



corporate social responsibility report

2006





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# Contents

1	<b>Figures at a glance</b>
2	<b>1. Key features of the report</b>
5	<b>2. Introduction by the chairman</b>
6	<b>3. Corporate social responsibility</b>
8	<b>4. OTP Bank and the OTP Bank Group</b>
10	<b>5. Our mission and values</b>
12	<b>6. Principles and practices that determine the Bank's operations and activities</b>
15	<b>7. Corporate governance and corporate social responsibility in the Bank's organisational structure</b>
20	<b>8. Our economic performance</b>
20	8.1 Divisions
24	8.2 Key economic indicators
28	<b>9. Our stakeholders and our social performance</b>
28	9.1 Shareholders
30	9.2 Competitors, membership of associations
31	9.3 Customers
35	9.4 Employees
42	9.5 Suppliers
42	9.6 Society, civic relations
44	9.7 Support, sponsorship
48	<b>10. Our environmental performance</b>
52	<b>11. Summary of our objectives</b>
54	<b>12. Glossary</b>
56	<b>13. GRI index</b>

## Figures at a glance

	Unit	2006
Base capital (no change compared to previous year)	million HUF	28 000.001
Total capitalisation	million HUF	2 450 000
Balance sheet total	million HUF	4 506 697
Taxes paid	million HUF	44 142
Balance sheet profit	million HUF	170 188
Shareholders' equity	million HUF	670 254
ROAE	%	28.0
Total number of employees	persons	8257
Ratio of women within total employees	%	78.6
Ratio of women in top management	%	39.4
Training costs	million HUF	487.1
Energy consumption per employee (based on data of central buildings)	kWh	5 117
Water consumption per employee (based on data of central buildings)	m <sup>3</sup>	20
Number of business trips	trips	779

Note: the table contains non-consolidated IFRS data.

# 1. Key features of the report

This is the first time that OTP Bank Plc has prepared a corporate social responsibility<sup>1</sup> report. Our intention is that this report, which describes the Bank's achievements in 2006, should be the start of a process: this is the first strategic step towards ensuring that the principles of good corporate citizenship are asserted more rigorously in relation to all aspects of the activities of OTP Bank Plc and the OTP Bank Group. In parallel with the preparation of this report, we have also been developing a sustainability strategy for the company.

We plan to publish a CSR report every year, at the same time as the Annual Report, in order to inform our stakeholders simultaneously about the Bank's financial performance and about the results achieved in the area of corporate social responsibility, an objective that is in harmony with the relevant EU guidelines.

We determined the content of the report on the basis of the principles and guidelines of the Global Reporting Initiative (GRI): we surveyed the Bank's activities and impact; we identified the key areas relevant to our stakeholders and to the issue of sustainability, as well as the related GRI indicators. We examined both the general and the supplementary (sector-specific) indicators, and prioritised the core indicators when making the selection. During the stakeholder forum<sup>2</sup> that was held during the preparation of the report, we explored the expectations of the stakeholders and incorporated them into the topics to be covered in the report. Our goal is to provide as comprehensive a report on the Bank's performance as possible, and therefore we took into account the principle of importance as well as completeness when selecting the topics. Our primary aim is to

provide an authentic presentation of the Bank's activities; besides the achievements, we also describe the areas that are in need of improvement and the objectives in this regard. The latter are highlighted in green throughout the text. The way each issue has been presented is in line with the requirements stipulated with regard to the indicators; however, we have used a different method of presentation in cases where the requirements proved to be irrelevant for our company or in areas where the information available to us was not sufficient.

In our assessment of the Bank's activities and their impacts, we identified all the company's stakeholders – that is, all the individuals, groups or communities that are affected by its activities in some way. When determining the extent to which these groups were affected by the activities, we took the magnitude of the impact as the basis for our measurement. The Bank engages with its various stakeholders in different ways and at different frequencies.

OTP Bank's key stakeholder groups are the following:

- shareholders, investors;
- competitors;
- customers;
- employees;
- suppliers;
- local and national government;
- local communities in the area where the Bank operates;
- the civil sphere.

By taking into account considerations of social and environmental sustainability and the perspective of our stakeholders, we decided that the focal points of the report should be as follows:

<sup>1</sup>CSR for short.

<sup>2</sup>A meeting held with representatives from the company's key stakeholders.

- an identification and description of the impacts of the Bank's core activity;
- steps taken in implementing CSR into our core activity, and the results achieved;
- activities conducted for and on behalf of our customers;
- our conduct towards our employees;
- the impact we have on local communities through our extended network.

This report describes the activities and achievements of OTP Bank Plc. At the same time however, OTP Bank Plc – as the parent company of the OTP Bank Group – is also responsible for the activities of its subsidiaries, and because some of the subsidiaries operate in non-EU countries, the parent company's responsibility is greater still. Our aim is that, as a part of the integration of the subsidiaries, the principle and practice of good corporate citizenship should be extended to all members of the Bank Group. However, extending the application of corporate social responsibility assumes that the parent company has adequate experience in the matter, and therefore we decided to limit the scope of the report on the achievements of 2006 to the achievements of OTP Bank Plc.

The financial data used in the report consists of the non-consolidated, IFRS data of OTP Bank Plc. In several areas there was no summarised,

comparable data available to us, and in these cases we applied best estimates based on past experience. One of our objectives for the future is to improve data collection. In order to be able to realistically assess and compare the Bank's achievements and to present trends, we have also presented data from 2004 and 2005, in addition to data from 2006. At the start of 2007, significant changes occurred in the Bank's governance structure, in response to the changes that face the Bank. The report focuses on presenting the situation as it existed in 2006, which cannot, however, be regarded as up to date at the time of publication. You will find details of the Bank's currently valid organisational and governance structure on our website.

Our goal in the coming years is to reinforce the Bank's corporate social responsibility and to make the CSR report more comprehensive and detailed, and we would welcome any suggestions in this regard from our stakeholders.

OTP Bank Plc's CSR report was prepared in accordance with application level GRI3 B. We will not have our report assured (certified) this year; however, we intend to have the report for 2007 assured by an independent, external organisation.

## 2. Introduction by the Chairman



DEAR READER,

This is the first report on corporate social responsibility from Hungary's largest credit institution. In accordance with the requirements of transparency, we regularly evaluate the performance of the financial services group, which is today a major player in the region, and disclose information on a regular basis regarding its financial results and business objectives. This report provides a comprehensive yet different picture of OTP Bank's development. It describes how a financial institution – one that has more than 4 million customers in Hungary, a history spanning close to six decades, a dominant market position, and is deeply embedded in society generally – integrates its environmental concerns and social values into its business activities.

We are aware of the responsibility and obligation that arises from the Bank Group's extensive business activities and role in society at large. At the focus of our business strategy is the maximising of shareholder value and the assuring of an operation that is at once transparent and dependable, based on the latest international standards and a customer-centred product and service structure. The values of ethical operation are also manifest in the Bank's overall approach to business relationships and in its dealings with its employees.

As a result of the successful foreign-bank acquisitions made over the past few years, OTP Bank has become a financial services group of regional importance. It provides services to approximately 11 million customers in nine countries through 1,300 branches and various electronic channels. Consequently, local and universal values as well as diverse economic, social, cultural and environmental factors must be taken into account and integrated simultaneously.

We are aware of our responsibility and obligations, and therefore we attribute special importance to building communities and creating opportunities, and we intend to play an active social role in this regard in the coming years. The Bank's foundation promotes the dissemination of entrepreneurial and financial knowledge, helps in the achievement of local community objectives and events with donations and other support, nurtures talent and helps preserve the national culture.

I hope and trust that focusing on issues of social responsibility and good corporate governance, as well as long-term value creation and sustainability, will become an integral part of the operations of an ever-greater number of companies in Hungary.

Dr. Sándor Csányi  
Chairman & CEO



*'What we require is a business ethic that is the theory of practice, one that offers an account of business as a fully human activity in which ethics provides not just an abstract set of principles, but the very framework of business activity.'*

ROBERT C. SOLOMON (philosopher, professor of ethics)

### 3. Corporate social responsibility

The issue of the social and environmental impact of corporations was raised by concerned individuals in the aftermath of industrialisation, while the responsibility of corporations became an issue of key political significance at the start of the 1990s, when the perceived social irresponsibility of corporations gave rise to a series of high-profile scandals.

Perhaps the most precise, and concise, definition of corporate social responsibility (CSR) can be found in the European Council's Green Paper of 2001: 'Corporate social responsibility is a concept whereby companies integrate social and environmental concerns in their business operations and in their interaction with their stakeholders on a voluntary basis.'  
Economic sustainability points beyond the profitability of the organisation and also takes into account the organisation's impact on local, national and global economic organisations; in other words, it asks the question of how the organisation contributes to the sustainability of the economic system at a higher level.

The threefold approach to social responsibility – economic, social and environmental – reflects the components of the concept of sustainability. CSR serves the long-term interests of companies and reduces risks. Risks consist of tangible and intangible dangers as well as their associated costs, e.g. penalties, severance pay, negative brand identity, damage to reputation and social antipathy. Corporate social responsibility is not a supplementary tool of the core activity, but a mode of corporate governance.

Another approach to responsibility (Archie B. Carroll), according to which social responsibility is present in four different areas – namely, the economic, legal, philanthropic and ethical field – offers a deeper understanding of what CSR stands for. Economic responsibility focuses on profitability, securing a strong competitive position and achieving an efficient and effective operation, which can only be accomplished within the constraints of the legal framework and which is represented by legal compliance. Philanthropic responsibility essentially means charitable giving. Ethical responsibility – which carries the greatest weight within CSR – implies the conduct of activities and practices that are expected by members of society even though they are not codified. The various components of responsibility cannot substitute for each other; in other words, a responsible company is expected to fulfil all four aspects of responsibility.

Corporate social responsibility cannot be implemented without taking into account the interests of the company's stakeholders. 'A company's stakeholders are all groups and individuals that may affect or may be affected by the realisation of a company's objectives' (R. Edward Freeman). The four key groups of people concerned are: shareholders, consumers, employees and suppliers, and in a broader sense the government, competitors, and local organisations (civil sphere), as well as the natural environment and future generations.

### Corporate social responsibility for OTP Bank

These days the money markets are key engines of the global economy and affect virtually all areas of life. The monetary system, and consequently the banking sector, plays the role of market intermediary for other sectors and participants in the economy and, in addition, serves a multiplier function. The banking sector has become the principal driving force behind the economy and, as a result of its intermediary role, has rendered fundraising and fund reallocation efficient, as a result of which it has an unquestionably positive impact on the national economy as a whole. At the same time, an important criterion of judging the activities of banks is whether they take into account social and environmental concerns, in addition to financial factors, in their lending practices. OTP Bank Plc, Hungary's largest and best-known credit institution, has considerable impact both on society and on the environment. This impact is the direct and indirect result of the Bank's main activities, arising partly from its physical operations and partly from the



financial services and loans it extends and the projects it finances. Although this far we have not reported on our environmental, social and broader economic achievements, our Bank operates responsibly in several respects. The Bank always makes decisions within the framework of ethical and responsible conduct, in accordance with its fundamental economic objectives and the interests of shareholders. OTP Bank Plc's stable financial

position and growing economic performance ensures that operation is to a large degree dependable, and allows us to take into account and support environmental and social causes on a wider scale.

Based on the company's main activities, we have determined the following as being the key challenges in terms of sustainability for OTP Bank:

- ensuring an accountable and transparent operation,
- ensuring a responsible provision of financial services,
- maintaining the Bank's security,
- retaining a highly-qualified, loyal employee base,
- gaining a deeper understanding of vulnerable social groups and serving their needs,
- supporting local communities,
- minimising its environmental impact, reducing the use of natural resources,
- reducing and mitigating the effects of climate change,
- extending the principles of corporate social responsibility to our subsidiaries.

The Bank's long-term interests, such as maximising shareholder value and satisfying the needs of customers, require us to understand the trends and risks related to sustainability and to elaborate appropriate responses. This report contains the steps taken in the interests of sustainability and responsible operation, as well as our future objectives.

The most important components of social responsibility for OTP Bank are the following:

- reliable business conduct with respect to our customers and business partners,
- maximum satisfaction of investors' and shareholders' interests,
- responsible and safe provision of comprehensive, high-quality services to our customers,
- ensuring appropriate working conditions, personalised career-planning and appropriate incentive packages to our employees as an indispensable precondition for high-quality work,
- minimising the direct and indirect environmental impact of our activities,
- promoting the efforts of local communities and society at large by supporting initiatives and events.

*'Wherever you see a successful business,  
someone once made a courageous decision!'*

PETER FERDINAND DRUCKER (management expert)

## 4. OTP Bank and the OTP Bank Group

OTP Bank's predecessor was the Országos Takarékpénztár (National Savings Society), which was founded in 1949. In the past sixty years or so, the Bank has undergone considerable changes, and due to an

appropriate allocation of accumulated knowledge and an understanding of the market, it has maintained its market leading-role in almost every segment of the Hungarian bank market.

### The international bank group

OTP Group	OTP Banka Slovensko	CJSC OTP Bank***	Investsberbank***
Branches*	86	65	78
Employees	772	~ 121 ezer	~ 880 ezer
Number of customers*	~ 0.2 m	Balance sheet total	EUR 1.3 mrd
Balance sheet total	EUR 1.3 mrd	After-tax profit	EUR 50 mn
After-tax profit	EUR 7.7 mn	Market share	-3.5%
ROAE	10.8%		
Cost/income	68.1%		
Market share	3.0%		

OTP Bank	
Branches	408
Employees	8,169
Number of customers	~ 4.8 m
Balance sheet total	EUR 17.9 mrd
After-tax profit	EUR 644 mn
ROAE	29.8%
Cost/income	43.6%
Market share	18.9%

OTP banka Hrvatska	
Branches	96
Employees	992
Number of customers	~ 0.4 m
Balance sheet total	EUR 1.4 mrd
After-tax profit	EUR 13.1 mn
ROAE	11.4%
Cost/income	62.2%
Market share	3.5%

CKB****	
Branches	33
Employees	~ 150 ezer
Balance sheet total	EUR 543 mn
After-tax profit	EUR 4.0 mn
Market share	44%



OTP banka Srbija**	
Branches	92
Employees	~ 325 ezer
Balance sheet total	EUR 0.5 mrd
After-tax profit	EUR 21.6 mn
Market share	3.0%

DSK Group	
Branches	366
Employees	4,103
Number of customers	~ 4.4 m
Balance sheet total	EUR 3.1 mrd
After-tax profit	EUR 91.7 mn
ROAE	29.0%
Cost/income	38.7%
Market share	14.4%

OTP Banka Romania	
Branches	66
Employees	795
Number of customers	~ 77 ezer
Balance sheet total	EUR 0.8 mrd
After-tax profit	EUR -10.5 mn
ROAE	-
Cost/income	132.3%
Market share	-1.5%

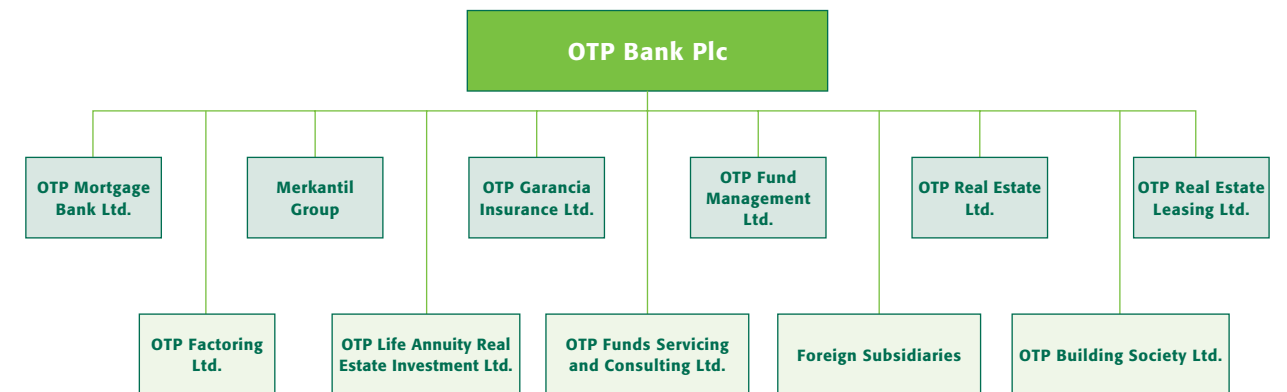
IFRS figures, 31 December 2006  
 \* Only the banks  
 \*\* Aggregated IFRS figures for Niska, Kulska and Zepet banka  
 \*\*\* Total annual profit, partly consolidated  
 \*\*\*\* Will be consolidated from Q1 2007, profit according to local GAAP

Our Bank represents considerable value not only in the domestic market but in the entire region as well. As a result of our conscious acquisition policy, the OTP Bank Group has become the predominant banking group in Central and Eastern Europe. The Bank is today a regional player, with a presence in nine countries, serving more than 11 million customers through more than 1,250 branches and electronic channels. The continued future growth of the Bank along the same dynamic trajectory is all but assured due to its presence in the most rapidly developing markets of the region, while its financial strength is also growing. As an integral

part of its purposefully applied strategy of value creation, the Bank exploits opportunities for growth through acquisition.

In Hungary, OTP Banking portfolio consists of traditional banking services, while products serving more recent financial requirements – such as car financing, investment funds, and insurance – are developed and offered by OTP Bank's subsidiaries.

