

## 2006 AUDITED STOCK EXCHANGE REPORT OF OTP BANK PLC.

*OTP Bank Plc. has prepared its Audited Stock Exchange Report for 2006. The report contains International Financial Reporting Standards (IFRS) audited non-consolidated and consolidated balance sheet and profit and loss account for the 12 months ending December 31, 2006.*

### OTP BANK CONSOLIDATED

#### IFRS CONSOLIDATED BALANCE SHEET

On December 31, 2006 the consolidated IFRS total assets of the Bank were HUF 7,097.4 billion, representing a HUF 1,881.5 billion or 36.1% growth over the same period a year earlier. Such a significant growth already included the consolidation of the Ukrainian, Russian subsidiaries, as well as that of Zepter banka, Serbia.

The Bank's consolidated shareholders' equity on December 31, 2006 was HUF 788.2 billion, by 44.0% higher than the consolidated shareholders' equity as of December 31, 2005. The shareholders' equity represented 11.1% of total assets. Book value per share (BVPS) amounted to HUF 2,815 on December 31, 2006.

#### Main consolidated balance sheet data of OTP Bank according to IFRS:

HUF mn	31/12/2005	31/12/2006	Y-o-Y
Cash and bank	483,191	532,625	10.2%
Placements with other banks	438,768	602,616	37.3%
Financial assets at fair value through statements of operations	48,054	110,576	130.1%
Trading securities	409,945	489,250	19.3%
<b>Gross loans</b>	<b>3,297,218</b>	<b>4,474,702</b>	<b>35.7%</b>
Provisions on loans	105,920	127,611	20.5%
Net loans	3,191,298	4,347,091	36.2%
Equity investments	12,357	70,938	474.1%
Securities held-to-maturity	289,803	268,281	-7.4%
Intangible assets	233,245	464,716	99.2%
Other assets	109,241	211,333	93.5%
<b>ASSETS</b>	<b>5,215,902</b>	<b>7,097,426</b>	<b>36.1%</b>
Liabilities to credit institutions	364,124	660,416	81.4%
<b>Liabilities to customers</b>	<b>3,428,193</b>	<b>4,232,153</b>	<b>23.5%</b>
Issued securities	543,460	781,316	43.8%
Other liabilities	285,630	384,602	34.7%
Subordinated loans	47,023	250,726	433.2%
<b>LIABILITIES</b>	<b>4,668,430</b>	<b>6,309,213</b>	<b>35.1%</b>
<b>TOTAL SHAREHOLDERS' EQUITY</b>	<b>547,472</b>	<b>788,213</b>	<b>44.0%</b>
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>	<b>5,215,902</b>	<b>7,097,426</b>	<b>36.1%</b>
			%-point
Gross loans/deposits	96.2%	105.7%	9.6%

**On the asset side**, cash, deposits and balances with the NBH increased by 10.2% compared to December 31, 2005. On December 31, 2006 the volume of interbank placements was 37.3% higher y-o-y. Financial assets at fair value through profit and loss increased by 130.1% to HUF 110.6 billion. Available-

for-sale securities (489.3 billion) were HUF 79.3 billion higher than a year earlier. This volume was by HUF 140.4 billion higher than the non-consolidated figure of the Bank, due to securities held by OTP Garancia Insurance, OTP Building Society and OTP banka Hrvatska and adjustment for mortgage bonds held by the parent bank.

Volume of consolidated loans, net of allowance for possible loan losses grew by 36.2% from HUF 3,191.3 billion on December 31, 2005 to HUF 4,347.1 billion as of December 31, 2006. The share of net loans in total assets reached 61.2%, and equalled to that of at the end of December 31, 2005. Within consolidated gross business loan volume of HUF 4,474.7 billion, corporate loans represented 36.0% (HUF 1,610.0 billion); retail loans 59.1% (HUF 2,649.4 billion) and municipality loans 4.9% (HUF 218.3 billion, respectively. Within retail loans housing loans stood at HUF 1,520.1 billion (+24.4%); consumer loans at 1,126.4 billion (+51.5%). 35.7% of aggregated total loans were granted by the foreign subsidiaries.

#### IFRS consolidated gross loan volume by business lines:

HUF mn	31/12/2005	31/12/2006	Y-o-Y
Corporate loans	1,195,374	1,609,989	34.7%
Municipality loans	136,039	218,299	60.5%
Retail loans	1,965,805	2,646,414	34.6%
Housing loans	1,222,397	1,520,053	24.4%
Consumer loans	743,408	1,126,361	51.5%
Total	3,297,218	4,474,702	35.7%

The quality of the loan book under IFRS deteriorated significantly, mainly due to the consolidation of the Ukrainian and Russian subsidiaries, but also due to the weaker corporate loan quality of OTP Bank. At the end of December 2006 performing portion represented 79.6% of total, 14.8% was to-be-monitored. Non-performing loans (NPLs) were 5.6% of total, by 200 bps higher than a year before. 59.2% of qualified loans and 55.0% of NPLs were in the books of foreign subsidiaries.

