in the invitation to the General Meeting. If the letter of proxy was issued outside Hungary, it must satisfy, in terms of its form, the statutory provisions pertaining to the authentication or counter-authentication of documents issued outside Hungary. Information on the subject can be obtained from the Hungarian representation offices abroad.

Participation in the General Meeting and exercising of voting rights is subject to the following preconditions:

- the holder of the registered shares has been effectively entered into the company's Share Register;
- the voting right associated with ownership of the shares does not violate the provisions of the Company's Articles of Association, which the Company ascertains through a check following receipt of an owner's data reconciliation notice from KELER Ltd.;
- the rules on participation in the General Meeting and the exercising of voting rights on the part of GDR holders are contained in the Custody Agreement concluded between the Bank of New York and OTP Bank Plc.

Dividend

On 25 April 2008 OTP Bank Plc.'s General Meeting decided not to pay dividend after fiscal year 2007.

According to the previous orientation OTP Bank Plc. should pay to the shareholders as dividend 30 percent of its after tax profit, which is almost HUF 35 billion, that is HUF 125 per share, which is less than 2 percent of the current share price.
Several shareholders suggested to the management of the bank to repurchase as much of own shares as it is possible.
The puchase price coming after the closing of the OTP Garancia's sale transaction will create wider range of opportunity for possible acquisitions as well as to the purchase of own shares. The Bank does not dispose at this amount for the present, therefore during February and March it had to choose between the own share purchase and the dividend. The Bank since February 2008, has spent as much for the purchase of own shares as the planned dividend fund was. This can be followed by the announcements published regularly after the share purchases.
According to OTP Bank's management and directorate this strategy should serve the best the shareholders' interests in the present situation.

Announcements

OTP Bank Plc. fulfils its disclosure obligations related to corporate events and prescribed in Act CXX of 2001 on the website of the OTP Bank Plc. (www.otpbank.hu), on the website of the Budapest Stock Exchange (www.bet.hu), and on the website operated by HFSA (www.kozzetetelek.hu).

Investor relations

Institutional shareholders of OTP Bank Plc. should contact the following address if they require further information:

OTP Bank Plc. Investor Relations
H-1051 Budapest, Nádor utca 16.
Telephone: (+36-1) 473-5460
Fax: (+36-1) 473-5951
email: investor.relations@otpbank.hu
The address of the Bank's website is www.otpbank.hu.

Declaration on Corporate Governance Practice*

OTP Bank Plc.'s operation is in full compliance with the applicable laws, supervisory provisions and Budapest Stock Exchange (BSE) regulations. The structure and conditions of operation of the Company are contained in the Company's Bylaws.

Executive bodies

The executive body of the Company is the Board of Directors. The scope of the Board of Directors is defined in the effective laws, the Company's Bylaws, General Meeting resolutions, and the Procedural Rules of the Board of Directors. The Procedural Rules set out the structure of the Board of Directors, the tasks relating to the preparation, implementation and drafting of resolutions of its meetings, as well as all other issues relating to the operation of the Board of Directors.

The members of the Board of Directors are elected by the General Meeting for a term of five years. At present, the ratio of independent Board members (3 persons) within the total number of the Directors (9 directors) is 33%.

All the obligations and prohibitions specified for executive officers under Act CXII of 1996 on Credit Institutions and Financial Enterprises (Credit Institutions Act) apply to the members of the Board of Directors.

The Supervisory Board oversees the management and business operation of the Company.

The Supervisory Board establishes its own procedural rules, which are approved by the General Meeting.

The members of the Supervisory Board are elected by the General Meeting with a mandate of three years. The ratio of independent Supervisory Board members (3 persons) within the entire Supervisory Board (5 persons) is 60%.

In order to avoid any conflict of interest, the General Meeting may not elect members of the Board of Directors or their close relatives to the Supervisory Board. The rules applicable to the appointment and recall of the employee member of the Supervisory Board are defined by the Works Council operating at the Company, and the Company does not consider such a member independent.

The Supervisory Board is responsible for the management of the internal audit organisation of the Company within the framework defined in the Credit Institutions Act. The Supervisory Board exercises a preliminary right of consent in respect of decisions relating to the establishment and termination of the employment, as well as definition of remuneration of the managers and employees of the internal audit organisation.

The Board of Directors holds meetings as frequently as necessary, or at least on eight occasions a year, while the Supervisory Board must hold at least six meetings a year. In 2007, seven Board meetings, seven Supervisory Board meetings and two Audit Committee meetings were held.

A meeting must also be called if a member of the Supervisory Board or at least two members of the Board of Directors, or the auditor, request it in writing, indicating the objectives and reasons for the meeting.

The meetings of the Board of Directors and Supervisory Board are recorded in minutes, and all resolutions are documented.

The employer's rights towards the executive officers of the Company are exercised by the Board of Directors through the chairman and chief executive officer, with the proviso that the Board of Directors must be notified in advance for the appointment or withdrawal of appointment of deputy CEOs.