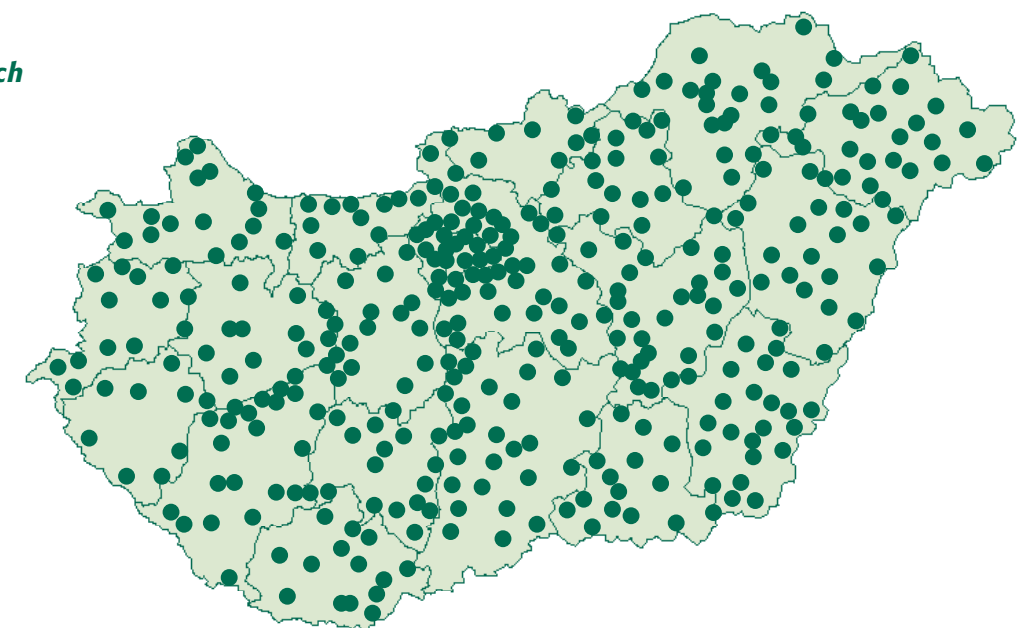
OTP Bank Plc – in addition to acting as a universal bank in Hungary – also fulfils a central management role, directing the group's regional expansion.



OTP Bank Plc performs its activities through a structure that consists of central organisational units and a branch network clustered around 8 regional centres. The branch network, in addition to the regional centres, consists of the totality of the Bank's outlets,

which are of seven different types. OTP Bank boasts the largest network of branches in the Hungarian bank market; at the end of 2006 it had 409 branches, 70-80% of which are wheelchair accessible, in addition to the central office buildings.

### OTP Bank's branch



'The secret of my success is that I believe in myself, I believe in others and I believe in what I do.'

ANDREW CARNEGIE (Scottish industrialist, businessman, philanthropist)

## 5. Our mission and values

### Our activities

OTP Bank is a 'service-providing' financial institution. At the time of its inception the Bank functioned primarily as a retail bank; however, starting from the 1990s its profile expanded, and today the Bank is the leading universal bank in Hungary. The OTP Group offers a large range of financial services with the assistance of its numerous subsidiaries.

### Our mission<sup>3</sup>

Our mission is to provide a full range of high-quality financial services to our retail, corporate and municipal customers. The unified and up-to-date corporate governance practices of the Bank Group allow us to explore existing resources, operate with transparency and prudence, and to implement creative initiatives. The success of our work is clearly evidenced by the continuous growth in shareholder value and profitability, the retention of our market share in Hungary, and the considerable growth in our market share abroad. Our competitive advantage is based on the similarity of development that the neighbouring countries went through, the diverse and complex services we offer and the trust that our customers have in us. We take a responsible role in building communities that deepen human relations, creating opportunities for the disadvantaged, and protecting our environment. We intend to assign a key role to talented and committed employees who are motivated through individually assigned career goals and who are rewarded with competitive remuneration based on their performance.

<sup>3</sup>Version up-to-date at the time of report preparation

### Our vision<sup>3</sup>

Our goal is to become Central and Eastern Europe's favourite universal banking group through continued dynamic growth, effective governance and management, and through good corporate citizenship. The key to our success is the expertise of our employees, our knowledge of local and national markets, and the purposeful nurturing of our already excellent customer relationships.

### Our strategy<sup>3</sup>

The focus of the OTP Bank Group's strategy is the *maximisation of shareholder value*, and the establishment of the most efficient and profitable universal banking group with a *retail focus* in Central and Eastern Europe. The Bank Group's objective is to achieve outstanding results even when compared to the best of the European banks. By further strengthening its capacity for *innovation* the OTP Bank Group endeavours to continuously enhance its value propositions, tailored to the needs of its different customer groups, and to ensure that these reach the customers. In order to achieve our value-creation objectives, it is of key importance that *we rationalise operational processes* at the parent bank and improve the operational and cost effectiveness of certain group members. We can capitalise on the synergies between group members by coordinating development and integrating certain activities.

In order to achieve the objectives of OTP Bank and the Bank Group we need *highly qualified personnel*. Consequently, a key component



of the Bank Group's strategy is to create and maintain an appropriately trained and committed team of managers and to develop personalised career paths in order to retain talented experts.

More information on this issue is available on our website.

### Our values

- reliability
- profitability
- efficiency
- accessibility
- stability
- innovation
- considerable market knowledge
- professional expertise
- continuous renewal
- corporate responsibility
- customer focus
- personal contact

### Our awards

In 2006 OTP Bank received the following national and international industry awards:

- In 2006 Global Finance published a survey of the best banks in developing markets for the 13<sup>th</sup> time. The winners were selected on the basis of several criteria such as balance sheet growth, profitability, customer service,

product innovation, and the application of international corporate governance standards. OTP Bank is among the winners listed for each country and, according to the analysis of the international financial journal, has been the best in Hungary every year since 1998.

- According to the Foreign Exchange survey conducted by Euromoney in 2006, OTP Bank is the 'best local bank trading in Hungarian forint'.
- In Euromoney's country top-lists for 2006, OTP Bank won the title of 'Best Bank.' The ranking was determined on the basis of operating revenues, balance sheet total, and net interest income.
- The MasterCard-sponsored 'Bank of the Year' awards were presented for the first time in Hungary in 2006. Of the seven titles awarded by the professional panel of judges, OTP Bank came top in two categories, winning the title of 'Bank of the Year', regarded as the main prize, and 'Account Managing Bank of the Year'. OTP Bank was also selected as the 'Most Likable Bank of the Year' by public vote. Dr. Sándor Csányi, Chairman and CEO of OTP Bank, was named 'Banker of the Year.'

- The financial magazine The Banker awarded its 'Bank of the Year' title to OTP Bank in 2006.
- The journal Finance New Europe gave the Achievement Award to OTP Bank in 2006.
- The readers of Readers' Digest Magazine selected OTP Bank as the year's 'Most Reliable Brand' in 2006 for the sixth time running.
- The AccountAbility non-profit organisation and the international *csrnetwork* consulting company ranked the social responsibility of the largest companies in the world (Fortune Global 100) according to specific criteria. The evaluation was prepared only on the basis of published material. OTP Bank scored 19% in the Hungarian survey, which is the best result among the five most important banks that were evaluated, and was ranked 11<sup>th</sup> overall among Hungarian companies.



*'Real integrity is doing the right thing,  
knowing that nobody's going to know whether you did it or not.'*

OPRAH WINFREY (American actress and TV personality)

## 6. Principles and practices that determine the Bank's operations and activities

The organisation's values, conduct and operation are regulated by the following documents, which apply to every organisational unit and which were determined in accordance with international standards:

- Code of Ethics
- Organisational and Operational Regulations
- Group Management Regulations
- Collective Bargaining Agreement.

### Code of Ethics

Our activity, the primary purpose of which is to best satisfy our customers' needs and our investors' expectations, is performed in keeping with specific ethical values. The sustained and profitable operation of OTP Bank Plc would be unimaginable without the committed work of trained, creative and ethical employees. In order to promote such work, OTP Bank Plc's Board of Directors and management approved the introduction of unified ethical guidelines and drew up the Bank's Code of Ethics. The Code of Ethics consists of three sections, one of which, the Ethics Statement, contains the fundamental moral expectations and principles that the Bank espouses, and sets out the manner in which an ethics process may be initiated. The Bank reviews all reported ethical misconduct in the framework of a process set out in the Code of Ethics and notifies those concerned of the result of the process. In 2006 there were no ethics processes. OTP Bank Plc has published an Ethics Statement on its

website. The Code of Ethics is available for all employees via the Bank's intranet. Our goal is to give as much publicity as possible to the values undertaken in the Code of Ethics and the Ethics Statement. In order to do so, we offer our employees training, in the course of which they learn the Code of Ethics; we specifically call the attention of suppliers to ensure their compliance with the Code of Ethics, and we make available the Ethics Statement to as many of our customers as possible.

### Human rights, equal opportunity

The primary objective of OTP Bank's human resources strategy is to eliminate discrimination and to offer equal opportunities to everyone. The Bank, both in the course of selecting employees and during the entire career of our employees at the Bank, ensures its employees equal opportunity, regardless of age, gender, ethnicity, religious and political beliefs and sexual orientation. We ensure that there is no discrimination and there is compliance with the obligation to report misconduct internally by offering hotmail and hotline services that usually allow anonymous reporting of incidents. In 2006 there were no cases or procedures in connection with negative discrimination at our Bank (HR4). The Bank – in compliance with the Hungarian statutory regulations and basic ethical norms – does not use forced labour or child labour (HR6, HR7).

### Security policy

The Bank regards security as being of primary importance for retaining its competitive edge and ensuring the smooth conduct and efficiency of its business operations. Consequently, the Bank has drawn up a Security Policy in which the Bank's management has formulated the key expectations, guidelines and opinions related to security, and has introduced a comprehensive security regulation system.

The Bank's management is resolutely committed to maintaining and protecting the Bank's security, and provides all the resources, tools and conditions necessary for this purpose. In this context, the Bank pays particular attention to ensuring the availability of the appropriate human and financial resources, compliance with the regulated environment and the integrity of processes. When providing for and maintaining its security, OTP Bank proceeds in accordance with the relevant government regulations, and takes into account all recommendations and best practices that it believes will contribute to the preservation and enhancement of the credit institution's security level.

The Bank treats security issues in a complex and holistic manner which, in addition to the conventional protection of persons, property and information technology, includes other aspects of security in the broader sense of the



word, such as the management of security risks inherent in commercial and credit institution activities directly related to the Bank's business activities, HR risk management, data and secrets protection, and the protection of business interests. The Bank aims to achieve security by taking risk-proportionate countermeasures; that is measures that are reasonable in light of the sources of the given threat and the security risks involved.

The Bank's overall IT infrastructure represents an extremely valuable asset, since it ensures the continuity and smooth running of the Bank's business operations. For this reason, the Bank places particular emphasis on ensuring the integrity, authenticity, security, availability and functionality of the individual IT systems and their components.

OTP Bank regularly communicates and demonstrates to the public, its employees, and its current and potential customers and partners, that it possesses the capacity and tools needed for minimising risks to the Bank, effectively preventing attacks against the Bank and protecting the credit institution, its employees and customers from potential threats and their consequences.

### Principles related to financial activities

#### *The fight against money laundering and terrorist financing*

To prevent money laundering, the Bank operates various internal controls and proceeds with the utmost care in relation to the matter. The Bank requires from its employees strict compliance with the provisions of the Act on the Prevention and Impeding of Money Laundering.

#### *Chinese Wall regulations*

In full compliance with the relevant statutory regulations, OTP Bank separates investment services from financial services activities, in order to prevent the accruing of any advantage to persons who possess information in these two



main financial areas compared to those who only have public information available to them.

### **No insider trading**

Certain units and employees of credit institutions possess insider information by virtue of their position. OTP Bank regulates such issues in accordance with the statutory regulations, to prevent such units and employees from utilising the information available to them.

### **Conflicts of interest**

A conflict of interest is any relationship or activity that is not in harmony with the obligations of employees, and which prevents the Bank from enforcing its interests. Certain employees, especially those within management, cannot participate in certain banking and business decisions because this would represent a conflict of interest with regard to the Bank's activities and would therefore pose a risk. The Bank's employees must declare that they have familiarised themselves with the rules related to conflicts of interest.

### **Lending principles and rules**

There are two approaches to the issue of responsible lending. On the one hand, when lending its funds, the credit institution should proceed with care in order to ensure that the money can be repaid, at any time, upon the request of the customer who placed the funds with it. Our Bank, similarly to other banks, places particular emphasis on this issue, and our liquidity position is constantly being monitored and analysed with this in mind. From a sustainability perspective, responsible lending means behaving responsibly not only in relation to the person who provides the funds, but also with regard to the debtor. It is important that the Bank should monitor its customer's indebtedness after a product has been sold, because if it is too great, this may jeopardise the customer's livelihood. Besides monitoring the financial situation of its borrowers, OTP Bank Plc provides advice or preferential loan conditions that are prepared specifically for such cases of this kind, in order to help find a solution to critical problems.

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'A loan that is given and taken out irresponsibly will fail and take the business, its employees, their families and their livelihood with it. People who lose their livelihood and home become a social problem. Therefore, lending responsibly is a social responsibility. And this responsibility goes beyond lending. For me the basis of responsible lending is making sure as a lender, during the entire term of the relationship with the customer, that the customer's obligations can be met, and monitoring any changes that have an impact on his ability to repay the loan.'

(Dr. Péter Schiffer, Deputy Director of the Hungarian Financial Supervisory Authority: The Social Responsibility of Service Providers.)

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### **Investment principles**

Investment is a legally well regulated area of the Bank's operation. The main purpose of regulation is to ensure transparency, and the responsible and prudent management of investments, and objective that is in harmony with the basic interests of shareholders. The framework for making investment decisions and managing investments is provided by the professional apparatus created for such purposes within the Bank, and is elaborated by the individual divisions in accordance with the relevant statutory regulations.

### **Risk management**

In addition to risk management guidelines, as a credit institution our company possesses detailed risk management regulations that cover all risks, and are based on statutory provisions that serve to regulate banking operations in the interests of prudence. The Hungarian Financial Supervisory Authority examines the suitability of the regulations, and ensures that the Bank's operation is compliant with these regulations.

*'There is no freedom to make decisions without responsibility.'*

JEAN-PAUL SATRE (French philosopher and writer)

## 7. Corporate governance and corporate social responsibility in the Bank's organisational structure

OTP Bank's governing bodies were established in accordance with Act CXII of 1996 on Credit Institutions and Financial Enterprises (Credit Institutions Act).

### **General Meeting**

The General Meeting is the Bank's supreme governing body, and consists of its shareholders.

### **Board of Directors**

The Board of Directors is the company's executive body. The Chairman of the Board of Directors is Dr. Sándor Csányi, Chairman & CEO. In 2006 the Board of Directors had 11 members. At the beginning of 2006 the Board

of Directors had 3 independent members (a ratio of 27%), and since 28 April 2006 the Board of Directors has had 4 independent members (a ratio of 36%). The independent members of the Board of Directors are those who are not employed by OTP Bank Plc.

The Bank's regular Annual General Meeting of shareholders held on 26 April 2006 elected the members of the Board of Directors for a term ending in 2011. Employer's rights in respect of the Company's executives are exercised by the Chairman & CEO on behalf of the Board of Directors; the Board of Directors must be informed in advance of the appointment and the dismissal of deputy CEOs. The Board of Directors sets the guidelines for the appraisal and remuneration of management's performance. In order to create incentives to enhance the performance of management, the Bank's General Meeting approved a share option scheme, which is based on the fulfilment of annual and mid-term objectives. The objectives are determined on the basis of business and financial targets. The detailed conditions of the share option scheme and the expectations with regard to performance are also approved by the General Meeting. The Board of Directors provides information about the objectives and their attainment at the regular Annual General Meeting.



## OTP BANK'S SENIOR MANAGEMENT AND THE EXECUTIVE MEMBERS OF THE BOARD OF DIRECTORS

### **Dr. Sándor Csányi (54)**

*Chairman & CEO*

### **Dr. Zoltán Spéder (43)**

*Vice Chairman, Deputy CEO  
Strategic and Financial Division<sup>1</sup>*

### **István Gresa (54)**

*Deputy CEO  
Credit Approval  
and Risk Management Division  
(from 1 March 2006)*

### **Csaba Lantos (45)**

*Deputy CEO,  
member of the Board of Directors  
Retail Division*

### **Géza Lenk (60)**

*Deputy CEO, member of the Board of Directors  
(until 28 April 2006)*

### **Gyula Pap (49)**

*Deputy CEO, IT and Logistics Division  
(until 1 October 2006)*

### **Dr. Antal Pongrácz (61)**

*Administrative Deputy CEO,  
member of the Board of Directors  
Staff Division*

### **Ákos Takáts (47)**

*Deputy CEO, IT and Logistics Division  
(from 1 October 2006)*

### **László Wolf (47)**

*Deputy CEO  
Commercial Banking Division*

## EXTERNAL MEMBERS OF THE BOARD OF DIRECTORS

### **Mihály Baumstark (58)**

*Chairman & CEO  
Csányi Pincészet Ltd.*

### **Dr. Tibor Bíró (55)**

*Head of Department  
Budapest College of Business*

### **Péter Braun (71)**

*electrical engineer  
ex-Deputy CEO of OTP Bank Plc*

### **Dr. István Kocsis (55)**

*CEO  
Magyar Villamos Művek Ltd.*

### **Dr. Sándor Pintér (59)**

*Chairman & CEO  
CIVIL Security Service Ltd.*

### **Dr. László Utassy (55)**

*Chairman & CEO  
OTP Garancia Insurance Ltd.*

### **Dr. József Vörös (56)**

*General Deputy Rector  
Pécs University*

<sup>1</sup>The positions indicated above are held until 8 January 2007.  
From 15 January 2007 Dr. László Urbán (48) Deputy CEO will be the head of the Strategic and Financial Division.