#### IFRS consolidated gross loan volume by qualified categories:

HUF mn	31/12/2005	31/12/2006	Y-o-Y
Performing loans	2,876,541	3,561,977	23.8%
To-be-monitored loans	301,581	661,594	119.4%
Below average	27,627	109,417	296.1%
Doubtful	27,802	64,948	133.6%
Bad	63,668	76,765	20.6%
Total receivables	3,297,218	4,474,702	35.7%
<b>QUALITY</b>			
Total qualified	420,677	912,724	117.0%
NPL	119,096	251,130	110.9%
Qualified ratio	12.8%	20.4%	7.6%
NPL ratio	3.6%	5.6%	2.0%
<b>COVERAGE</b>			
Provision on NPL	89,613	110,436	23.2%
Coverage on NPL	75.2%	44.0%	-31.2%
Provision on qualified	101,354	121,323	19.7%
Coverage on qualified	24.1%	13.3%	-10.8%
Net loans	3,191,298	4,347,091	36.2%

**On the liability side**, customer liabilities were HUF 4,232.2 billion, 23.5% higher than a year earlier and 57.3% higher than at the Bank. Customer deposits represented 59.6% of total liabilities (65.7% as at December 31, 2005). Out of total, 26% of deposits came from corporate; 69% from retail and 5% from municipality sector customers.

#### Consolidated deposits by business lines:

HUF mn	31/12/2005	31/12/2006	Y-o-Y
Corporate deposits	662,214	1,098,083	65.8%
Municipality deposits	203,111	221,315	9.0%
Retail deposits	2,562,869	2,912,755	13.7%
Total	3,428,194	4,232,153	23.5%

Volume of issued securities was 43.8% higher than a year earlier and reached HUF 781.3 billion. The yearly growth was mainly due to the issuances of EUR 750 million denominated bonds by OTP Mortgage Bank.

## CONSOLIDATED IFRS STATEMENT OF OPERATIONS (PROFIT AND LOSS ACCOUNT)

HUF mn	2005	2006	Y-o-Y
Interest income	459,024	542,817	18.3%
Interest expense	161,799	186,873	15.5%
<b>Net interest income</b>	<b>297,225</b>	<b>355,944</b>	<b>19.8%</b>
Net interest income without swap	290,641	322,406	10.9%
Provision for possible loan losses	28,042	28,559	1.8%
<b>Net interest income after provision</b>	<b>269,183</b>	<b>327,385</b>	<b>21.6%</b>
Fees and commissions income	118,884	145,015	22.0%
Foreign exchange gains, net	3,879	-11,884	
Gain on securities, net	9,708	6,901	-28.9%
Gain on real estate transactions	96	1,292	
Dividend income	672	901	34.1%
Insurance premiums	69,793	75,554	8.3%
Other non-interest income	13,465	24,940	85.2%
<b>Total non-interest income</b>	<b>216,497</b>	<b>242,719</b>	<b>12.1%</b>
Fees and commissions expense	19,930	32,115	61.1%
Personnel expenses	95,235	106,804	12.1%
Depreciation	21,897	26,465	20.9%
Insurance expenses	58,468	60,866	4.1%
Other non-interest expenses	98,073	125,252	27.7%
<b>Total non-interest expense</b>	<b>293,603</b>	<b>351,502</b>	<b>19.7%</b>
<b>Income before income taxes</b>	<b>192,077</b>	<b>218,603</b>	<b>13.8%</b>
Income taxes	33,803	31,506	-6.8%
<b>After tax profit</b>	<b>158,274</b>	<b>187,097</b>	<b>18.2%</b>
			%-point
Total income (with net fees)	493,792	566,548	14.7%
Operating cost	273,673	319,387	16.7%
Cost/income ratio	55.4%	56.4%	1.0%
Net interest margin before provision	6.34%	5.78%	-0.6%
Net interest margin without swap	6.20%	5.24%	-1.0%
ROA	3.38%	3.04%	-0.3%
ROE	32.3%	28.0%	-4.3%

Cumulated IFRS consolidated pre-tax profit was HUF 218.6 billion, which represented a 13.8% increase over 2005. After-tax profit grew by HUF 28.8 billion or by 18.2% to HUF 187.1 billion.