* Based on the Corporate Governance Recommendations (8 December 2003) published by Budapest Stock Exchange

The Board of Directors has prepared guidelines for the evaluation of the work and the remuneration of the management.
The Bank has launched a share option scheme for the evaluation and encouragement of management performance, based on the performance of annual and medium-term targets. The detailed conditions of the share purchase program and the expectations in terms of performance are approved by the General Meeting of the Company.
The Board of Directors provides information on the annual and medium-term targets and their performance, representing the basis of evaluation, at the annual General Meeting.
The Company has separate committees for the maintenance of the Board of Directors and the Supervisory Board: Audit Committee, Management Committee, Subsidiary Integration and Management Committee. Additionally certain functions and tasks are performed by different permanent committees: Ethics Committee, Asset Liability Committee, Credit and Limit Committee, Product Development, Sales and Pricing Committee, Work Out Committee Information Management Committee.

Audit

There is an independent internal audit organisation at the Company, controlled by the Supervisory Board within the framework stipulated by the Credit Institutions Act.
The independent internal audit group has an annual audit plan, approved by the Supervisory Board. The independent internal audit group prepares regular objective and independent reports on the operation of risk management, internal control mechanisms and corporate governance functions for the Supervisory Board and the management. The Supervisory Board exercises a preliminary right of consent with regard to decisions relating to the establishment and termination of employment and to the determination of the remuneration of the managers and employees of the internal audit organisation.
The General Meeting has the right to elect the business entity auditing the Company and to approve the member of the audit company who will be personally responsible for the audit.
The Board of Directors must notify the General Meeting and Supervisory Board of the Company about any other major assignment given to the auditor. Apart from that, in justified cases, the Board of Directors, the Supervisory Board and other committees of the Company may also use the services of external consultants.

Compliance

In compliance with the Regulations of the European Union and the Hungarian applicable laws, the Company has established an independent organizational unit (Compliance Department) with the scope of exploration and management of compliance risk Corresponding regulatory documents were adopted: as ompliance policy, strategy and working schedule. Objectives of the compliance policy are the determination of the framework of the compliance activities regarding the whole OTP Group, the definition of compliance, objectives, the duties and authority of compliance function. The compliance strategy of OTP Group is also an essential document of compliance policy.
The compliance policy is approved by the Board of Directors. Compliance Department provides a comprehensive annual report about the activities and actualities of compliance and it is approved by the Board of Directors.
The management of the Group is responsible for the implementation of the compliance policy.

Disclosure

The Company discloses its information in strict compliance with the provisions of Act CXX of 2001 on the Capital Market (Capital Market Act) and the applicable BSE regulations. The Company also has an effective internal disclosure policy.
The regulations indicated above assure full, accurate and timely disclosure of all important information that may affect the Company or the price of the Company's securities.
The Company discloses its business and strategic targets for the current year and its medium-term strategic plan at each annual General Meeting.

The Company discloses the proposals prepared for the General Meeting in compliance with the rules applicable to disclosure as posted on the BSE website and with the provisions of the relevant Regulations of the BSE.
The Company discloses information about the professional career of the members of the Board of Directors, Supervisory Board and the management on its website and in its annual report in compliance with the effective legislation.
The proposal for the remuneration of the chairman and members of the Board of Directors and chairman and members of the Supervisory Board (monthly remuneration and option scheme) is also part of the proposals prepared for the General Meeting.
The Company has detailed risk management regulations applicable to all types of risks (liquidity, market and credit risks), which are in compliance with the legal regulations on prudent banking operations. The annual report contains information on the risk management practices of the Company, the applied limits and compliance with them.
The Company has a detailed internal policy for persons that qualify as insiders and potential insiders, which is in full compliance with the limits and prohibitions regulated in detail under the effective provisions of the Capital Market Act.
The Company discloses the transactions of the members of Board of Directors, Supervisory Board and management involving the Company's shares, in compliance with the disclosure regulations, and indicates the holding of these individuals in the Company (number of shares) in its annual report. The Company discloses the loans extended to its executive officers, as well as the enterprises in which it has an equity participation, in its annual report.

Provisions Against Money Laundering

Money laundering means that services of financial institutions is used in order to conceal the true source of funds deriving from criminal activity by the perpetrator, or other individuals.

In order to avoid that OTP Bank Plc. be used for Money Laundering activities, we do everything to establish the true identity of any person/client demanding/applying for any services from the bank, and OTP Bank shall not perform any transaction order given by a client who does not identify him/herself pursuant to the legal regulations.

In accordance with Act No. CXXXVI of 2007 on the prevention and impeding of money laundering and terrorist financing:

- OTP Bank operates an internal control and information system for the purpose of preventing of banking and financial transactions enabling or realising Money Laundering.
- OTP Bank has developed internal rules in pursuance of the Act, the Decree of Ministry of Finance No. 35/2007 (XII. 29.), the recommendation of the Supervisory Authority of Financial Institutions, and all of its employees are under a legal obligation to act in accordance with the provision of these Rules.
- The employees of the Bank are to be performing their client screening and reporting obligations.
- The performance of the reporting obligations shall not be regarded as a violation of bank, securities, insurance and business secrets.
- Omission of the reporting obligation constitutes a crime punishable under the Penal Code.
- OTP Bank cooperates with the authorities to disclose any circumstances relating to Money Laundering.