## SUPERVISORY BOARD

The Supervisory Board oversees the Bank's management and operation. At the start of 2006 the ratio of independent members in the Supervisory Board (4) within the total number of members (6) was 67%. Starting from 28 April 2006, the ratio of independent (non-executive) members (3) within the total number of Supervisory Board members (5) was 60%. The mandate of the Supervisory Board members will expire in 2008.

In order to avoid conflicts of interest, the General Meeting may not elect members of the Board of Directors or their close relatives to serve on the Supervisory Board. The rules for appointing and recalling the employee-nominated members of the Supervisory Board are determined by the Workers' Council that operates at the Company, and the Company does not consider these members to be independent.

## MEMBERS OF THE SUPERVISORY BOARD

### **Tibor Tolnay (56)**

*Chairman of the Supervisory Board, Chairman & CEO of Magyar Építők Ltd.*

### **Dr. Gábor Nagy (70)**

*Vice Chairman of the Supervisory Board,  
Head of Codification Group at the Ministry  
of Finance, Accounting Division*

### **Dr. Gábor Horváth (51)**

*lawyer*

### **Antal Kovács (54)**

*Managing Director  
OTP Bank Plc, South-Transdanubian Region*

### **Klára Vécsei (55)**

*Deputy Managing Director  
OTP Bank Plc, Northern Hungary Region*

More information is available on our website about the members of the Board of Directors and the Supervisory Board.

### Committees

The committees are the Bank's decision preparation, decision making and negotiating forums. The chairpersons and members of the permanent committees are appointed by the Bank's Chairman & CEO.

In 2006 OTP Bank had 8 permanent committees:

1. Management Committee
2. Asset Liability Committee
3. Credit Limit Committee
4. Work-out Committee
5. IT Control Committee
6. Investment Committee
7. Ethics Committee – has a special function and legal status relative to the other committees, and takes positions on special issues
8. Sales and Marketing Committee

In 2006 OTP Bank had a strongly centralised decision-making structure. In addition to strategic decisions, the competence of the Chairman & CEO also included operative tasks. Due to the scope of his duties, the CEO has an important role to play in implementing the Bank's objectives related to responsible operation.

In addition to its own operation, OTP Bank is also responsible for ensuring the prudent operation of the companies under its control and for their compliance with risk exposure and capital adequacy requirements. The companies within the OTP Bank Group are controlled and supervised by way of owner and professional control and by the external supervisory authorities.

### Planned changes

As a result of the large-scale acquisitions that were completed in 2006, the Bank has recently arrived at a new juncture in its development, becoming a multinational bank. In order to fully capitalise on the Bank's growth potential, the management decided to implement significant organisational changes in the Bank's governance structure. The key direction and objective of the organisational change that took effect

on 1 January 2007 was to shift the focus of the Chairman & CEO's tasks to strategic decisions and decisions of key importance that concern the entire group, as well as to promote decentralisation.

### Governance model

OTP Bank Plc's structure is characterised by a two-tiered governance model, which helps ensure that the Bank can perform its central governance role within the Bank Group as effectively as possible. The essence of the model is that it separates the elements of business and functional governance, and thus the areas under the Bank's control are able to focus more fully on their primary activities and to fully benefit from the synergies inherent within the group. Each central organisational unit focuses on one business profile, and therefore each area has its own core activity, while the Staff Division fulfils the duties of the owner. The Bank operates the branch network through 8 regional centres, whose managers report to the heads of the central departments.

### Organisational units that are most involved in the implementation of corporate responsibility issues (CSR2)

Each organisational unit has a role to play in implementing corporate responsibility at OTP Bank Plc in order to ensure that sustainability is achieved primarily, in respect of the company's core activity. The following is a list of the organisational units that have the most direct impact on social responsibility.

In addition to the Bank's governing bodies, the role of the organisational units that participate in the formulation of the Bank's strategy is of key importance, especially that of the **Business Policy and Economics Directorate**.

The task of the **Independent Compliance Division** is to monitor the legal environment of the Bank's operation and to help the Bank adapt to it. Our objective is to ensure that the compliance function operates in a way that

provides effective support for responsible corporate governance, and to ensure the continued independence of the organisational unit.

**Organisational units that participate in developing banking products and services or that come into direct contact with customers when products and services are being sold** are of key concern.

The **Human Resource Management Directorate** is mainly responsible for promoting responsible attitudes and conduct among and towards employees. Because responsibility towards employees is one of the key focal points of the Bank's CSR efforts, the role and activities of the HR Directorate are of fundamental importance.

The **Bank Security Directorate**, an independent organisational unit at the Bank, is responsible for the performance of bank security tasks.

The **Supply and Investment Directorate** and the **IT Operations Directorate** are

responsible for mitigating environmental impacts arising from the Bank's physical operation. The key task of the Supply and Investment Directorate is to provide the physical conditions that are necessary for the Bank's operation, to manage the various facilities, to ensure the continuous supply of materials and resources, to purchase equipment and to manage waste. Since June 2006 the Directorate has employed a full-time energy specialist, who is responsible for optimising the energy supply of the Bank's facilities. *In 2007 we decided to hire a full-time environmental specialist, who will handle environmental issues related to operation and minimise the environmental impact of the company's operation.* The company's IT equipment is procured by the IT Logistics Directorate, and is operated by the IT Operations Directorate.

The **Marketing and Sales Directorate** is involved in implementing social responsibility in several respects. The tasks of the Directorate include managing the sponsorship and support provided by OTP Bank and coordinating the Bank's CSR activities.



'Work on the world as you work on yourself. Complete whatever is only perfect. Your acts must survive your death, otherwise it is not worth being born into this world.'

IMRE HORVÁTH (Csángó Hungarian poet, humanist)

## 8. Our economic performance<sup>4</sup>

### 8.1 Divisions

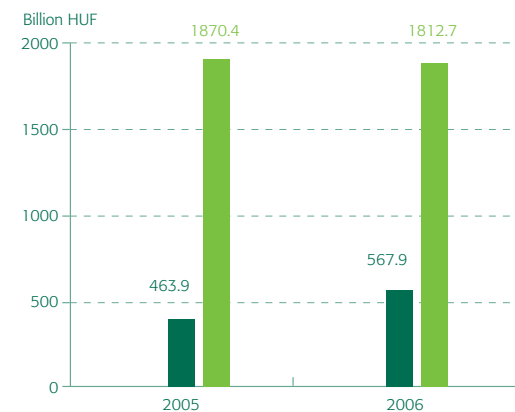
At the time of its establishment OTP Bank operated mainly as a retail bank, but from the 1990s the scope of its operations was broadened. Today the company is the leading universal bank in the Hungarian market, with a product range that includes not only lending and savings products, but also insurance, financial consulting, complex financial instruments, etc. The following descriptions of the Bank's business divisions include a presentation of the deposit and lending portfolios, since these are the performance indicators that best characterise the Bank's core activity.

#### Retail division

OTP Bank continues to retain its leading position in the retail segment and remains the biggest player in the retail banking market in terms of savings products, with a market share in excess of 30%. Relative to 2005<sup>5</sup> there was a 3.1 percentage-point drop in its deposit portfolio. On the other hand, the Bank's credit portfolio rose by 22.4% in 2006. The wide range of retail products and services is accessible to close to 4.6 million customers.

#### Retail loan and deposit portfolio

- Retail loans
- Retail deposits



Product and service lines offered to our retail customers:

- account management
- electronic banking
- bankcard services
- savings products

- investment funds, securities
- pension and health fund services
- life and non-life insurance services
- retail lending
- consumer loans

<sup>4</sup>More information on our business performance can be found in the Annual Report, which is available for download on our website.

<sup>5</sup>This report does not cover longer periods of time, since it is difficult to compare data from the previous years due to changes in accounting standards.

OTP Bank devotes considerable resources to constantly developing and enhancing its electronic banking channels, in order to ensure convenience and security for its customers. Our customers are making use of the available e-banking opportunities in ever growing numbers.

The Bank offers preferential services and products to special groups of customers to facilitate their access to banking services:

Services offered to *lower-income groups*:

- In the case of loans combined with home-purchase savings funds, reduced initial repayment instalments
- Current account overdraft facilities on retail accounts for those with a minimum net monthly income of as low as HUF 30,000

Services offered to *young people*:

- 'Start' deposit account for children born after January 1, 2006
- Products for people under public guardianship
- Discounted 'Junior' account package, which offers a sophisticated financial service for customers under 26 years of age
- Participation in the provision of student loans
- Discounts for customers applying for 'Fészekrakó' (Nest Building) subsidised home loans
- Discounted products offered to university and college students for the purchase of computer equipment

Products offered to *other special groups*:

- Home loans for civil servants and public-sector employees
- Opportunity to apply for home loan-related government subsidies and subsidised loans through the Bank
- Opportunity to take out repayment insurance for mortgage-backed loans
- Brokerage of Personal Retirement Savings Account (PRSA) facilities. OTP Bank undertook a key role in the development and introduction of the professional guidelines for PRSAs. Promoting an awareness of the available means of financial self care, and making them available to our customers, is a social responsibility that OTP Bank, as Hungary's leading retail financial institution, takes very seriously. (RB1).

#### Private Banking division

The Private Banking division offers customers in the 'preferred' retail segment a service model and product range that conforms to global standards, with access to local and international investment opportunities, and the assistance of a personal banking advisor. The professional framework and process for providing investment advice is strictly regulated, and is founded on the premise that customers should be properly informed at all times. Owing to the attractiveness of the services offered, the division is growing dynamically, and at the end of 2006 it had a total of 12,405 clients at some fifty locations around the country, for whom it managed some HUF 391 billion in assets, having generated consistent double-digit growth over the past 4 years.

#### Commercial Banking division

The Commercial Banking division offers, primarily to domestic enterprises, a variety of products and services adapted to meet the special requirements of this customer group. The corporate loan portfolio shows considerable growth relative to 2005, with an increase of 11.3%. The volume of business deposits also rose dynamically in 2006, displaying a 49.6% rise in comparison to the previous year. For *micro and small enterprises* (192,000 customers) our Bank provides financial advice to assist them in the launching of their businesses, as well as a range of favourably-priced loans and account packages. In 2006, the Bank continued upgrading and developing its processes and its material resources for serving micro and small enterprises, and a number of products were introduced with the specific aim of fulfilling the requirements of this segment even faster, more conveniently and securely than before. In economically disadvantaged regions, OTP Bank treats the promotion and placement of agricultural and rural-development loan products as a priority, with particular respect to the support of environmental protection projects. We provide support in relation to the government-sponsored program aimed at modernising livestock farms, and have undertaken an active role in the frost-damage loan campaign.

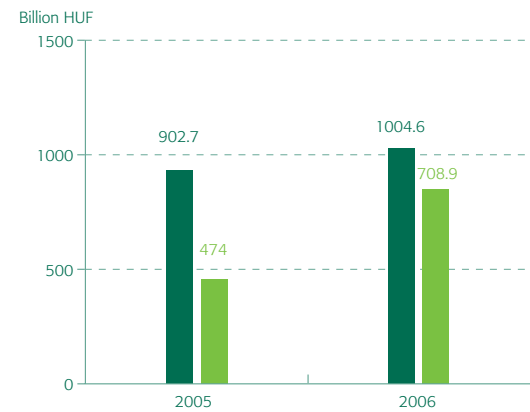


For *medium-sized and large corporations* (approximately 18,000 customers), we provide unlimited access to the financial instruments necessary for financing their operations. To help

these businesses grow, OTP Bank has introduced a range of lending products that are ideal for facilitating business development, and are also well-suited to the needs of agricultural enterprises.

### Corporate loan and deposit portfolio

- Corporate loans
- Corporate deposits



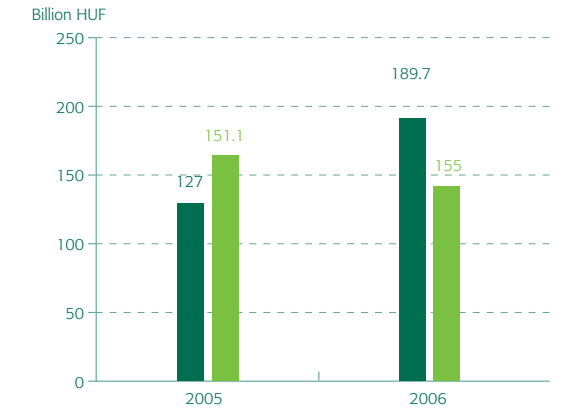
### Municipality services

Local authorities have access to a range of products specifically developed to meet the particular requirements of municipalities (account packages, borrowing and savings products, subsidised loans, EU assistance products). With more than a 60% share in the municipal investment funding market, OTP Bank is the most important financial partner of the municipalities. Both in terms of the municipal loan portfolio and municipal deposit volumes, a considerable growth was achieved in 2006 compared to the previous year. The Bank also places particular emphasis on the financing of capital projects that have been afforded priority under government and/or international development programs. In the fields of infrastructure development, education, training, healthcare, environmental protection, and regional development, the ultimate purpose of the Bank's lending activities is to narrow the divide between Hungary and the more developed countries of Europe, thereby contributing to building a more successful society. The ISO 9001:2000 quality assurance system in place at the Municipality division ensures the Bank's ability to participate cost-effectively and efficiently in public procurement tenders.

The Bank undertakes an active role in the financing of EU and government-funded *community development projects*, which are primarily aimed at improving infrastructure. An important prerequisite for economic growth is construction of the country's *public mains water supply network*. The Bank is promoting the successful implementation of the investment projects by offering appropriate bank-loan products at every necessary stage of the financing process. OTP Bank is a participant in the *partially EU-funded EIB credit program*, which focuses on infrastructure investments in the areas of environmental protection, transportation, healthcare and education, with particular emphasis on cross-border cooperation. The loans provided to borrowers by OTP Bank receive a capital subsidy from the European Commission, and are refinanced by the EIB. The Bank is also participating in the *'For a Successful Hungary'* infrastructure-development lending program launched by the Hungarian Development Bank. The objective of the scheme is to finance municipal projects related to environmental protection, public education, culture and sport. An especially noteworthy energy-saving development project for 2006 is the *'Light of our Life'* school lighting and heating modernisation program. The Bank is helping to provide financing support for the program.

### Municipality loan and deposit portfolio

- Municipality loans
- Municipality deposits



### Key data related to community investment financing in 2006 (EC8):

	Number of disbursements	Volume (HUF million)
Water supply development loans for municipal associations	6,159	21,607
Water supply development for municipalities		10,741
EU-subsidised EIB loan	13	77
EU-subsidised EIB water supply development loan for municipal associations	528	612
MFB loans for municipal bodies	28,552	38,423
'Light of our Life' program	571	4,347

### OTP Bank's market share in the various market segments

	Market share (31.12.2006)	Change (Y-Y)		Market share (31.12.2006)	Change (Y-Y)
<b>Balance sheet total</b>	24.7%	▲ (+0.6%p)	<b>Total deposits</b>	23.7%	▼ (-3.2%p)
<b>Total loans</b>	20.6%	▼ (-0.8%p)	<b>Retail deposits</b>	32.4%	▼ (-2.3%p)
<b>Housing loans</b>	41.7%	▼ (-4.7%p)	<b>Corporate deposits</b>	9.9%	▼ (-1.5%p)
<b>FCY-based housing loans</b>	22.9%	▲ (+0.4%p)	<b>Municipality deposits</b>	64.2%	▲ (+0.8%p)
<b>Consumer loans</b>	24.9%	▲ (+0.5%p)	<b>Investment funds</b>	27.6%	▼ (-10.7%p)
<b>Corporate loans</b>	11%	▼ (-0.7%p)	<b>Insurance premium revenues (cumulated)</b>	9.7%	▼ (-1.3%p)
<b>Municipality loans</b>	55.1%	▲ (+2.4%p)			

Source: OTP Bank press release, 14 Feb. 2007

The Bank suffered losses of market share in several segments in 2006. However, it remains capable of leveraging its economies of scale and professional sales network,

and can effectively serve the interests of its stakeholders in spite of the decline in market share.

## 8.2. Key economic indicators

### Balance sheet and profit

OTP Bank's IFRS non-consolidated balance sheet total and equity both rose considerably in comparison to the previous year, reflecting

the Bank's growing economic strength.

OTP Bank achieved the highest profits in the Hungarian banking sector.

### Non-consolidated balance sheet of OTP Bank

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

### Non-consolidated income statement of OTP Bank

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

GRI expects reporting organisations to present their business results differently than is required by the accounting regulations, highlighting aggregate taxes and the extent

of subsidiaries. The difference between the balance sheet results and the EC1 table arises from the different calculation methods used.