The 2006 consolidated IFRS net interest income of OTP Bank was HUF 355.9 billion, 19.8% higher than one year before. This was a result of 18.3% yearly growth in interest income and 15.5% y-o-y decrease in interest expenses.

Consolidated interest income amounted to HUF 542.8 billion (+18.3%). Within this, interest income from loans without swaps exceeded HUF 386 billion (+13.8%), whereas interest income from swaps was also significant: HUF 62.7 billion (+91.9%). Total interest expense was HUF 186.9 billion, 15.5% higher than in 2005. Within this, interest expenses paid for customers' deposit rose from HUF 99.4 billion by 5.2% to HUF 104.6 billion. Interest expenses from swaps amounted to HUF 29.2 billion, and thus net swap profit reached HUF 33.5 billion, which exceeds more than five-times its volume of HUF 6.6 billion in 2005. Without swaps net interest income would be HUF 322.4 billion, 10.9% higher than one year before.

Provisions for possible loan and placement losses amounted to HUF 28.6 billion, 1.8% higher than in 2005. Provisioning cost as a percentage of average gross loans reached 0.74% compared to 0.95% a year earlier.

Non-interest income was 12.1% lower than a year earlier and reached HUF 242.7 billion. Within non-interest revenues, the fee and commission income increased by 22.0% to HUF 145.0 billion. The insurance premium reached HUF 75.5 billion, an increase of 8.3% y-o-y. Net losses on foreign exchange transactions grew significantly to HUF 11.9 billion compared to the gains of HUF 3.9 billion in 2005, net profit on securities trading decreased to HUF 6.9 billion.

Consolidated non-interest expenses grew by 19.7% year-on-year to HUF 351.5 billion. Consolidated personnel expenses were 12.1% higher than a year before and reached HUF 106.8 billion. Consolidated fee and commission expenses increased significantly by 61.1% to HUF 32.1 billion. Insurance expenses rose slightly by 4.1% to HUF 60.9 billion, whereas other non-interest expenses increased substantially by 27.7% to HUF 125.3 billion.

Hence, net fees and commissions grew by 14.1% to HUF 112.9 billion and net insurance income grew to HUF 14.7 billion, an increase of 29.7% y-o-y. Consolidated cost-income ratio was 56.4%, 1.0%-points higher than a year before.

Net consolidated interest margin over average total assets was 5.78%, 56 bps below 2005. Disregarding the effects of swaps net margin in 2006 was lower: 5.24%, a decrease of 96 bps. Consolidated ROAA was 3.04% (3.38% in 2005), while consolidated ROAE reached 28.0% (32.3% in 2005). Basic earnings per share (EPS) reached HUF 722, HUF 118 above 2005. Diluted EPS reached HUF 714.

## OTP BANK NON-CONSOLIDATED

### IFRS NON-CONSOLIDATED BALANCE SHEET

OTP Bank maintained its market position as the largest retail bank in Hungary and the largest bank by total assets. Total assets of the Bank were HUF 4,506.7 billion on December 31, 2006, which was 25.4% higher than a year earlier.

#### Main non-consolidated balance sheet data of OTP Bank according to IFRS:

HUF mn	31/12/2005	31/12/2006	Y-o-Y
Cash and bank	379,249	429,325	13.2%
Placements with other banks	393,659	657,939	67.1%
Financial assets at fair value	34,054	61,085	79.4%
Securities for sale and trading	371,433	348,859	-6.1%
<b>Gross loans</b>	<b>1,497,670</b>	<b>1,782,699</b>	<b>19.0%</b>
Provisions	-22,162	-31,021	40.0%
Net loans	1,475,508	1,751,678	18.7%
Investments	223,881	583,298	160.5%
Securities held-to-maturity	521,797	504,111	-3.4%
Intangible assets	105,569	100,721	-4.6%
Other assets	87,723	69,395	-20.9%
<b>ASSETS</b>	<b>3,592,872</b>	<b>4,506,410</b>	<b>25.4%</b>
Liabilities to credit institutions	255,211	557,857	118.6%
<b>Deposits from customers</b>	<b>2,506,457</b>	<b>2,690,098</b>	<b>7.3%</b>
Issued securities	202,267	202,050	-0.1%
Other liabilities	108,615	137,934	27.0%
Subordinated loans	47,023	247,865	427.1%
LIABILITIES	3,119,573	3,835,804	23.0%
<b>TOTAL SHAREHOLDERS' EQUITY</b>	<b>473,299</b>	<b>670,606</b>	<b>41.7%</b>
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>	<b>3,592,872</b>	<b>4,506,410</b>	<b>25.4%</b>
			%-point
Gross loans to deposits	59.8%	66.3%	6.5%