OTP Bank Plc.'s announcement on its client-identification procedure as set out here is available in every premises of OTP Bank open to clients.

Corporate Social Responsibility

OTP Bank Plc. has functioned as a responsible corporation for decades, paying particular attention to its immediate environment and to the **economic, social** and **environmental** impact of its operations, because – as with everyone – it is in our interests that we operate in a sustainable and harmonious world.

In accordance with our market-leading position, and in view of our size and the consequent depth of our roots in society, we play a significant role in Hungary and the region. We are conscious of our economic responsibility, and we strive to set an example for the benefit of our stakeholders and the broader environment in which we operate.

In 2007, we published our **Corporate Social Responsibility Report** for the first time, summarizing the practical steps we have taken and the results achieved in the service of sustainability. Besides this, we have drawn up our **corporate social responsibility strategy (CSR strategy),** in which we outline the medium and long-term objectives we would like to achieve in the coming 5-10 years with the active participation of our staff. Among our goals, special emphasis is given to the continual development and deepening of CSR-related activities within the Bank, their integration into the operational corporate structure and core profile of the organization, and their extension to the widest possible number of subsidiaries both at home and abroad.

We see – and practice – corporate social responsibility not only in the assistance we provide as part of our carefully elaborated and executed **sponsorship and social support policy,** but also in the transparency of the Bank's operations and activities as a whole, and in the tracking – and continuous analysis and assessment – of the impact of these operations and activities, both directly and as they affect the broader environment. We regard the provision of quality financial services to our customers as an elemental aspect of **ethical business conduct.** Our commitment in this regard, beyond observing transparent, **responsible corporate governance** and ensuring legitimate, transparent and coherent operations, is manifested in our increased sensitivity to issues that affect and preoccupy society at large.

We strive to forge purposeful and long-term cooperative relations with civil organizations, local communities and all our stakeholders.

As before, the focus of the Bank's sponsorship and social support policy is **creating opportunities** and **building communities,** and thus, as far as we are able, we choose to support initiatives that help promote these goals over the long term. The Bank's charitable activities are centred around providing assistance to disadvantaged and sick children, educating young people, and improving the living conditions of those with disabilities, both through domestic and international organizations, and by means of the various foundations set up and operated by the Bank itself.

Another important aspect of our corporate social responsibility is **our responsibility towards our staff.** Various benefits, programs and initiatives aimed at improving both the quality of the workforce and their working conditions serve to ensure that employees stay with us. These include a variety of professional and skills development training programs, voluntary pension and health insurance schemes, and provision of vacation and recreational opportunities. In 2007, we introduced an employee satisfaction survey and launched our new banking career management scheme, which provides members of staff participating in the program with continuous study and development opportunities organized in accordance with their individual career goals.

Part of our **environmentally aware approach** is to recognize the impact of the Bank's operations on the environment and to alleviate the burden they have on the environment. With this in mind, we take care to lessen the environmental burden of our operations and to create an appropriate underlying infrastructure that serves to protect the environment. In 2007, we employed a full-time environmental expert at the Bank, tasked with improving the energy efficiency of our company premises and bank branches. In most buildings power factor correction equipment is already in operation, thereby decreasing the reactive power load, and we are using energy-saving light bulbs. We try wherever possible to use renewable energy sources, with one notable development in this regard being the solar energy panels that we have put into use at our central building on Babér street.

In 2007, through our subsidiary OTP Fund Management Ltd, we introduced a new product that indirectly contributes to the protection of our environment. Our **Climate Change Fund** provides an opportunity to invest in the stocks of companies whose revenues derive in large part from the exploitation of business opportunities arising from global climate change (e.g. environmental management and clean technologies), or from the utilization of alternative resources (e.g. renewable energy, water management, agrochemicals).

Taking into account issues of social and environmental sustainability and the points of view of its various stakeholders, OTP Bank pursues an approach that espouses corporate responsibility. This approach is apparent in our efforts to optimise the impact we have on the environment, in the content of the services we provide to our customers, in our conduct towards our employees, and – in the case of local communities and specific sections of society – in our support for initiatives aimed at ensuring equal opportunities for all.
If you would like to know more, and to gain a comprehensive insight into the operations of OTP Bank, with particular regard to how they impact the Bank's immediate as well as its broader environment, please consult our Corporate Social Responsibility Report, which can be viewed on the Bank's website.

Publisher: OTP Bank Plc.
Responsible editor: Investor Relations
Photo: Hamu és Gyémánt Magazin
Graphic Design: Café Design Ltd.
Production: Artemis Ltd.

Made of recycled paper
OTP Bank – Responsible for our environment