### Table EC1 (based on non-consolidated, IFRS income statement)

31 Dec. 2006  
(HUF million)

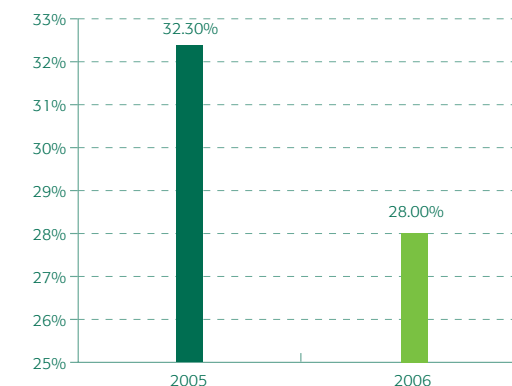
GRI	Income statement	
<b>I. Direct economic value generated</b>	<b>1</b>	<b>331,917</b>
1. Net income from sales	Interest income + non-interest income	527,168
<b>II. Distributed economic value</b>	<b>= 2+3+4+5</b>	<b>368,865</b>
2. Operating costs + payments to capital investments	Interest expenses + provisioning + non-interest expenses – personnel expenses	274,277
3. Employees' wages and benefits	Personnel expenses before taxes	49,805
4. Taxes paid	Tax payment liability	44,142
5. Community investments	Sponsorship and charitable giving	641
<b>III. Retained earnings</b>	<b>=1-(2+3+4+5)</b>	<b>158,303</b>

### Return on average equity (ROAE)

Return on average equity shows the profit generated by the company per one unit of equity. In essence, it is an indicator

of the return on an investment in the company. This ratio fell in 2006 due to corporate acquisitions. However, the 28% figure for the year still represents a high return on investment, and can be regarded as excellent even by international standards.

### ROAE



## Cost-to-income ratio

The cost-to-income ratio rose in comparison to 2005, though if taken out of context the figure could be misleading. The deterioration in the

ratio is the result of the acquisitions made in 2006, and the rise in costs has been accompanied by a steady growth in revenues. A key objective for the coming years is to achieve a continuous improvement in cost-efficiency.

## Cost/income ratio



## Litigation and other proceedings

In 2006, both the number of legal proceedings underway against the Bank, and the book value of the claims, rose considerably relative to the

previous years, which was partly attributable to the large number of protracted proceedings that had been initiated in earlier periods. Our aim for 2007 is to close as many of these cases as possible successfully; that is, in a legally binding manner, through the rejection of the claims.

## Court proceedings initiated against the Bank

	2004. 12. 31.	2005. 12. 31.	2006. 12. 31.
Number of procedures underway	75	72	146
Book value of ongoing claims (claim value) (HUF)	1,998,039,317	3,217,755,856	5,353,175,880

Several competition-authority proceedings were launched against the Bank between 2004 and 2006, due to alleged infringements of competition law.

In two proceedings due to the alleged misleading of consumers, the Competition Council penalised the Bank, imposing the following fines:

- a HUF 10 million fine for the Bank's personal loan advertisement,
- a HUF 100 million fine for the provision of misleading information regarding the

interest payable on credit cards. Both these fines have been paid. (However, a court review of the ruling, requested by the Bank, is still ongoing.)

Two proceedings were also launched against OTP Bank due to alleged abuse of market power, which were not closed in 2006.

The claims concerned the following:

- the raising of the final repayment fee for personal loans, and
- the raising of the final repayment fee for home loans, and the abolition of the cap on administration charges (SO7, PR9).

## Tax liability

Tax liability of OTP Bank (non-consolidated, IFRS data)	31 Dec. 2005 HUF million	31 Dec. 2006 HUF million	Change	
			HUF million	%
Taxes, less corporate tax	23,068	26,844	3,776	16.4%
Corporate tax	22,954	17,298	-5,656	-24.6%
<b>Total</b>	<b>46,022</b>	<b>44,142</b>	<b>-1,880</b>	<b>-4.1%</b>

Note: as a result of the acquisitions, in 2006 there was an opportunity for OTP Bank to accrue its tax liabilities and to pay the tax later, and therefore the amount of its tax liability fell relative to 2005.

The payment of taxes in compliance with the effective regulations is a key element of good corporate citizenship. Our company's tax payments – due their considerable size – make a significant contribution to the achievement of social objectives. To give some

idea of the scale of OTP Bank Plc's tax contributions, these are approximately equal to the annual budget of the city of Debrecen, Hungary's second largest agglomeration. The Bank's tax liability, and accordingly, the amount of tax paid, fell in 2006 as the result of the corporate acquisitions that were made.

## Socially Responsible Investment – SRI

'The financial sector is a critical channel through which price signals, regulation and civil society pressure can direct financial capital to more or less sustainable economic activity.'

Financing the Future, The London Principles

When implementing *socially responsible investment (SRI)*, investment managers invest investors' funds – in order to achieve the highest possible yield – in a way that avoids the risks typically caused by irresponsible companies. SRI funds (socially responsible investment funds) are similar to classic open-end share funds. However, when selecting the companies to invest in, CSR principles and criteria are also taken into account as well as financial information. There are two basic approaches that can be followed when setting up an SRI fund. Under one method, stocks are selected according to pre-set minimum criteria, with only companies that exceed these minimum criteria being included in the fund. The problem with this approach is the fact that it greatly limits the number of potential companies and excludes certain industries. The other approach is more permissive; it does not rule out any industries outright, but rather, invests in the most socially responsible companies within each particular industry. In the financial sector, SRI is an important tool for implementing corporate social responsibility, and this fact warrants a brief description of OTP Fund Management Ltd's plans to set up an SRI fund.

OTP Fund Management Ltd, a member of the OTP Bank group, launched its project to set up an SRI fund in 2003. Although the creation of the SRI fund was preceded by a lengthy – almost three-year – period of preparation, the project still ran into certain insurmountable problems. Owing to the lack of a suitable partner and low demand even at European level, OTP Fund Management shelved the project at the end of 2006. However, as a result of the experience gained during the project, OTP Fund Management, with the assistance of an external consultant, has drafted a socially responsible investment (SRI) strategy, containing a set of principles to be observed when selecting its targets for investment. Experience from the SRI project has also furthered plans to set up a Climate Change Fund, for which – according to preliminary market research – there appears to be considerable demand, partly because its profitability could be higher than that of SRI funds. OTP Fund Management plans to set up the fund independently – without the involvement of an international partner – in the course of 2007.

'Keep thy shop, and thy shop will keep thee.  
Light gains make heavy purses.'

GEORGE CHAPMAN (English playwright, poet)

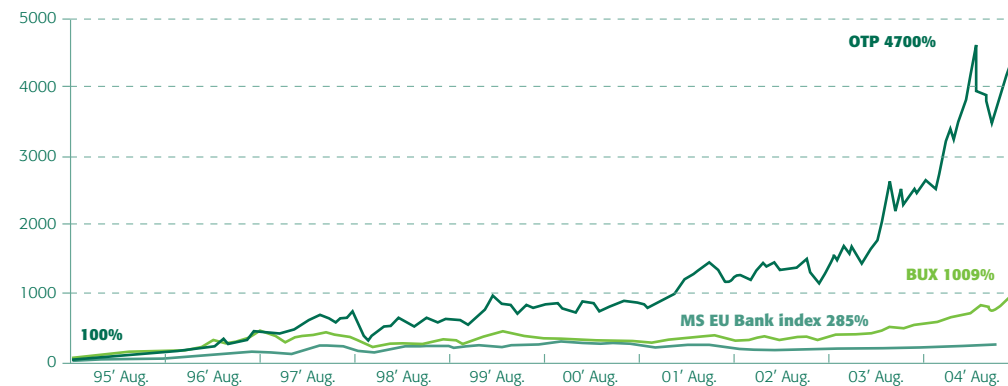
## 9. Our stakeholders and our social performance

### 9.1 Shareholders

#### Value-creation strategy

The main objective of OTP Bank Plc's strategy is to maximise shareholder value.

#### Changes in the price of OTP Bank shares

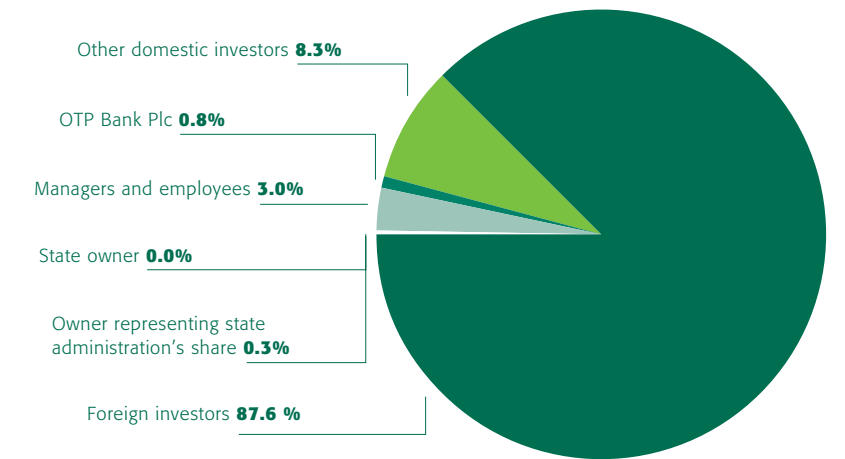


The price of OTP Bank shares began to rise sharply from 1995, at a higher rate than the shares of most Eastern and Western European banks. The price of OTP Bank shares has also pushed up the BUX, the index of the Budapest Stock Exchange, and has significantly outperformed the EU Bank Index. Between 1995 and 2004, the price of OTP Bank shares displayed a 64-fold increase in forint terms, and a 47-fold rise in euro terms, owing to the Bank's excellent performance and the sustained confidence of foreign investors. In 2006, the Bank's share price continued to increase dynamically, reaching an all-time high despite a portfolio restructuring by both foreign and Hungarian investors due to the unfavourable

macroeconomic environment. The Bank's share price rose 25.6% in 2006, from HUF 6,697 at the end of December 2005 to HUF 8,750 by the end of 2006.

The Bank's market value rose to HUF 2,450 billion by the end of 2006, which corresponds to 3.1 times the Bank's book value, and as a result, OTP Bank's stock has become a popular investment instrument among foreign investors. Forbes magazine has classified the credit institution's shares among the world's top 400 investments, and EQNEWS declared them the safest investment on the Hungarian market based on a survey of the period since OTP shares were first listed in 1995.

#### Ownership structure based on shareholding 31 Dec. 2006



#### Shareholders with a stake of more than 5%

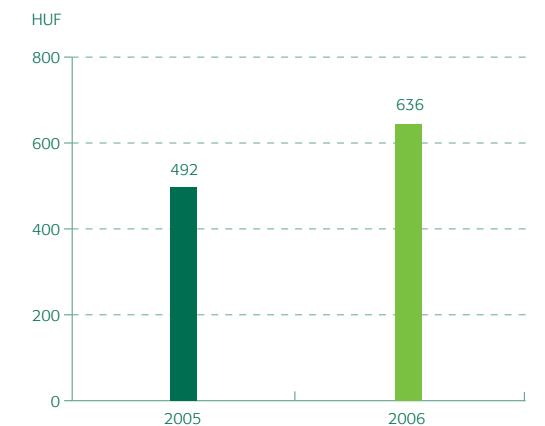
Shareholder	Stake	Percentage of votes
Bank of New York	24.4%	22.6%
Julius Baer	5.6%	5.2%
Megdet, Timur and Ruslan Rahimkulov	5.0%	8.1%

#### Changes in EPS

EPS is the most commonly used indicator for assessing a company's stock and shows the amount of after-tax profit earned by the company per share in a given year.

As an indicator used to assess changes in the share price, EPS also reflects the company's future growth potential. OTP Bank's earnings per share increased significantly in 2006, which is an indication of the success of its acquisition policy.

#### Base EPS



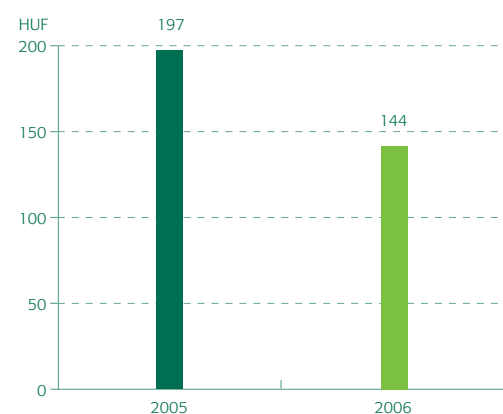


## Size of dividend

### Dividend payment

OTP Bank has set itself the target of ensuring that the amount of dividend paid should reflect the economic strength of the Bank.

The level of dividend payment fell in 2006, a fact that can be partially attributed to the Bank's corporate acquisitions, since these led to a considerable increase in the issue of convertible bonds.



### Investor relations

In order to map investor interests and ensure maximum compliance with shareholder expectations, OTP Bank places special emphasis on the nurturing of investor relations. Although shareholders' expectations and their assessment of the Bank are essentially determined by business criteria, some investors and market participants have expressed a demand for socially responsible operation and investments. Investor relations are maintained through participation in conferences held by investment

banks, and investment forums organised for the Bank. In 2006, OTP Bank held talks with a total of 320 investors at 158 meetings, which represents a significant – respectively, 14 and 47% – increase compared to the previous year. In 2007, we plan to hold an 'Investors' Day' in order to broaden the platform for engaging in quality communication with investors. We intend this to become a regular event. Maintaining close relationships and partnerships with analysts is essential in the interests of maximising shareholder value.

*'It is easy to blame, but hard to appreciate.'*

LUC DE CLAPIERS VAUVENARGUES (French philosopher)

## 9.2 Competitors, membership of associations

The success of OTP Bank's business operations, and the achievement of its market objectives, presupposes a knowledge and analysis of competitors' activities, a pro-active approach and an ability to respond effectively to the actions of competing market operators. The Bank primarily uses indirect means to obtain information regarding its competitors' operations.

Maintaining direct relations with participants in the banking sector is necessary in order

to protect and assert shared interests, for lobbying purposes, and for liaising with the supervisory authorities (e.g. the Hungarian Financial Supervisory Authority). Interest representation associations are forums for structured communication.

In order to effectively maintain its market presence and to assert its interests, OTP Bank joins industry associations that complement its objectives and interests, and share its values. Membership, for the Bank, involves playing an active role in the operation of these organisations.

### The Bank's most important memberships in associations:

Academic Club Association  
 American Chamber of Commerce in Hungary  
 Association of Investment Service Providers  
 Budapest Chamber of Commerce and Industry  
 Regional Chambers of Commerce and Industry  
 Commercial Crime Services  
 ESG/WSBI  
 European Mortgage Fund  
 Europay  
 European Monetary Fund  
 European Payments Council  
 Institute International D'etudes Bancaires  
 Institute of International Finance  
 International Chamber of Commerce, Hungarian National Committee  
 Intelligent Card Forum Association  
 National Association of Housing Cooperatives and Condominiums  
 Hungarian Banking Association  
 Hungarian Forex Society  
 Hungarian Association of Senior Information Technology Experts  
 Hungarian Law Society  
 Hungarian Marketing Association  
 Hungarian Advertising Association  
 Hungarian Standards Association  
 Hungarian Trademark Association  
 Employers and Industrialists Association  
 MOBEY FORUM Financial Services Ltd.  
 János Neumann Computer Science Society  
 Self-regulating Advertising Association  
 S.W.I.F.T. – Society for Worldwide Interbank Financial Telecommunication  
 National Association of Entrepreneurs and Employers  
 VISA  
 World Economic Forum

*'You see things for what they are only if you have watched them change and develop from their inception.'*

ARISTOTLE (Greek scholar and philosopher)

## 9.3 Customers

Most people in Hungary have at some time used or come into contact with the services of OTP Bank, and therefore the experience of members of the public as customers of the Bank has an important role to play in determining the relationship of the various stakeholders with

the Bank. The sheer size of the Bank's customer base is well reflected in the number of customer contacts. By customer contact we mean any incident when the Bank comes into contact with an existing or potential customer, and includes contact in the branches, by telephone and on the internet, as well as text messages and direct marketing letters.

## Number of customer contacts in 2006 (no)

In person	Electronically	Other (DM, notices, etc.)	Total
8,595,500	300,872,292	3,380,032	312,802,824

OTP Bank regards the trust and satisfaction of its millions of customers as one of the most important elements of its 'capital', and for this reason its cooperation with its customers and its business partners is marked by reliable and fair business conduct. The Bank's goal and mission is to reach all age categories and social groups with its high-quality products and services, to increase the satisfaction of its customers via value propositions and outstanding service, and to retain personal contact even as electronic technology is becoming increasingly widespread. The products and services that are offered to specific social groups are described in the section on the Retail Division.