**On the asset side**, gross loan volume represented 39.6% (2005: 41.7%), while liabilities to customers amounted to 59.8% (2005: 69.8%). Total gross loan volume increased by 19.0% in 2006. Retail loans reached HUF 567.9 billion, representing 31.9% of total loans (2005: 31.0%). The volume of the corporate loans was HUF 1,004.6 billion, exceeded 56.4% of total loans (2005: 60.3%). Share of municipality loans was 11.8%, an increase of 60.3% y-o-y. The quality of loan portfolio slightly deteriorated in 2006. Qualified loans represented 5.4% of the total loans (2005: 5.3%), while NPL ratio was 3.2% (2005: 2.3%). NPL coverage was 48.7% compared to 53.4% at the end of December 2006.

#### IFRS non-consolidated gross loan volume by business lines:

HUF mn	31/12/2005	31/12/2006	Y-o-Y
Corporate loans	902,696	1,004,605	11.3%
Municipality loans	131,107	210,159	60.3%
Retail loans	463,867	567,936	22.4%
Housing loans	210,150	259,583	23.5%
Consumer loans	253,717	308,353	21.5%
Total	1,497,670	1,782,699	19.0%

#### IFRS non-consolidated gross loan volume by qualifying categories:

HUF mn	31/12/2005	31/12/2006	Y-o-Y
Performing loans	1,418,879	1,686,246	18.8%
To-be-monitored loans	44,250	38,954	-12.0%
Below average	13,160	22,681	72.3%
Doubtful	14,119	25,577	81.2%
Bad	7,262	9,242	27.3%
Total receivables	1,497,670	1,782,699	19.0%
<b>QUALITY</b>			
Total qualified	78,791	96,454	22.4%
NPL	34,541	57,500	66.5%
Qualified ratio	5.3%	5.4%	2.8%
NPL ratio	2.3%	3.2%	0.9%
<b>COVERAGE</b>			
Provision on NPL	18,449	27,986	51.7%

HUF mn	31/12/2005	31/12/2006	Y-o-Y
Coverage on NPL	53.4%	48.7%	-4.7%
Provision on qualified	22,162	31,021	40.0%
Coverage on qualified	28.1%	32.2%	4.0%
Net loans	1,475,508	1,751,678	18.7%

**On the liability side**, customer deposits amounted to HUF 2,690.1 billion, 7.3% higher than a year earlier. Deposits represented 59.7% of total liabilities (2005: 69.8%). Within, 67.4% (2005: 74.6%) came from retail, 26.4% (2005: 18.9%) from corporate, and 6.3% from municipal sector customers.

**IFRS non-consolidated deposits by business lines:**

HUF mn	31/12/2005	31/12/2006	Y-o-Y
Corporate deposits	474,052	708,981	49.6%
Municipality deposits	161,993	168,379	3.9%
Retail deposits	1,870,412	1,812,738	-3.1%
Total	2,506,457	2,690,098	7.3%

Liabilities from issued securities remained stable at the level of HUF 202 billion. Within the liabilities of the Bank the volume of subordinated loans grew significantly: in September OTP Bank issued fixed rated subordinated bonds in a total value of EUR 300 million and it was followed by an Upper Tier 2 (perpetual NC10) transaction in November with a total value of EUR 500 million. In the first 10 years it pays a fix 5.875% coupon p.a. and 3 months Euribor + 300 bps thereafter. Gross loans to deposits ratio of the Bank was 66.3%, compared to 59.8% at the end of December 2006.

**NON-CONSOLIDATED IFRS STATEMENT OF OPERATIONS (PROFIT AND LOSS ACCOUNT)**

HUF mn	2005	2006	Y-o-Y
Interest income	281,403	331,917	18.0%
Interest inc. swap on loans	945	897	-5.1%
Interest inc. swap on interbank loans	28,786	52,666	83.0%
Interest expense	112,763	128,753	14.2%
Interest exp. swap on interbank deposits	22,348	24,924	11.5%
Interest exp. swap on deposits	123	2,312	
<b>Net interest income</b>	<b>168,640</b>	<b>203,164</b>	<b>20.5%</b>
<b>Net interest income (without swaps)</b>	<b>161,380</b>	<b>176,888</b>	<b>9.6%</b>
Provision for possible loan losses	16,435	25,443	54.8%
Net interest income after provision	152,205	177,721	16.8%
Fees and commissions income	136,264	147,668	8.4%
Foreign exchange gains, net	1,603	-14,465	
Gain on securities, net	3,103	870	-71.9%
Other non-interest income	17,450	61,178	250.6%
<b>Total non-interest income</b>	<b>158,420</b>	<b>195,252</b>	<b>23.2%</b>
Fees and commissions expense	13,840	21,162	52.9%
Personnel expenses	62,437	65,406	4.8%
Depreciation	15,244	17,391	14.1%
Other non-interest expenses	63,302	81,526	28.8%
<b>Total non-interest expense</b>	<b>154,823</b>	<b>185,486</b>	<b>19.8%</b>
<b>Income before income taxes</b>	<b>155,801</b>	<b>187,487</b>	<b>20.3%</b>
Income taxes	22,804	17,298	-24.6%
<b>After tax profit</b>	<b>132,848</b>	<b>170,188</b>	<b>28.1%</b>
			<b>%-point</b>
Total income (with net fees)	313,220	377,254	20.4%
Operating cost	140,983	164,323	16.6%
Cost/income ratio	45.0%	43.6%	-1.5%
Net interest margin (before provisioning)	5.07%	5.02%	-0.06%
Net interest margin (before provisioning and swaps)	6.47%	4.37%	-0.49%
ROA	4.00%	4.20%	0.20%
ROE	30.8%	29.8%	-1.0%

In 2006 OTP Bank realised HUF 187 billion profit before tax (+20.3%). Net interest income was by 20.5% higher than the figure of the base period, driven by 18.0% increase of interest income, while interest expenses increased slightly by 14.2%. Non-interest income of OTP Bank showed an increase

of 23.2% during the year of 2006, mainly due to the above mentioned transactions. Due to the fair value adjustment the net securities result was by 71.9% lower than in 2005. FX gain and loss result also showed a significant change compared to last year: its loss of HUF 14.5 billion was by HUF 16 billion worse than a year ago due to adjustments of derivative transactions. Non-interest expenses exceeded 2005 figures by 19.8%, within that personal expenses represented 35.3% in total, while fee and commission income comprised 11.4%, respectively.

Cost to income ratio was 43.6%, which was significantly lower than the consolidated OTP Group level of 56.4%. In 2006 annualized ROA was 4.20% (consolidated ROA was 3.04%), and ROE was 29.8% (consolidated ROE was 28.0%).

## **DIVIDEND**

According to the Bank's already announced dividend policy, the dividend pay-out ratio is 30%, based on the non-consolidated HAR-based earnings. The extraordinary result of earlier mentioned ICES (Income Certificates Exchangeable for Shares) transaction is not included in the dividend-payment basis. Thus, dividends per share is HUF 144, dividends payment rate is 21.7% of the total non-consolidated HAR-based after tax profit.

## **CAPITAL ADEQUACY (BASED ON HAR)**

The HAR **shareholders' equity** of OTP Bank was HUF 553.2 billion on December 31, 2006, by HUF 145.6 billion higher than a year earlier. The growth was a result of a growth of HUF 18.6 billion in general reserves, as well as HUF 107.6 billion retained earnings, a HUF 57.9 billion growth in balance sheet profit, compensating the decrease (HUF 38.6 billion) of tied-up reserves. Non-consolidated book value of one share with face value of HUF 100 was HUF 1.978 on December 31, 2006.

The guarantee capital of the Bank stood at HUF 264,617 million or HUF 270,220 million including profit for the period, of which tier 2 capital amounted to HUF 242,283 million. With risk weighted assets of HUF 2,734.0 billion (an increase of 33.3% y-o-y) the **capital adequacy ratio** – calculated according to the Hungarian regulations – reached 9.69%, higher than 8% required by the Banking Act. The ratio calculated with 4Q 2006 profit was 9.88%.

## **AGGREGATED MARKET SHARES OF THE DOMESTIC GROUP MEMBERS IN THE CREDIT INSTITUTIONS SYSTEM IN HUNGARY BASED ON HAR DATA**

	2005	2006	Y-o-Y
Total assets	24.1%	24.7%	0.6%
Loans	21.4%	20.6%	-0.9%
Retail	37.7%	34.5%	-3.2%
Housing	46.4%	41.7%	-4.7%
HUF	52.6%	51.2%	-1.4%
FX	22.5%	22.9%	0.3%
Consumer	24.4%	24.8%	0.4%
Corporate	11.7%	11.0%	-0.7%
Municipal	52.7%	55.1%	2.4%
Deposits	26.9%	23.7%	-3.2%
Retail	34.7%	32.4%	-2.3%
HUF	34.5%	32.0%	-2.5%
FX	36.0%	35.0%	-1.1%
Corporate	11.4%	9.9%	-1.5%
Municipal	63.4%	64.2%	0.8%

## **STAFF LEVEL AT OTP GROUP**

The closing staff number of the whole group was 26,869 persons as of December 31, 2006, during the fourth quarter the staff increased by 8,004 persons. Year-on-year growth was 8,793 persons due to the consolidation of CJSC OTP Bank (+2,021 persons), Investsberbank (+5,438 persons) and Zepter banka (+252 persons).