In the interests of providing a high-quality service, the Bank attempts to learn about its customers' needs as much as possible, and is continuously improving the physical and human conditions related to its services. Each year the Bank focuses more on motivating and training its employees and on increasing their loyalty, because the quality of our services as well as the Bank's image is determined primarily by the relationship between our employees and our customers and business partners. The priority afforded to customer satisfaction is evidenced by the fact that the bonuses of not only the regional managers but of the Chairman & CEO himself are dependent on meeting regional customer satisfaction targets. In 2004 our company launched a project to considerably reduce waiting times at the branches, in order to increase customer satisfaction and the efficiency of our service. Our goals were met, and the ratio of customers waiting to be served for more than 10 minutes was reduced to 15% in 2005 and 10%

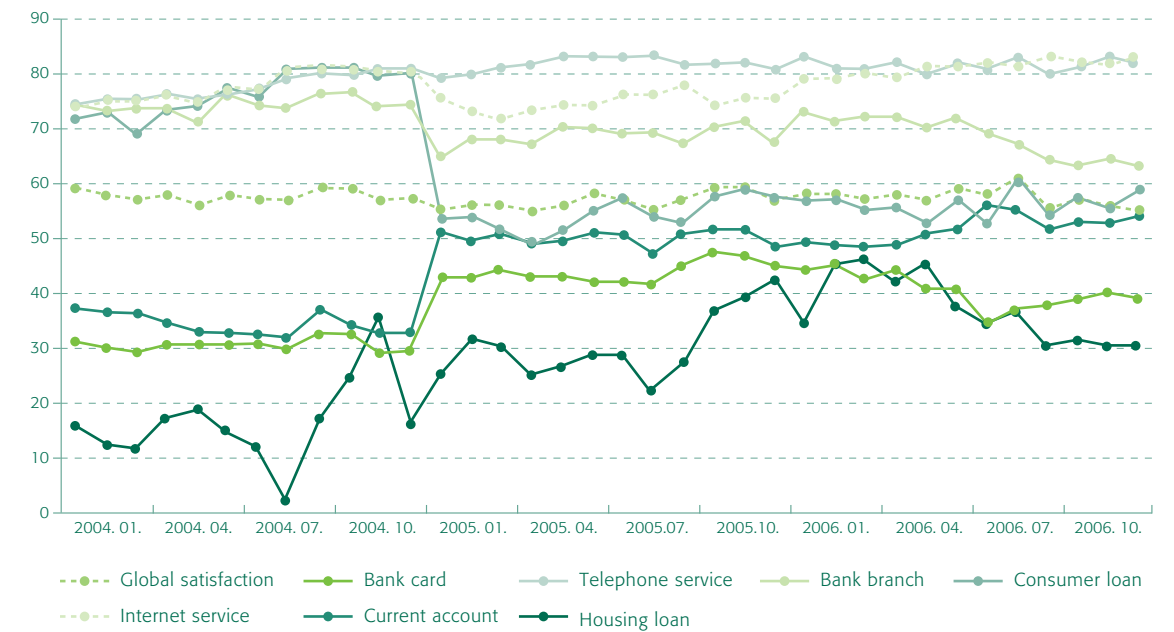
in 2006, from 35% in 2004; in other words, on a national level, nine customers out of ten now wait less than 10 minutes to be served at the branch.

In order to ensure that our customers receive service in a modern and pleasant environment, we launched the Branch Renovation Program in 2004. As a result of the program, 240 branches were refurbished over a 5-year period. By the end of 2006, 80 branches were renovated or moved to a modern location, and by the end of 2007 the number of these branches will reach 150. For many years the refurbishment of a branch has included installing a wheelchair ramp.

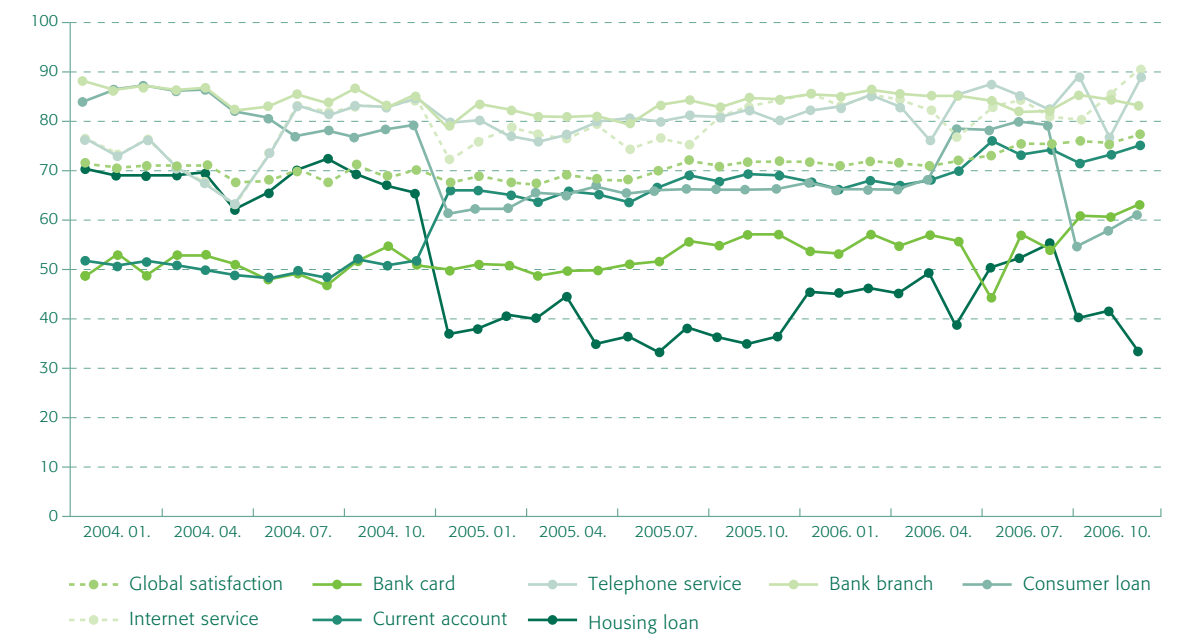
### Customer satisfaction surveys (PR5)

We learn about the opinions of our customers through the use of customer satisfaction surveys. Since 2006 the company's Marketing and Sales Department has been conducting the customer satisfaction surveys, completing 1,700 surveys a month. In addition to overall satisfaction, our surveys assess satisfaction with our bank cards, current accounts, the various forms of processing and administration, loan products and the branches. In addition, we analyse the loyalty of our customers, their opinion of the value-for-money we offer, as well as of our services. The surveys provide continuous feedback on what customers think about the Bank's day-to-day operation, and the results, besides pointing out areas that are received positively, indicate the areas where improvement is required.

## OTP Bank customers



## Customers of other banks



The results of the customer satisfaction surveys indicate that customer satisfaction with our company and its services is growing in several areas, and that due to the customer-focused measures we have taken, any advantage that other banks used to have over us in terms of customer satisfaction is waning. The results of the surveys held in 2006 showed significant improvement overall compared to previous

years. Our Bank's most competitive areas are its telephone and internet services, and the widespread availability and reliability of our ATMs, these being areas that our customers consistently say they are satisfied with.

OTP Bank's effort to establish long-term relationships with customers and to retain customers has proven successful. While at other

banks the annual loyalty index has remained the same, at our Bank a 10 percentage-point increase in the index was experienced in 2006. In order to raise customer satisfaction in the future, we will focus on increasing the price-to-value ratio and on improving the quality of services. OTP Bank wishes to increase satisfaction with its services and achieve its target figures through continuous development.

### Handling customer reports

Prior to and during 2004 OTP Bank handled customer reports (complaints, objections, recommendations, and opinions) in a decentralised manner. Reports were examined and financially settled and responses were sent to customers by the relevant branches, and only objections related to the bankcard division were investigated centrally. However, in 2006, our company adopted a two-tiered, centralised system for processing customer reports. The key advantages of this system are as follows:

- Reports that can be answered and settled immediately continue to be handled by our administrators, and consequently a significant number of our customers leave the branch already satisfied.

	Number of resolved complaints	Number of justified complaints	Indemnity, compensation given (HUF)
2004.	23,940	13,976	47,765,492
2005.	30,436	21,858	69,435,832
2006.	44,040	30,985	105,370,246

Justified complaints are mostly due to errors made by the customer service officers or to computer errors. The experience from customer reports is incorporated into the training materials of customer service representatives. In order to prevent computer errors, the Bank is constantly developing and enhancing its IT systems.

Our goal for 2007 is to accelerate the processing and expert management of customer reports. We believe it is important to inform our customers of how similar

- Head-office experts who specialise in certain business lines and products handle complaints in a uniform manner nationwide, and at a high standard.
- Customer service representatives at the branches are exempted from having to investigate reports and can therefore spend more time providing quality services and selling products to customers.
- With our knowledge of previously submitted reports, we can provide a customised services to our customers.
- The efficiency of handling customer complaints has improved significantly. In the handling of bankcard complaints we provisionally credit the disputed amount to our customers within a week, which is exceptional even by international standards, regardless of the fact that the procedural rules of international bankcard companies specify a much longer processing period.
- Product development and error correction requirements that are gleaned from the reports are directly forwarded to the relevant areas and the implementation of the corrective measures is monitored.
- The new method used in processing allows us to assess the submitted reports far more objectively, which is also indicated by the data in the table below.

occurrences can be avoided. Furthermore, we attempt to provide our customers with broader and more in-depth information about our financial products and their impact, in order to help them make well-grounded decisions. We prepare informational material for our customers, which is available at the branches and via the internet, and our employees also provide information to our customers. We are confident that our efforts will help reduce the number of problems and complaints.

*'Concentrate all your thoughts upon the work at hand. The sun's rays do not burn until brought to a focus.'*

ALEXANDER GRAHAM BELL (professor of audio-physiology)

## 9.4 Employees

OTP Bank is one of the largest employers in Hungary, and due to its extensive network of branches, it plays an important role in providing work opportunities in smaller communities in the country. One of the key areas of social responsibility is offering our employees a comfortable working environment and a benefit plan that is proportionate to performance and ensures a decent standard of living.

### Number and distribution of employees

OTP Bank continuously focuses on increasing operational effectiveness, and its capacity management system serves precisely this purpose. Today the Bank has a modern, process-based and transparent headcount system. The target headcount of each organisational unit is determined – on the basis of the working time required to fulfil the respective work processes – as a full-time equivalent rate.

### Workforce headcount data (LA1)

	2004	2005	2006
Total workforce	7894	7999	8257
Statistical staff headcount on the last day of the year	7777	7899	8169
Employed in a full-time capacity	7113	7173	7390
Number of those not employed on a standard full-time basis (employees working more or less than 60 hours a week)	644+117	726+100	779+88
Regional network	3250	3174	3216
Budapest network	1561	1475	1425
Central office	2302	2524	2749

The data refers to full-time employees

### Distribution of employees by position

Management (deputy CEOs)	6
Senior management	179
Middle management	694
People in charge of certain activities	131
White-collar workers (non-management)	7053
Administrative employees	59
Blue-collar workers	135

OTP Bank employs full-time and part-time employees, and certain personnel work for us on a contract basis. In keeping with the Collective Bargaining Agreement and the statutory regulations, each employee receives equal treatment and benefits (LA3). The distribution of employees by various criteria is shown in the tables and charts (LA1). The breakdown of employees by age reveals a broad distribution, with the average age

of the workforce being 38.9. The distribution by gender shows a predominance of women; the ratio of women within the total workforce is 78.6%. However, women are underrepresented at management levels: there are no women in the Management itself (i.e. among the deputy CEOs), and the ratio of women in senior managerial positions is 39.4%. The employees of the Bank are predominantly local inhabitants. Although OTP Bank does not

have a comprehensive policy and practice of giving preference to local inhabitants when hiring employees, it is the local people who typically apply for jobs. The branch network offers local work, stable employment, an acceptable working environment and a reasonable benefit plan, which are important considerations for workers in Hungary. Local employees also dominate

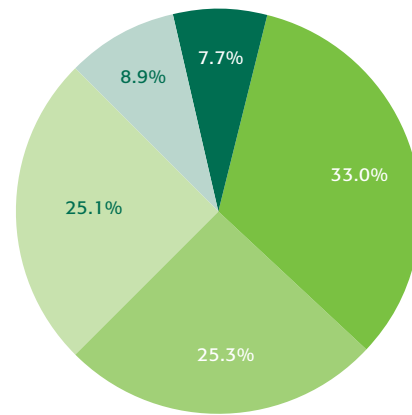
in the workforce of the central office, the Budapest region and the network; however, due to the large number of positions in the central office and the lack of employment opportunities in the provinces, there are several employees from elsewhere in the country who work in Budapest and sometimes have a second home there. The heads of the regional centres are mostly local people.

In the past three years the number of people leaving the company has fallen by 5 percentage points. In 2006 staff turnover was 15.4% (1,279 people), which is still higher than the extent the Bank would regard as acceptable. Our goal is to reduce staff turnover gradually and to reach a figure of less than 14% in 2007.

In order to gain an accurate insight into the Bank as a workplace, and to learn about the strengths of the organisation as an employer and the factors that have an impact on the commitment of employees, as well as to identify areas where further intervention is required in this regard, the Bank will conduct an employee satisfaction survey in 2007.

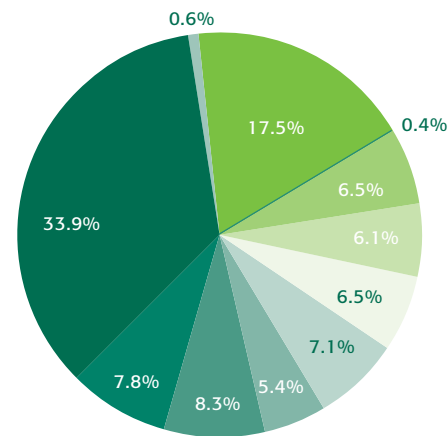
### Distribution of employees by age

- Under 25 yrs
- 25–35 yrs
- 35–45 yrs
- 45–55 yrs
- over 55 yrs



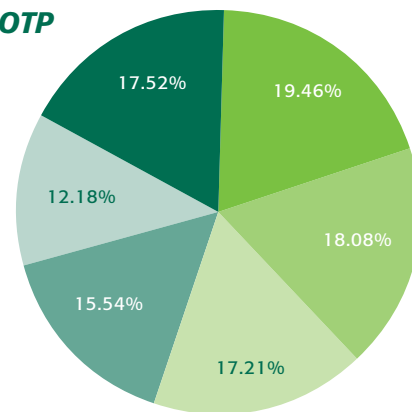
### Distribution of employees by region

- Budapest Region
- Central Branch
- Southern Transdanubia Region
- Northern Transdanubia Region
- Central Transdanubia Region
- Central Hungary Region
- Northern Hungarian Region
- Northern Plains Region
- Southern Plains Region
- Centre
- Balatonszemes Resort



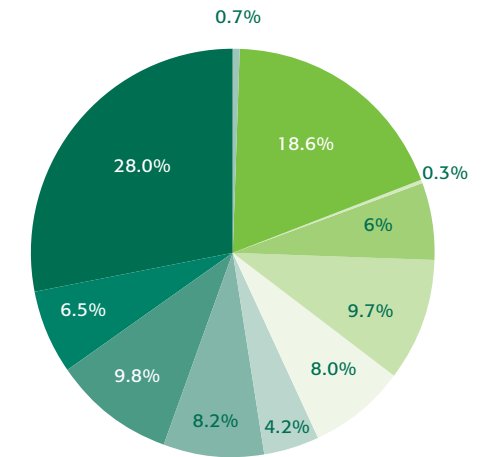
### Distribution of employees according to length of service at OTP

- Under 2 yrs
- 2–5 yrs
- 5–10 yrs
- 10–15 yrs
- 15–20 yrs
- Over 20 yrs



### Distribution of employees leaving the company, by region (%)

- Centre
- Balatonszemes Resort
- Budapest Region
- Central Branch
- Southern Plains Region
- Southern Transdanubia Region
- Northern Transdanubia Region
- Northern Hungarian Region
- Central Transdanubia Region
- Central Hungary Region
- Northern Transdanubia Region



### Benefits policy: equal pay for equal work

Our Bank began to revise its benefits system in 2005 with the aim of motivating its people to perform even better, to acquire professional knowledge and expertise, to reward loyalty to the Bank and to reflect the level of responsibility associated with their jobs.

As a part of the new incentive scheme, the system of benefits available to employees in the network was revised. With regard to front-office (standard customer-service) work, we introduced a nationally uniform pay scheme for people working in similar positions, and in the case of other positions, we established wage bands that allow us to assess and categorise the quantity and quality of work based on the same, consistent principles. As a result, salaries and wages are determined in accordance with uniform principles and are

therefore predictable and transparent, while the assessment of performance and the related incentives are also regulated, with performance being measured on the basis of business and financial indicators.

In the pay scheme applicable in the network, the standard entry-level wage (starting salary) was HUF 118,000 per month in 2006, which was supplemented with performance-related bonuses. At our company, employees' wages are determined on the basis of the Collective Bargaining Agreement, and the basic salaries of employees are considerably higher than the national minimum wage in all employee categories. The minimum wage in Hungary was HUF 57,000 between 1 January 2006 and 31 January 2006 and HUF 62,500 between 1 February 2006 and 31 December 2006, or, respectively, just 48.3% and 52.9% of the starting salaries at our Bank (EC5).



In 2006 gross average wages in the Hungarian economy grew by 8.1% overall and, while the consumer price index grew by 3.9%, real wages increased by 3.6% compared to the previous year (source: Central Statistical Office). Salaries were highest – with an average gross monthly

salary of HUF 403,862 – in the financial sector, and real wages in the sector typically grew by 11.1% in 2006. The gross average monthly wage of OTP Bank's employees in 2006 was HUF 360,582. Real wages grew by 7.2% compared to the previous year.

- Net average salary (OTP)
- Net average salary (financial sector)
- Change in real wages (OTP)
- Change in real wages (financial sector)
- Change in consumer price index



**Employees' monetary benefits and benefits in kind:**

- Food contribution
- Get-ready-for-school allowance
- Holiday allowance
- Jubilee reward
- Reimbursement for costs of travel to work
- Voluntary pension fund membership fee contribution
- Private pension fund membership fee contribution
- Healthcare fund membership fee contribution
- Aid to relieve financial burdens in extraordinary life situations

In 2006 OTP Bank spent a total of HUF 1.871 billion on monetary benefits and benefits in kind, which were offered as part of employees' pay. The portion of remuneration in excess of the base salary in the financial sector stood at 5.0% on average and was 4.9% at OTP Bank. Contributions to membership fees in voluntary and private pension funds and healthcare funds stood at approximately HUF 3.1 billion in 2006. In this respect the Bank exhibits more responsibility than the market average. The annual allowance per person per fund is the following: Voluntary Pension Fund HUF 265 700, Healthcare Fund HUF 71 900, Private Pension Fund HUF 69 300. The social benefits and the rules for awarding them at the Bank are contained in the Collective Bargaining Agreement and the related internal regulations of the Bank.