The closing number of OTP Bank staff was 8.169 on December 31, 2006, 270 more than at the end of December, 2005 and 95 persons more than at the end of September 2006. In the fourth quarter of 2006 the staff in the branch network increased by 153 people, in the headquarters the number of staff decreased by 58 persons.



	31/12/2005	31/12/2006	Y-o-Y
OTP Bank			
Closing staff (persons)	7,899	8,169	3.4%
Average staff (persons)	7,842	8,017	2.2%
Per capita total assets (HUF mn)	454.9	562.1	23.6%
Per capita profit after tax quarterly (HUF mn)	3.6	6.4	77.1%
GROUP			
Closing staff (persons)	18,076	26,869	49.5%
Average staff (persons)	18,045	24,551	38.9%
Per capita total assets (HUF mn)	288.6	264.1	-0.3%
Per capita profit after tax quarterly (HUF mn)	2.3	1.7	-27.5%

## **PERSONAL AND ORGANIZATIONAL CHANGES DURING THE FOURTH QUARTER OF 2006 AT OTP BANK PLC.**

In the management, Board of Directors and Supervisory Board the following changes occurred in 2006:

Dr. István Gresa was appointed as deputy CEO of Credit Approval and Risk Management Division as of March 1, 2006. At the same time Géza Lenk was relieved from this position, however, he kept his position as deputy CEO.

The Annual General Meeting of OTP held on April 28, 2006 elected Dr. Sándor Csányi, Dr. Zoltán Spéder, Dr. Antal Pongrácz, Dr. Sándor Pintér (who resigned as Member of the Supervisory Board), Csaba Lantos, Dr. István Kocsis, Dr. Tibor Bíró, Mihály Baumstark, Péter Braun, Dr. László Utassy and József Vörös to the Board of Directors until AGM following the business year of 2010, but maximal until May 30, 2011.

Pap Gyula Deputy Director, the Head of IT and Logistics Division was relieved from his position – with honourable mention of his work – by the Chairman and CEO of OTP Bank as from October 1, 2006, and Ákos Takáts was appointed to run the IT and Logistics Division, after having the required permissions.

OTP Bank Plc.



**OTP BANK PLC.**

*CONSOLIDATED FINANCIAL STATEMENTS  
IN ACCORDANCE WITH  
INTERNATIONAL FINANCIAL  
REPORTING STANDARDS ADOPTED BY  
THE EUROPEAN UNION*

*FOR THE YEAR ENDED  
DECEMBER 31, 2006*

# OTP BANK PLC.

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Deloitte Auditing and Consulting Ltd.  
H-1068 Budapest, Dózsa György út 84/C., Hungary  
H-1438 Budapest, P.O.Box 471, Hungary

Tel: +36 (1) 428-6800  
Fax: +36 (1) 428-6801  
[www.deloitte.com/Hungary](http://www.deloitte.com/Hungary)

## INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying consolidated financial statements of OTP Bank Plc. and its subsidiaries, which comprise the consolidated balance sheet as at December 31, 2006, and the related consolidated income statement, statement of changes in equity and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

### *Management's Responsibility for the Financial Statements*

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

### *Auditor's Responsibility*

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

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

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A member of  
**Deloitte Touche Tohmatsu**

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

*Opinion*

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of OTP Bank Plc. and its subsidiaries as of December 31, 2006, and of its consolidated financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