**Employee advocacy**

OTP Bank, in accordance with the effective regulations, provides for the operation of the Trade Union and the Workers' Council, which represent employees' interests. The Bank's management conducts preliminary negotiations and consultations with the employee advocacy bodies prior to making decisions or taking steps that affect larger groups of employees and in every case that is stipulated by law, in accordance with the statutory regulations. OTP Bank cooperates with the trade union on a continuous basis, and makes available to it the information and infrastructure that is necessary for advocacy activities. On 31 December there were 4 869 trade union members at the Bank (representing approximately 60% of employees). The Bank's Collective Bargaining Agreement contains the rules relating to work: with regard

to the employment relationship, working time and remuneration and – with the exception of the Chairman & CEO and the Deputy CEOs – applies to all of the Bank's employees (LA4). In several cases, the Collective Bargaining Agreement contains conditions that are more generous than the expectations set forth in the Labour Code – thus, for example, specifying a longer period of notice for terminations of employment related to operational changes.

**Communication**

The Bank uses various channels to notify and communicate with its employees. Besides communicating in person, officially in writing, and by e-mail, we also use the intranet, the OTP Magazine (the Bank's in-house publication) and a system of public folders for communication purposes. The system of public folders was created in 2006, and allows employees to access regulations and information relating to work.

**Training**

OTP Bank Plc places considerable emphasis on training its employees so that they have the latest professional knowledge and the expertise required for them to effectively carry out their jobs. In recent years the Bank has introduced a structured, competency-based training system. Training programs preparing employees for their duties are attended by all workers in the front-office area. To ensure that managers are suitably

prepared for their duties, besides imparting to them the technical knowledge they need, the Bank's training programs emphasise management skills development, and include training in coaching skills to help managers support and develop their subordinates. In accordance with the statutory regulations, employees all receive fire protection and work safety training. In the context of an orientation program we pay particular attention to helping employees adjust to their new surroundings, and as a part of this program, new hires also learn about the Bank's principles of social responsibility. To ensure the efficient implementation of knowledge transfer, in 2006 the Bank introduced an e-learning system, which extends to all our employees and ensures flexible training for our staff without encroaching on their working day. All the Bank's employees are given the opportunity to participate in post-graduate and professional training courses, conferences and skills-development training programs aimed at improving their work performance. We offer language courses each year with the participation of 4-500 employees, primarily for head office employees and for regional managers. We also support private language learning through post-financing, after the language proficiency exam has been passed.

By the end of 2007 we plan to launch training courses in the Code of Ethics for all Bank employees, and we plan to create an environmental protection training program for employees as a part of the orientation program.

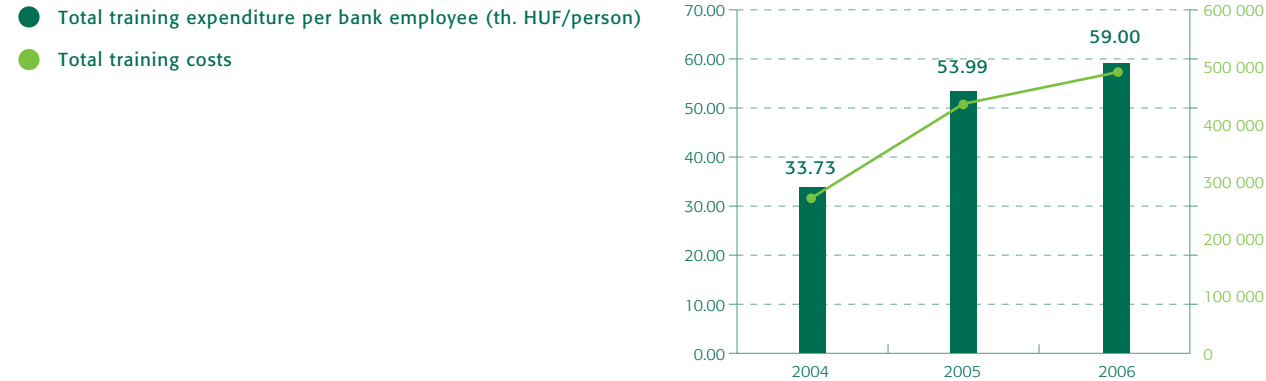
**Programs that support the continued employability of employees and assist them in managing career endings (LA11)**

Program	Available?
In-house training courses	yes
External training courses or financial support for study	yes
Time off for study	yes
Pre-retirement planning	no
Re-training for employees before retirement who wish to continue to work	no
Severance pay	yes
Taking into account the age and years of service of employees when granting severance pay	Years of service - yes; age - no (as stipulated by the statutory regulations)
Job search service	no
Help with transition to a life after work	no

In 2006, in-house training at our company surpassed external training in terms of both quantity and expenditure. The number of in-house training days per employee was

5.27, not counting professional training courses. Between 2004 and 2006 training expenditure per employee increased almost twofold.

### The Bank's training costs (th. HUF)



Our Bank uses the vocational training contribution effectively, and in addition to the 20% (actual payment 29%) that must be paid to the state, we spend 25% of the vocational training contribution on training our own employees, and we pay 46% to vocational training centres in the form of development aid. In the context of this type of support, and at the initiative of the Hungarian Bank Association, in 2006 we provided development aid to various vocational training institutions that educate disadvantaged young people, especially of Roma ethnicity.

### Career planning and development

In March of 2006 OTP Bank began elaborating career-path models that ensure a uniform set of requirements for lateral and upward career moves in relation to specific job categories.

We will launch the banking career management system in 2007.

The Bank uses a range of tools and methods to measure and evaluate employee performance. Approximately 25% of the Bank's employees fall within the scope of the Incentive System, where performance is evaluated on the basis of individually specified objectives. In respect of 50% of employees who fall under the effect of the incentive system, performance appraisal,

which includes an evaluation by the employee's supervisor, is conducted every six months, while evaluations of other employees who receive bonuses are evaluated on a monthly and quarterly basis. The incentive system extends to the management itself, whose performance based compensation is linked to the share option scheme described in the section on Corporate Governance.

The Bank's performance evaluation system does not include social and environmental performance indicators.

With respect to the Bank's other employees, performance is not evaluated and feedback is not given systematically, but takes place as a part of the manager's job (LA12).

### Healthcare

The Bank pays a great deal of attention to preserving the health and curing the medical conditions of its employees, and offers a lot more care than the law stipulates.

The Budapest head office employs an in-house doctor for 60 hours a week and engages various specialists. The Bank also has two doctors' offices of its own, which are registered by the State Health Authority (ÁNTSZ). A considerable number of branches within the Budapest

network have joined the healthcare system that is available for the central offices, while healthcare services are offered for the branches in the provinces via contracted doctors. The doctors provide comprehensive information in relation to medical conditions, sickness prevention and healthy lifestyles. The obligation to offer safe and healthy working conditions is regulated in the Collective Bargaining Agreement and the Bank's internal regulations. In order to protect its employees'

health, the Bank gives full consideration to issues of ergonomics.

The figures on absences due to sickness in relation to 2006 are contained in the table below (LA7). The Bank keeps accident statistics in accordance with Act XCIII of 1993 (on Occupational Health and Safety) as amended several times, and with the stipulations of its Health and Safety Regulations, which were drafted in accordance with the law.

### Absence due to sickness, total

	<b>80 874 days</b>
Rate of absence	~ 4.6%
Sick leave	34 654 days
Sick pay	44 193 days
Accident pay/benefit	2 027 days
which consists of:	
Hospital care due to accidents on public roads	32 days
Hospital care due to other accidents	61 days
Road accidents	794 days
Days lost due to accidents on the job	324 days
Percentage of lost workdays	~0.01848%
Number of accidents	17
Accident rate	~0.00097%
Childcare sickness allowance	2 945 days

Note: Days refer to working days.

### Recreation

OTP Bank has three holiday residences and two weekend chalets, with the latter run by the regional offices.

The holiday residences have a high occupancy rate; approximately 4,000 employees and their families spend their holidays at the residences each year, and summer camps for the children of OTP employees are also organised there. In 2006 1,623 employees spent their holiday at the residences. The Bank provides employees with a holiday brochure about the opportunities at and around the residences. The holiday residences are located in Balatonszemes, Mátraszentimre and Békásmegyer.

Twice every year the Bank organises a national family and sports day and various cultural events for all the employees of the Bank Group

and their families. There are 15 sports clubs at the Bank, providing employees with a wide range of sporting opportunities.

### Awards and honours

More than a decade ago the Bank established the award 'For OTP Bank' and the 'András Fáy' award in order to acknowledge and honour its employees. These are awarded each year to employees who have achieved outstanding performance, or persons among the Bank's external associates who have made an outstanding contribution to the Bank's results. In 2006 a total of 71 employees received recognition in the form of honourable mentions or financial rewards.

*'One who wants to open the eyes of others must, above all, keep his own eyes open.'*

CHRISTIAN MORGENSTERN (German poet)

## 9.5 Suppliers

OTP Bank works with a high number of suppliers, who are engaged by budget-holders at different levels within the Bank's organisation. The decision regarding which supplier to use is primarily based on considerations of efficiency and cost-effectiveness, but all suppliers used must comply with the Bank's quality requirements.

The selection of suppliers takes place through a tendering process, and bidders who comply with the specified quality parameters are chosen based on the price of their bid. The quality criteria also include environmental, security and ergonomic aspects. To protect its own interests the Bank obtains detailed company information regarding the suppliers, examining their

compliance with the statutory regulations, their financial background, and the existence of any special circumstances related to the supplier. To ensure efficiency, OTP Bank aims to always employ the optimal number of suppliers, and to minimise the number of suppliers used in any area of its operation. The Bank clearly states its expectations of its suppliers, and does all in its power to fulfil its own commitments, and in the event of any problems attempts to reach a mutually agreeable solution.

*It is our goal in 2007 for as many of our suppliers as possible to familiarise themselves with OTP Bank's Ethics Statement and its CSR report, and accordingly we draw our suppliers' attention to these documents, and require them to comply with the provisions of the Ethics Statement.*

*'Concern for man and his fate must always form the chief interest of all technical endeavours.'*

ALBERT EINSTEIN (Nobel prize-winning physicist)

## 9.6 Society, civic relations

As the largest bank in Hungary, OTP Bank engages with society in innumerable ways, many of which have been described in the previous sections. A substantial proportion of the Hungarian population are customers of the Bank, due to its extensive branch network and presence. The Bank has developed numerous products and services designed to fulfil the specific needs of special groups within society, and to create opportunities for them to develop and advance. As the most

important financial partner of municipalities, the Bank participates in the financing of many capital projects that serve the advancement and good of society. The state, as operator of the authorities and institutions that regulate and monitor the operations of credit institutions, liaises continuously with OTP Bank, while the Bank also participates regularly in transactions through which the Hungarian government and the European Union provide support for the achievement of their social objectives. Another factor to be taken into consideration is the Bank's role and social responsibilities as an employer.

The links forged by the Bank as a result of its core business operations – as a financial service provider – with individual members of society, as well as with local and national government bodies, create an opportunity for the Bank to gain a better awareness of the needs of society, and to support the achievement of such goals through the broadening of these relationships. A part of OTP Bank's CSR strategy is to form new relationships with a wider range of NGOs – as organisations serving to represent and uphold the interests of individual groups within society

– and to continue strengthening our existing relationships with such organisations. Naturally, it is not possible to maintain contact with all the NGOs, but we are receptive to entering into new broad-based partnerships with such organisations in the interests of facilitating sustainable growth. We primarily wish to deepen and place on a more structured footing our relationships with NGOs that actively promote the two core social values that define our sponsorship and support activities: equal opportunities and community building.

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### Stakeholder discussion

Several NGOs attended a round-table discussion held for the company's stakeholders. It transpired that the company's stakeholders, and sometimes even the specialists themselves, overestimate OTP Bank's market position – although it is genuinely a strong one – and as a result, their expectations are so high, whether in regard to new products or the extent of the company's contribution to social causes, that the Bank is unable to live up to them owing to the fierce competition in the market. In light of the positive experiences gained during the discussion, in future we plan to regularly initiate similar dialogues of this nature, covering a wider range of issues, since the opinions of stakeholders can open new perspectives for us.

The expectations of NGOs with regard to this report and the CSR activities of OTP Bank include the following:

*'NGOs expect the Bank to integrate social and environmental considerations into its core activities.'*  
Pál Kapusy, KÖVET

*'Through its extensive branch network OTP Bank has an opportunity to engage with local communities, but it still has much to do in this regard.'* Gábor Héra, Kurt Levin Foundation

*'The key to credibility is customer focus. Besides this, for me, another important social issue related to CSR is the company's responsibility towards its employees.'* Gábor Héra, Kurt Levin Foundation

*'Responsible lending has to be part of a bank's CSR policy. Companies should not exploit information asymmetry.'* Ida Petrik, KÖVET

*'In my opinion, OTP Bank's guiding principles for donation need to be more clearly represented.'*  
Molnár Klára, Hungarian Donors' Forum

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*'The most important assets of the International Children's Safety Service are its high moral standing and good reputation. This is what makes it so important for our sponsors to also have a good reputation. OTP Bank not only assists us financially, but – by virtue of its trustworthiness – also supports us morally.'*

PÉTER EDVI (International Children's Safety Service)

## 9.7 Support, sponsorship Equal opportunities

As a major corporation that has a profound impact on both its economic and social environment, the objective of our support and sponsorship activities is to find as many points of contact as possible, even outside the framework of financial services provision, and to strengthen our relationships with partners by supporting deserving causes, programs and events that serve the interests, endeavours and needs of society as a whole. The Bank's support and sponsorship activities focus on two main areas, each based on a core social value that is compatible with, and indeed complements, the Bank's operations: **equal opportunities and community building**. In accordance with these guiding principles, in 2006 we sponsored or supported close to 400 initiatives on a regional and national scale. *In order to place our charitable and sponsorship activities on a more structured footing, and to improve the efficiency with which we achieve our set goals, we will revise our sponsorship and donation strategy in 2007.*



The Bank's sponsorship and support activities in this area are oriented towards assisting disadvantaged and sick children, promoting youth education and improving the quality of life and the chances of the physically and mentally challenged, primarily through the forging of long-term cooperative partnerships, and the organisation of events and programs. The Bank also treats the provision of assistance in crisis situations as a priority.

### **Main recipients of support:**

Since 1994 OTP Bank has been the main supporter of the National Children's Safety Service. Every year the Service ensures the provision of healthcare and assistance, and improvements in the living standards, of more than 10,000 disadvantaged children. Within the framework of this partnership, the Bank primarily supports the Service's healthcare programs. Besides the direct financial assistance it provides to the organisation, the Bank has also succeeded in drawing the attention of its customers to its fundraising efforts, and the amount of donations accumulated in collection boxes located in the Bank's branches increases from year to year. The complementary year planner issued by the Bank also includes a reminder on each page – during the relevant calendar period – to request that the 1% of personal income tax that may be set aside for a charitable cause be donated to the International Children's Safety Service. It was also our desire to improve the living conditions of the impoverished that prompted the Bank to support the Santa's Workshop gift and donation-collection initiative. The Bank's participation in the scheme created an opportunity for everybody to help the needy in 2006, by making donations directly into



the 'OTPMikulásGyár' bank account, at the 'workshops' themselves, or by using the collection boxes located in the Bank's branches. The donations received were divided equally between the healthcare program jointly run by the Bank and the International Children's Safety Service, and the other two partners in the Santa's Workshop initiative – UNICEF and the Hungarian Red Cross.

In its efforts to promote equal opportunities OTP Bank has, for several years, been a major sponsor of Special Olympics Hungary, the Hungarian branch of the international organisation providing sporting opportunities for people with intellectual disabilities. The Bank also supports the active promotion of therapeutic horseback riding, an outstandingly successful means of preventive healthcare, through the sponsorship of events organised by the Hungarian Equestrian Therapy Association Foundation, and provides assistance to the Hand in Hand Foundation, an organisation set up to improve the situation of people with intellectual and multiple disabilities, as well as their families and carers, nationwide. With the support of OTP Bank, in 2006 the Foundation launched an unprecedented national awareness campaign, with the aim of engendering positive attitudes towards people with intellectual and multiple disabilities.

OTP Bank also places particular emphasis on promoting the development of education in economics and finance, in order to train the

next generation of financial specialists. Through the OTP Fáy András Foundation, which was founded in 1992, the Bank has set itself the goal of strengthening the economic and entrepreneurial skills of young people, raising their level of financial sophistication, and instilling in them a project-based and community-centred outlook. In autumn 2006, as the result of a competition entitled 'Be thrifty and creative, build a solid foundation for your future! – How would you invest HUF 5 million?' a stationery and school supplies shop was opened in Csorna, and a tourism venture was launched in Transylvania. The Foundation runs a financially-oriented life management and career training course, the 'Foundations Program', which was developed in response to a genuine set of needs that had hitherto remained unfulfilled. The program was launched in 2006, and enables participants to acquire theoretical and practical business, career and work-related skills. In the interests of developing the standards and resources of public education in economics, in the 2006-2007 school year we donated textbooks to students at some 100 secondary schools engaged in the teaching of economics. Under this initiative the Foundation provided almost 10,000 students with a total of 17,000 textbooks, in a value of almost HUF 10 million. Besides this, at the end of 2006 we provided every secondary school engaged in the teaching of economics with an opportunity to upgrade their library, as the Foundation provided each school with books and learning aids in a value of HUF 100,000. A total of 164 schools and tens of thousands of students benefited from this scheme.

Among the partnerships formed with institutes of higher education, one of the most prominent and exemplary is the initiative under which the Bank issued a bank card jointly with the University of Pécs. The Bank donates some of the revenue from the card usage fees to the University, which means that by using the card, students and professors alike are also supporting the institution. Besides these, we also engage with partner institutions in individual projects to assist in educating the financial specialists of the future and promoting a sophisticated financial culture, by providing assistance for the renovation and modernisation of lecture halls (for example, both



the University of Economics in Budapest and the University of Pécs have a lecture hall named after the Bank), by providing students with subscriptions to financial journals (for example, students at the Financial and Accounting Faculty of the Budapest College of Economics read the national business daily *Napi Gazdaság*, courtesy of OTP Bank), and by offering development subsidies to vocational secondary schools engaged in the teaching of economics, with priority given to supporting those attended by children from a disadvantaged background.

OTP Bank takes advantage of the opportunity, provided by law, to provide support for R&D activities using a part of the money payable as a contribution to the state innovation fund. The Bank commissions various studies, research and analyses from scientific institutes and higher education institutions, thereby providing financial assistance to organisations engaged in research and development. In 2006 the total value of R&D work commissioned was HUF 146.8 million, or 11.6% of its gross innovation contribution liability.

### Community building

The Bank regards its community initiatives as particularly important: the nurturing and perpetuation of community values and traditions, the preservation and augmentation of national values, and ensuring their widespread recognition.

In its efforts to promote Culture, the Bank primarily supports events that also represent quality and value to our customers. Besides national events, the Bank also sponsors initiatives at regional and local level, thereby helping to promote culture in the provinces. Over recent years the sponsored events have included cultural festivals (*Veszprém Street Music Festival*, *Jewish Summer Festival*, *Győr Summer*, *Savaria Historical Carnival*, *EFOTT music festival*), classical music concerts (*Zemplén Festival*), popular music concerts (*Zorán*, *Gábor Presser*) and folk music happenings (*Honvéd Ensemble anniversary performance*, concert by the 100-piece Gypsy orchestra).

In 2006 we entered into a partnership with the Museum of Fine Arts, involving the joint organisation of a series of exhibitions entitled 'Genius and Masterpieces'. Over the year 200,000 visitors had an opportunity to marvel at masterworks selected from the collections of the world's top museums.

Our efforts to preserve cultural heritage are embodied by the support we provide to cultural institutions, as well as by the OTP Financial History Collection and the OTP Gallery. The *OTP Financial History Collection*, work on which began in the mid-1960s, today contains some 30,000 items of banking documentation. The Bank treats the gathering, documenting and curatorship of the items on display – documents and other memorabilia related to the foundation and operation of the first Hungarian financial institutions, items used in banks, office equipment and decorations, engravings, photographs and posters – as an important priority.

At the end of 2005, the *OTP Gallery* was ceremoniously reopened in the lobby of the Bank's headquarters in Babér utca, Budapest. By running the gallery the Bank maintains an exhibition space dedicated to displaying the works of outstanding contemporary Hungarian painters. OTP Bank also supports contemporary art by purchasing fine paintings. Currently, some 600 works of art hang from the walls of buildings and offices used by the Bank.

We also followed the principles of community building when forming partnerships related to our sponsorship of sports in 2006.



Our aim is to contribute to the promotion of a successful sporting culture in Hungary by sponsoring regional and international sporting events and popular team sports with a broad base of supporters. Our partners include such prominent Hungarian teams as national champions the *MiZo Pécs Women's Basketball Team*, the *Alba Regia Sport Club*, the *Kaposvár Basketball Club* top-division men's basketball teams and the *DVSC Debrecen* football team. Our sponsorship of sports also extends to cover sporting events that enable young competitors to test their sporting abilities (e.g. contests held for the *European Judo Union* cadet and junior age-groups, *World Junior Ice Hockey Championships*). Another important consideration when sponsoring international sporting events and world championships is that they should contribute to raising Hungary's international profile, and promoting the country's good reputation beyond its own borders. This is why we are, for the third year running, the name-giving sponsor of the *OTP Bank Ladies Central European Golf Open* – the only professional women's golf championship

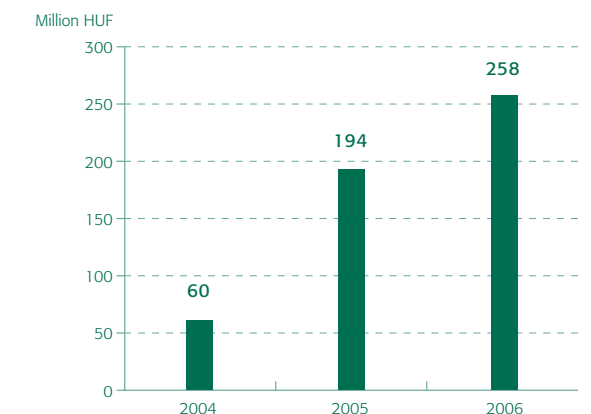
to be held in the region – as well as the *Hungarian Amateur Open Golf* championship held by the *Hungarian Golf Federation*, and competitions run by the *Hungarian Triathlon Federation*.

Besides making financial contributions, the Bank also provides other means of assistance. We donate used equipment and furnishings that are still in good condition to schools and state organisations. The donated assets mainly consist of furniture, vehicles and computers, and are usually given in response to direct requests from the recipient organisations. In certain cases the Bank offers awards and prizes for a variety of initiatives and competitions. *Until now the Bank has not prepared estimates of the cash value of these contributions, but from next year we plan to also quantify these donations.*

The tendency over the past years has been for the Bank to consistently and substantially increase the amount it spends on charitable donations. (SOC1).

### Money spent on donations (SOC1)

● Support, donations



*As part of a revision of our donation and support strategy, from 2007 we plan to deepen the involvement of our employees in charitable activities through the launch of special initiatives, such as team-building programs, in the course of which the participants complete a task that is beneficial to the community (for example, constructing a children's playground). Through this, we intend to reinforce our employe-*

*es' sensitivity to social issues, and instil in them a greater environmental awareness. As we have learned from the experience accumulated in the course of our business operations, it is only possible to set new targets and achieve better results through a joint effort and a positive attitude.*

Please visit our website for more details of our support and sponsorship activities.

*'Nature is vast, man is miniscule. Therefore man's existence depends on what relationship he can form with nature, how well he understands it and how he harnesses its forces for his own purposes.'*

ALBERT SZENT-GYÖRGYI (Nobel prize-winning doctor, pharmacist)

## 10. Our environmental performance

The direct environmental impact of OTP Bank's operations arises from the maintenance and running of the Bank's central organisation and branches. The measures implemented to reduce the environmental burden and harmful effects that result indirectly from the Bank's core business activities are described in the section on business performance. The Bank's environmental performance is mainly defined by the measures taken to cut down on the consumption and use of energy, natural resources and materials. OTP Bank employs a wide range of means to minimise its environmental footprint and reduce the environmental damage caused by its operations. However, in respect of several areas of operation it does not possess complex information, and there are deficiencies in the procedures for gathering information regarding the quantities of resources and materials used, and the results achieved. The gathering of such information is made more difficult by the fact that OTP Bank has outsourced the facilities management of its properties. Consequently, one of the Bank's most important objectives for the coming years is to gather and process



all information pertaining to the Bank's central units and branch network within the framework of a comprehensive and standardised system. The availability of this information, in processed form, as well as the environmental regulations to be formulated in 2008, will form the basis for determining which measures need to be implemented in order to minimise the Bank's environmental impact.

### Materials usage

The materials used at the Bank are paper and the inks and toners used for printing (EN1, EN2). We do not possess consolidated information regarding the quantities of these used by OTP Bank, and therefore the gathering of such information, as well as determining the quantities of recycled paper used, are tasks to be performed in 2007 and 2008.

### Energy and water usage, building design and operation

No consolidated information is currently available regarding OTP Bank's total energy and water consumption, because the central buildings and the branch network are not managed centrally. OTP Bank only possesses data pertaining to the central buildings, where a standardised system for collecting and evaluating this information has been in operation for more than a year now. The Bank recognises the importance of this issue, and the collection and the detailed

processing of consumption data is currently in progress. The gathering and analysis of this information will represent an ongoing task in the future. It is our aim to possess, at the end of 2007, comprehensive information regarding the Bank's energy consumption, which will form the basis for a review of consumption habits and the setting of targets for reducing the quantities of energy consumed, as well as for choosing an electricity supplier, which will become necessary as a result of the forthcoming deregulation of the electrical energy market.



In the Bank's overall energy usage, the central buildings are a determining factor owing to their size and function: some 2,800 people are employed in the central buildings, and the Bank's separate server centre also has one of the highest energy requirements of the central buildings. The energy consumption of the branches is proportionate to the size of the given branch, and threshold values are determined based on the seven branch types. The combined energy consumption of the central buildings was 14,328,816 kWh in 2006, with energy demand spread evenly over the year (EN4). With respect to gas consumption and district heating usage, again, we only possess comprehensive data for the central buildings. In 2006 the gas consumption of the central buildings was 707,105 m<sup>3</sup>. The Bank only uses district heating in one of its buildings, which is currently out of use, and therefore no actual consumption takes place (EN4). The gathering and analysis of heating data is also a task to be performed from next year onwards. The total water consumption of the Bank's central buildings in 2006 was 56,464 m<sup>3</sup>, with demand varying appropriately according

to season. In all cases the water used was supplied from the public water main, and flowed out into the public sewage system. (EN8, EN21)

Over the past years the Bank has implemented a number of measures aimed at reducing consumption in its buildings:

- Power factor correction equipment is installed in most buildings. The use of these devices means that high reactive power loads are now extremely rare.
- Lighting systems use energy-saving bulbs.
- Washrooms are fitted with motion-sensing light switches.
- Car-park lighting is subject to a time restriction.
- Building services only operate during working hours.
- The heating and air-conditioning systems function in energy-saving mode at the weekend and at night.
- The air-conditioning system is regulated centrally, based on the outdoor temperature, but minor corrections to the indoor temperature can be made in each office.
- In the majority of buildings water-saving taps and toilet cisterns are in use.
- Memos are sent to the employees advising them to use appliances in an energy-efficient, water-saving manner.

The Bank does not possess information regarding the quantities of energy saved (EN7).

As the result of developments carried out in recent years, renewable energy sources are used at two of OTP Bank's sites:

- We have installed solar panels for the provision of hot water and auxiliary heat supply at our holiday centre in Balatonszemes, resulting in considerable energy savings.
- In the central warehouse, we make use of geothermal energy with a heat pump.

In future we plan to expand our use of renewable energy sources by extending the methods used so far to our branches, as well as adopting additional new solutions and technologies. Our plans include the installation of solar panels at the Békásmegyer holiday centre and the office centre in Babér utca.

In the course of constructing new buildings and renovating existing properties, as well as during their operation, we make an effort to use environmentally friendly technologies:

- In new buildings, particular emphasis is placed on using the appropriate insulation.
- Areas of our buildings that are permanently occupied are 80-90% naturally lit, which, besides reducing energy consumption, is also beneficial in terms of the comfort and health of our employees.
- In the course of fitting out workplaces, the main design criteria are based on ergonomic considerations, but the use of environmentally-friendly raw materials and manufacturing processes is also becoming an increasingly important factor.
- When procuring sanitary supplies, we give preference to items manufactured from recycled paper.
- The procurement of cleaning materials is performed by the cleaning services subcontractor. One of the criteria in selecting the cleaning subcontractor is that they should use modern, environmentally-friendly materials. However, at present we have no information regarding the quantity of cleaning materials used.

In the future we will regularly monitor the use of environmentally-friendly materials by the subcontractor, and request that they report on the quantities of materials used.

### Office equipment

A considerable part of the Bank's environmental impact arises from its use of computer equipment. In order to reduce the quantity of waste, and lengthen the lifecycles of the products, we have our used ink and toner cartridges recycled by a specialist refilling company. The majority of our printers are laser printers, and the number of inkjet printers, which are only used in special cases, is negligible. In the interests of reducing the environmental footprint of our office-based activities, in the short term we plan to eliminate superfluous printing on a large scale through the drafting of regulations governing activities of this nature, beginning with a manual pertaining to the use of printers.

### Waste management (EN22)

In 2005 the Bank began to introduce selective waste collection, initially in the central buildings. Today the scheme has expanded to cover approximately half of all the Bank's employment sites. The selective collection of paper waste is now fully implemented at the central buildings, where in 2006 a total of 260 tons of paper waste was collected and recycled.

The central buildings also lead the way in the selective collection of other waste types, while examples of selective waste collection in the branches are sporadic. The selective collection of used fluorescent tubes and bulbs is fully implemented in the central buildings, while the separate disposal of used toner and ink cartridges and dry cells has, for the time being, only been partially achieved. However, the selective collection of these types of waste will be fully implemented in all the Bank's branches and buildings in 2008.

The destruction of CDs, diskettes and video cassettes is a question of bank security. The collection of waste CDs and bank cards is carried out separately, and these are destroyed in the waste incinerator at Dorog. Employees in several buildings have requested that the selective waste collection scheme be extended to include the separate collection of plastic drinks bottles. At present the removal of the collected bottles is provided for by the employees themselves.

We intend to institutionalise the collection of PET bottles by extending the scope of the selective waste collection program.

Procedures for scrapping and replacing electronic equipment have been fully implemented at all of OTP Bank's premises. The removal and neutralisation of e-waste is performed through companies licensed to handle hazardous waste. At the end of 2006 the Bank owned 1,900 ATMs and 27,295 POS terminals. The average lifespan of the ATMs and POS terminals is 11 years, which means that every year some 100 ATMs and 1,500 POS terminals need to be replaced, while between 2,000 and 3,000 computers and monitors are scrapped on an annual basis. It has become established practice for certain equipment that is no longer in use, mainly furniture and vehicles, to be donated to foundations and schools.

### Company vehicles, business trips

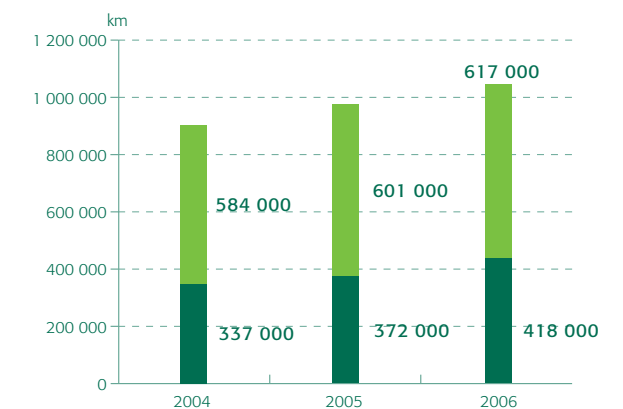
On 31 December 2006 OTP Bank operated 313 motor vehicles, of which 165 are for personal use and 148 for business purposes. When procuring the vehicles, the primary consideration was functionality, and aspects of this included the vehicles' performance, safety and fuel consumption. In order to boost the efficiency of fleet operation, we purchase the same type of vehicle within a given category. At OTP Bank the majority of company vehicles are powered by petrol engines, which, in comparison to diesel engines, have a lower engine capacity and consume less oxygen. In future vehicle procurements by the Bank, the environmental footprint of the vehicles will be taken into consideration, initially when renewing the fleet of high-mileage business-use vehicles. In the future,

where possible, we will ensure that diesel-powered models are purchased with a diesel particle filter fitted.

Around half of the car fleet consists of petrol-powered cars in the 'compact' category, with an engine capacity of 1600cm<sup>3</sup> or lower, which produce CO<sub>2</sub> emissions of less than 180g/km. A quarter of the vehicle fleet consists of 'mid-size' and 'executive' cars, the majority of which are for personal use. We do not have a vehicle-by-vehicle breakdown of the years of manufacture and mileage of the cars, and therefore it is not possible to estimate CO<sub>2</sub> emissions. One of our aims for 2007 is to clarify the procedures for information gathering and estimate the CO<sub>2</sub> emissions of the vehicle fleet. The number of vehicle kilometres travelled per employee was around 130 km in 2006.

### Distances travelled by company vehicles

- Central units
- Branch network



As a result of the corporate acquisitions made in 2006, the number of business trips – primarily trips abroad – rose considerably, since personal meetings and consultations are indispensable to ensure the successful integration of new subsidiaries. In a growing number of cases it is not only senior executives who travel, but also other employees who are outstanding specialists in their given field, in order to give professional guidance at the foreign subsidiary banks. Some 70% of trips abroad are made by aeroplane, while trips to the three nearest foreign subsidiary banks – in Slovakia, Serbia and Croatia – are made by car. Rail trips abroad are only made in exceptional cases. In the course of the business trips the decision regarding whether to travel by car or aeroplane is made based on consideration of cost-effectiveness.