Budapest, March 21, 2007



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



Nagy Zoltán  
Registered Auditor  
005027

**OTP BANK PLC.**  
**CONSOLIDATED BALANCE SHEET**  
**AS AT DECEMBER 31, 2006**  
**(in HUF mn)**

	<i>Note</i>	<i>2006</i>	<i>2005</i>
Cash, due from banks and balances with the National Bank of Hungary	4	532,625	483,191
Placements with other banks, net of allowance for placement losses	5	602,615	438,768
Financial assets at fair value through statements of operations	6	110,576	48,054
Securities available-for-sale	7	489,250	409,945
Loans, net of allowance for loan losses	8	4,347,091	3,191,298
Accrued interest receivable		54,223	37,870
Associates and other investments	9	70,939	12,357
Securities held-to-maturity	10	268,280	289,803
Premises, equipment and intangible assets, net	11	464,716	233,245
Other assets	12	<u>157,111</u>	<u>71,371</u>
<b>TOTAL ASSETS</b>		<b><u>7,097,426</u></b>	<b><u>5,215,902</u></b>
Due to banks and deposits from the National Bank of Hungary and other banks	13	660,417	364,124
Deposits from customers	14	4,232,153	3,428,193
Liabilities from issued securities	15	781,315	543,460
Accrued interest payable		46,011	24,902
Other liabilities	16	338,591	260,728
Subordinated bonds and loans	17	<u>250,726</u>	<u>47,023</u>
<b>TOTAL LIABILITIES</b>		<b><u>6,309,213</u></b>	<b><u>4,668,430</u></b>
Share capital	18	28,000	28,000
Retained earnings and reserves	19	820,819	572,567
Treasury shares	20	(63,716)	(53,586)
Minority interest	21	<u>3,110</u>	<u>491</u>
<b>TOTAL SHAREHOLDERS' EQUITY</b>		<b><u>788,213</u></b>	<b><u>547,472</u></b>
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>		<b><u>7,097,426</u></b>	<b><u>5,215,902</u></b>

Budapest, March 21, 2007

  
 dr. Sándor Csányi  
 Chairman and Chief Executive Officer

The accompanying notes to consolidated financial statements on pages 7 to 57 form an integral part of these consolidated financial statements.

**OTP BANK PLC.**  
**CONSOLIDATED STATEMENTS OF OPERATIONS**  
**FOR THE YEAR ENDED DECEMBER 31, 2006**  
**(in HUF mn)**

	<i>Note</i>	<i>2006</i>	<i>2005</i>
Interest Income:			
Loans		387,653	340,793
Placements with other banks		79,409	43,734
Due from banks and balances with the National bank of Hungary		25,937	29,174
Securities held for trading		2,593	2,708
Securities available-for-sale		28,746	25,235
Securities held-to-maturity		<u>18,479</u>	<u>17,380</u>
<i>Total Interest Income</i>		<u>542,817</u>	<u>459,024</u>
Interest Expense:			
Due to banks and deposits from the National Bank of Hungary and other banks		41,028	34,501
Deposits from customers		107,060	99,703
Liabilities from issued securities		34,321	25,959
Subordinated bonds and loans		<u>4,464</u>	<u>1,636</u>
<i>Total Interest Expense</i>		<u>186,873</u>	<u>161,799</u>
<b>NET INTEREST INCOME</b>		<b>355,944</b>	<b>297,225</b>
Provision for loan and placement losses	5, 8	<u>28,559</u>	<u>28,042</u>
<b>NET INTEREST INCOME AFTER PROVISION FOR LOAN AND PLACEMENT LOSSES</b>		<b>327,385</b>	<b>269,183</b>
Non-Interest Income:			
Fees and commissions		145,015	118,884
Foreign exchange gains, net		(11,884)	3,879
Gains and losses on securities, net		6,900	9,708
Gains on real estate transactions, net		1,292	96
Dividend income and gains and losses of associated companies		901	672
Insurance premiums		75,554	69,793
Other		<u>24,940</u>	<u>13,465</u>
<i>Total Non-Interest Income</i>		<u>242,718</u>	<u>216,497</u>
Non-Interest Expenses:			
Fees and commissions		32,116	19,930
Personnel expenses		106,804	95,235
Depreciation and amortization	11	26,464	21,897
Insurance expenses		60,866	58,468
Other	22	<u>125,251</u>	<u>98,073</u>
<i>Total Non-Interest Expense</i>		<u>351,501</u>	<u>293,603</u>
<b>INCOME BEFORE INCOME TAXES</b>		<b>218,602</b>	<b>192,077</b>
Income taxes	23	<u>(31,506)</u>	<u>(33,803)</u>
<b>INCOME AFTER INCOME TAXES</b>		<b>187,096</b>	<b>158,274</b>
Minority interest		<u>(45)</u>	<u>(39)</u>
<b>NET INCOME</b>		<b><u>187,051</u></b>	<b><u>158,235</u></b>
<b>Consolidated earnings per share (in HUF)</b>			
Basic	36	<u>722</u>	<u>603</u>
Diluted	36	<u>714</u>	<u>599</u>

The accompanying notes to consolidated financial statements on pages 7 to 57 form an integral part of these consolidated financial statements.