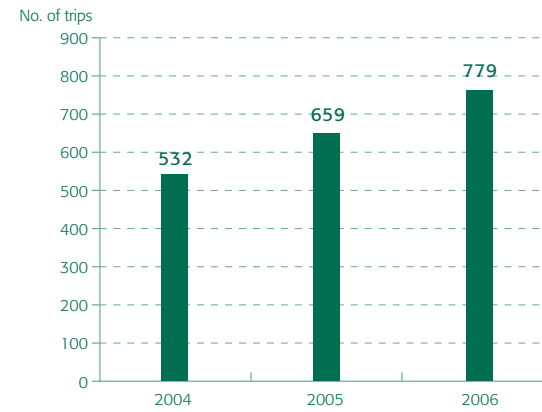
In order to reduce the number of trips, OTP Bank endeavours to hold more frequent video conferences, and to make better use of the video conferencing equipment at its disposal. The Bank's central buildings currently contain three rooms suitable for the holding of video conferences. At foreign subsidiaries (Bulgaria, Romania and Slovakia), the conditions for video conferencing are also in place.

A reduction in travelling can be realistically expected as the integration of the new subsidiaries progresses. In 2008 we plan to equip a room suitable for the holding of video conferences, with a capacity of 20-25 persons.



## Number of official business trips abroad

● Number of official business trips abroad



### Publications

In future OTP Bank will make a concerted effort to ensure that its publications are printed on recycled paper, similarly to this CSR Report. The 2007 Annual Report and CSR Report, as well as the Christmas greetings cards, will also be printed on recycled paper. Additionally, we

are expanding the range of information available via our website, to ensure that interested parties can access the desired content as quickly as possible, and without the use of paper. We believe that with this step we will not only be protecting our environment, but also representing and promoting our philosophy of corporate social responsibility.

## 11. Summary of our objectives

#### General objectives:

- extend the principles of responsible and sustainable operation to all of the Bank's activities
- extend the principles and practice of responsible operation to our domestic and foreign subsidiaries
- have the report assured by an independent external organisation in 2007

#### Economic objectives:

- maintain our market-leading position in Hungary and Bulgaria and improve our position in the other countries
- reduce the expense-to-income ratio to below 50-53% in 2007 and the following years
- in 2007, to close successfully, that is, with binding legal force, as many proceedings as possible, through the rejection of claims

- establish a Climate Change Fund in 2007 (OTP Fund Management Ltd)

#### Social objectives:

- create a social responsibility strategy in 2007
- make the Ethics Statement widely available and known
- elaborate, in 2007, a training program aimed at teaching the Code of Ethics and the principles behind the CSR strategy, and launch the training program for employees in 2008
- bring the Ethics Statement and the Corporate Social Responsibility Report to the attention of our suppliers in 2007
- organise an 'Investors' Day' in 2007, with a plan to hold another each year
- ensure that the number of renovated branches reaches 150 by the end of 2007 in the framework of the Branch Renovation Program

- continue to increase customer satisfaction in 2007 as planned
- increase the number of closed customer complaints in 2007
- publish detailed information booklets about our products and services and the risks involved, so as to provide more information to customers and improve their knowledge of finances, starting from 2007
- continuously reduce staff turnover, and reach a rate of less than 14% in 2007
- introduce a test to measure employee satisfaction in 2007
- launch a banking-career management system in 2007
- make donation and sponsorship activities more structured and revamping our donation and sponsorship strategy in 2007
- quantify benefits in kind

- starting from 2007, involve our employees in selecting the areas that will be supported by the Bank, and hold an intranet vote to learn about their view of our policy of support

#### Environmental objectives:

- employ a full-time environmentalist starting from 2007
- draft environmental protection regulations in 2008
- prepare an environmental protection training program in 2007 and introduce it in 2008
- take into account environmental impact more in relation to vehicle purchases
- broaden the scope of information collected in regard to vehicle use and estimate CO<sub>2</sub> emissions in 2007
- collect and process consumption information related to the Bank's central units and network in a unified system, and review consumption habits starting from 2007
- measure the results of steps taken to reduce energy consumption
- expand the use of renewable energy sources
- give preference to environment-friendly materials when selecting suppliers
- in the case of current suppliers, control the use of environment-friendly materials, prepare a report on the quantity of materials used
- collect and analyse quantity information related to printing (paper, recycled paper and toner)
- prepare a regulatory system related to printing in 2007
- use recycled paper for brochures and Christmas cards in 2007
- increase non paper-based information sources
- increase the rate of selective waste disposal
- institutionalise the recycling of plastic
- create a 20-25 person conference room suitable for video-conferencing in 2008





# 12. Glossary

**Acquisition:** : Purchase of a company or a share in a company, usually by acquiring a majority stake..

**Compliance:** Satisfying the requirements set out in the statutory regulations and recommendations that relate to the bank's operation.

**Corporate Social Responsibility (CSR):**  
An effort by companies to integrate social and environmental objectives into their business activities on a voluntary basis and mould their relationships with their stakeholders accordingly.

**Controlling, influencing stake:** An enterprise (parent company) may exercise a controlling influence over another enterprise (subsidiary) either directly, or indirectly through its subsidiary, because it meets at least one of the following conditions: a) it possesses alone the majority (i.e. more than 50%) of the owners' (shareholders') votes based on its ownership share; or b) it possesses alone the majority of votes on the basis of an agreement concluded with the other owners (shareholders); or c) in its capacity as the owner (shareholder) of the company it is entitled to elect or recall the majority of senior officers and the members of the supervisory board; or d) on the basis of an agreement concluded with the owners (shareholders) (or a provision in the articles of association) – regardless of the ownership share, the voting ratio and the right to elect and recall – it exercises an influencing degree of governance and control.

**EPS:** earnings per share, which shows how much after-tax profit the company earned in the given year in respect of one share.

**Code of ethics:** The code of ethics is a set of corporate guidelines that pertains to the conduct expected from the employees of the company and which specifies the line between behaviour that is expected and behaviour that is prohibited by the company. Companies formulate their ethical behaviour towards their stakeholders in a code of ethics.

**Staff turnover:** A measure of the flow of the workforce through an organisation; the rate at which an employer must hire new staff in order to replace those leaving the organisation over a given period of time (including persons leaving

voluntarily, people dismissed, people retiring, and people who lose their lives in service).

**Front office:** a work area where staff have direct contact with customers.

**Independent:** The Company regards as independent those members of the Board of Directors and the Supervisory Board who are not employed by OTP Bank Plc. Members of the Supervisory Board who represent the employees are not considered independent by the Bank.

**Application level GRI3 B:** A level specified in the guidelines, issued by the Global Reporting Initiative, pertaining to the preparation of sustainability reports, and which indicates the depth and breadth of the report. The GRI differentiates between three levels of application – A, B and C – according to the extent of standard data disclosure contained in the report.

**IFRS:** International Financial Reporting Standards.

**Performance indicator:** core performance indicators contain information on the organisation's economic, social and environmental performance in a specified, comparative format.

**Innovation contribution:** Act XC of 2003 on the Research and Technological Innovation Fund stipulates the payment of an innovation contribution, to be paid into a separate state fund, for companies under the effect of the act.

**Chinese Wall regulations:** The separating of investment and financial service activities is a requirement in respect of universal banks, in the interests of preventing the accruing of any advantage to persons who possess information in these two main financial areas compared to those who only have public information available to them. This is especially important in the case of securities traded on the stock exchange, such as, for example, information about the shares of OTP Bank Plc.

**Financial instrument:** A contractual agreement in which one party obtains a financial asset while the other party incurs a financial liability or equity (a capital instrument). Thus, the financial claims

and liabilities based on a contract or agreement, cash assets, debt securities, and investments embodying an ownership share, as well as derivative transactions, are all deemed to be financial instruments (Accounting Act).

**R&D (research and development):** R&D is regularly conducted creative work, the purpose of which is to expand knowledge, including the knowledge of human beings, culture and society, and the use of this knowledge for creating new applications. There are three types of R&D: basic research, applied research, and experimental development (Frascati, 1933). An important feature of R&D is its association with the new: the result of the R&D activity must contain a new element compared to generally available products, services or processes serving the same or a similar purpose.

**Two-tier banking system:** In a two-tier banking system the central bank (national bank) is not in direct contact with the population or with companies (market players). The role of the central bank is to regulate the volume of money in circulation. The central bank manages the accounts of commercial banks and safeguards the mandatory financial reserves of commercial banks. The finances of the population and companies are handled by the commercial banks.

**Two-tier governance model:** In corporate governance, business and functional governance are separate, and therefore the areas under their control are able to focus on their core activities better, thus leveraging the synergies of the group.

**Outsourcing:** Detaching certain activities and functions from the core activity and having other organisations perform them.

**Risk:** A danger; the possibility of the occurrence of a damaging event or loss. The degree of risk is determined primarily by two factors: the likelihood of occurrence and the seriousness of the consequence or impact.

**Collective Bargaining Agreement:** The Collective Bargaining Agreement may regulate the following: rights and obligations arising from the employment relationship, and the means of exercising and performing them, as well as the procedural rules related to this; the details of the relationship between the parties that enter into the Collective

Bargaining Agreement. A Collective Bargaining Agreement may be concluded between the employer, the employer's advocacy body and several employers on the one hand, and the trade union or several trade unions on the other. In Hungary, Collective Bargaining Agreements are regulated by Act XXII of 1992 on the Labour Code.

**Consolidation:** The purpose of consolidation is to strip out the effects of business dealings between group members ('intra-group transactions') when presenting the asset, financial and income position of a business group.

**Reactive power:** Reactive power burdens electric systems needlessly and may result in considerable extra cost.

**Multiplier:** The multiplier effect refers to the phenomenon by which a country's money supply expands as a result of banks being able to lend.

**Employee satisfaction survey:** A survey aimed at measuring employee satisfaction and commitment, which allows the company to learn about the underlying needs and motivations of its employees.

**Prudent operation:** Prudence includes all codified and non-codified behaviours that an averagely informed investor would justifiably expect from any financial institution. Prudent operation is a requirement under the law.

**SRI:** socially responsible investment. Investment that is responsible from a social point of view.

**Stakeholder:** A company's stakeholders are all groups and individuals that may affect or may be affected by the realisation of a company's objectives.

**Capital adequacy:** The degree to which a bank is supplied with capital relative to its liabilities and its risky assets. According to BIS (the Bank of International Payments), it is advisable for the capital adequacy ratio to be higher than 8 percent; if it is, a bank is considered to be safe in terms of its capitalisation.

**Business ethics:** Business or economic ethics is a systematic attempt to reconcile man's economic pursuits with his desire to achieve moral good.

# 13. GRI Index

Indicator number	Description of indicator	Page	Comments
<b>Strategy and Analysis</b>			
1.1	Statement of the most senior decision-maker of the organisation about the relevance of sustainability to the organisation and its strategy	5	
1.2	Description of key impacts, risks and opportunities	7; 52–53	
<b>Organisational Profile</b>			
2.1	Name of the organisation	59	
2.2	Primary brands, products, and/or services	10; 20; 21; 22	
2.3	Operational structure of the organisation, including main divisions and subsidiaries	8–9; 19	
2.4	Location of organisation's headquarters	59	
2.5	Locations of the company's operation	8–9	
2.6	Nature and legal form of ownership	3	
2.7	Markets served, broken down by sector and geographic area	8–9, 20–23	
2.8	Scale of the reporting organisation	2, 28	
2.9	Changes in the organisation during the reporting period	2, 8–9	
2.10	Honours and awards received during reporting period	11	
<b>Report Parameters</b>			
3.1	Reporting period	3	
3.2	Date of most recent previous report	–	None
3.3	Reporting cycle	3	
3.4	Contact point for questions regarding the report or its contents	59	
3.5	Process for defining report content	3	
3.6	Boundary of the report	4	
3.7	Specific limitations on the scope or boundary of the report	–	No such limitations, but we are continually adding to the range of information to be included in the report
3.8	Joint ventures, subsidiaries, leased facilities, outsourced operations and other entities that could significantly affect comparability from period to period and/or between organisations	4	
3.9	Data measurement techniques and the bases of calculations, including assumptions and techniques underlying estimations applied to the compilation of the indicators and other information in the report	4	And in the relevant sections
3.10	Reason for the re-statement of any information already published in earlier reports	–	Nem értelmezhető
3.11	Significant changes from previous reporting periods in the scope, boundary or measurement methods applied in the report	–	Nem értelmezhető
3.12	Table identifying the location of the Standard Disclosures in the report	56–58	
3.13	Policy and current practice with regard to seeking external assurance for the report.	4	
<b>Governance, Commitment and Engagement</b>			
4.1	Governance structure of the organisation	15–18	
4.2	Indication of whether the Chair of the highest governance body is also an executive officer	15	
4.3	If the organisation has a unitary board structure, the number of members of the highest governance body that are independent and/or non-executive members	15; 17	
4.4	Mechanisms for shareholders and employees to provide recommendations or direction to the highest governance body	15; 30; 38–39	Act IV/2006 on Companies
4.5	Linkage between the compensation of members of the highest governance body and senior managers and the performance of the organisation	15	
4.6	Processes in place for the highest governance body to ensure conflicts of interest are avoided	14	

4.7	Process for determining the qualifications and expertise of the members of the organisation's highest governance body for guiding the organisation's strategy on economic, environmental and social topics	–	No such strictly set criteria, it is primarily economic experience and qualifications that are required
4.8	Internally developed statements of mission, values, codes of conduct and principles relevant to economic, environmental and social performance	12	
4.9	Procedures of the highest governance body for overseeing the organisation's identification and management of economic, environmental and social performance, including relevant risks and opportunities, and adherence or compliance with internationally agreed standards, codes of conduct and principles	15	
4.10	Processes for evaluating the highest governance body's own performance, particularly with respect to economic, environmental and social performance	15	
4.11	Explanation of whether and how the principle of precaution is addressed by the organisation	13–14	Precaution in core operations
4.12	Externally developed economic, environmental and social charters, principles or other initiatives to which the organisation subscribes or endorses.	–	None
4.13	Membership in associations and/or national/international advocacy organisations	31	
4.14	List of stakeholder groups engaged by the organisation	3	
4.15	Basis for identification and selection of stakeholders with whom to engage	3	
4.16	Approaches to stakeholder engagement, including frequency of engagement by type and by stakeholder group	30; 31; 32–34; 39; 42–43	
4.17	Key topics and concerns that have been raised through stakeholder engagement, and how the organisation has responded to these (including through its reporting).	30; 31; 32–34; 39; 42–43	

## Core Performance Indicators

### Economic performance

EC1	Direct economic value generated and distributed	25
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### Market presence

EC5	Range of ratios: standard entry-level wage compared to local minimum wage	37
EC7	Procedures for local hiring and proportion of senior management hired from the local community at significant locations of the organisation	36

### Indirect economic impacts

EC8	Development and impact of infrastructure investments and services provided primarily for public benefit	23
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### Environmental Performance – the indicators have been designed primarily to suit the characteristics of manufacturing companies, and therefore the definitions and requirements are not always relevant to OTP Bank

#### Materials

EN1	Materials used by weight or volume	48
EN2	Percentage of materials used that are recycled input materials	48

#### Energy

EN4	Indirect energy consumption by primary energy resource	49
EN7	Initiatives to reduce indirect energy consumption and reductions achieved	49

#### Water

EN8	Total water withdrawal by source	49
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#### Gas and liquid emissions and waste

EN21	Total water discharge by quality and destination	49
EN22	Total weight of waste by type and disposal method	50

### Labour Practices and Decent Work

#### Employment

LA1	Total workforce by employment type, employment contract and region	35–36
LA3	Benefits provided to full-time employees that are not provided to temporary or part-time employees	35

#### Labour/management relations

LA4	Percentage of employees covered by collective bargaining agreements	38–39
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#### Occupational health and safety

LA7	Rates of injury, occupational diseases, lost days and absenteeism, and number of work-related fatalities by region	41
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<b>Training and education</b>		
LA11	Programs for skills management and lifelong learning that support the continued employability of employees and assist them in managing career endings	39
LA12	Percentage of employees receiving regular performance and career-development reviews	40
<b>Diversity and equal opportunity</b>		
LA14	Ratio of basic salary of men to women by employee category	– No difference
<b>Human Rights</b>		
<b>Prevention of discrimination</b>		
HR4	Total number of incidents of discrimination and actions taken	12
HR6	Risk of child labour and the measures taken to prevent it	12
HR7	Risk of forced or compulsory labour and the measures taken to prevent it	12
<b>Society</b>		
<b>Anti-competitive behaviour</b>		
SO7	Total number of legal actions in relation to anti-competitive behaviour, anti-trust and monopoly practices, and their outcome	26
<b>Product responsibility</b>		
<b>Product and service labelling</b>		
PR5	Practices related to customer satisfaction, including results of surveys measuring customer satisfaction	32–34
<b>Compliance</b>		
PR9	Monetary value of significant fines for non-compliance with laws and regulations concerning the provision and use of products and services	26
<b>Sector supplementary indicators – social performance</b>		
CSR2	CSR organisation	18–19
CSR6	Stakeholder dialogue (connection to point 4.16)	30; 31; 32–34; 39; 42–43
SOC1	Charitable contributions	47
RB1	Retail banking policy (socially important issues and products)	21

Note: The number of performance indicators can be found in the relevant section of the text.

***Our company's full Hungarian name and head office address:***

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***We look forward to receiving feedback from you!***

We regard feedback as necessary for ensuring the Bank's sustainable growth, and we will take this feedback into account as we progress along the path to exemplary corporate citizenship. Therefore we look forward to receiving your comments!  
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