**OTP BANK PLC.**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**FOR THE YEAR DECEMBER 31, 2006**  
**(in HUF mn)**

	<i>Note</i>	<i>2006</i>	<i>2005</i>
<b>OPERATING ACTIVITIES</b>			
<b>Income before income taxes</b>		<b>218,602</b>	<b>192,077</b>
<i>Adjustments to reconcile income before income taxes to net cash provided by operating activities</i>			
Income tax paid		(47,072)	(29,208)
Depreciation and amortization	11	26,464	21,897
Provision for loan and placement losses	5,8	28,559	28,042
Provision for permanent diminution in value of equity investments	9	(1,892)	166
Provision/(Release of allowance) for losses on other assets	12	814	88
Release of allowance for losses on off-balance sheet commitments and contingent liabilities, net	16	6,982	(1,544)
Net increase in insurance reserves		32,253	31,763
Share-based compensation		5,927	7,497
Unrealised losses on fair value adjustment of securities held for trading		1,465	41
Unrealised losses/(gains) on fair value adjustment of derivative financial instruments		(17,137)	797
<i>Changes in operating assets and liabilities</i>			
Net changes in financial assets through Statements of Operations		(6,297)	29,244
Net (increase) in accrued interest receivables		(10,059)	(4,827)
Net (increase)/decrease in other assets, excluding advances for investments and before allowance for losses		(80,271)	5,843
Net decrease/(increase) in accrued interest payable		16,801	(3,679)
Net increase in other liabilities		<u>43,969</u>	<u>1,207</u>
<b>Net Cash Provided by Operating Activities</b>		<b><u>219,108</u></b>	<b><u>279,404</u></b>
<b>INVESTING ACTIVITIES</b>			
Net (increase) in placement with other bank before provision for placement losses		(80,699)	(79,136)
Net (increase) in securities available-for-sale		(78,636)	(72,018)
Net (increase) in equity investments, before provision for permanent diminution in value		(56,678)	(2,465)
Net cash outflow from acquisition of subsidiaries		(243,703)	(57,667)
Net decrease in debt securities held-to-maturity		21,526	(41,376)
Net (increase)/decrease in advances for investments, included in other assets		(255)	(14)
Net (increase) in loans, before provision for loan losses		(601,625)	(590,490)
Net additions to premises, equipment and intangible assets		<u>(38,050)</u>	<u>(33,580)</u>
<b>Net Cash Used in Investing Activities</b>		<b><u>(1,078,120)</u></b>	<b><u>(876,746)</u></b>

The accompanying notes to consolidated financial statements on pages 7 to 57 form an integral part of these consolidated financial statements.



**OTP BANK PLC.**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**FOR THE DECEMBER 31, 2006**  
**(in HUF mn)**  
**[continued]**

	<i>Note</i>	<i>2006</i>	<i>2005</i>
<b>FINANCING ACTIVITIES</b>			
Net increase in due to banks and deposits from the National Bank of Hungary and other banks		86,294	100,798
Net increase in deposits from customers		359,754	313,162
Net increase in liabilities from issued securities		220,626	226,238
Increase/(decrease) in subordinated bonds and loans		192,476	31,466
Increase/(decrease) of minority interest		(414)	66
Foreign currency translation gains/(losses)		(8,478)	4,449
Issue of equity instrument (ICES)		120,305	--
Net change in treasury shares		(6,998)	(20,293)
Net (decrease)/increase in compulsory reserves at National Bank of Hungary	4	(14,772)	(10,981)
Dividends paid		<u>(55,119)</u>	<u>(41,240)</u>
<b>Net Cash Provided by Financing Activities</b>		<b><u>893,674</u></b>	<b><u>603,665</u></b>
<b>Net Increase in Cash and Cash Equivalents</b>		<b><u>34,662</u></b>	<b><u>6,323</u></b>
Cash and cash equivalents as at January 1		<u>361,996</u>	<u>355,673</u>
<b>Cash and Cash Equivalents as at end of period</b>		<b><u>396,658</u></b>	<b><u>361,996</u></b>

**Analysis of cash and cash equivalents opening and closing balance**

Cash, due from banks and balances with the National Bank of Hungary	4	483,191	465,887
Compulsory reserve established by the National Bank of Hungary	4	<u>(121,195)</u>	<u>(110,214)</u>
<b>Cash and cash equivalents as at January 1</b>		<b><u>361,996</u></b>	<b><u>355,673</u></b>
Cash, due from banks and balances with the National Bank of Hungary	4	532,625	483,191
Compulsory reserve established by the National Bank of Hungary	4	<u>(135,967)</u>	<u>(121,195)</u>
<b>Cash and cash equivalents as at end of period</b>		<b><u>396,658</u></b>	<b><u>361,996</u></b>

**OTP BANK PLC.**  
**CONSOLIDATED STATEMENTS OF CHANGES IN**  
**SHAREHOLDERS' EQUITY**  
**FOR THE YEAR DECEMBER 31, 2006**  
**(in HUF mn)**

	<u>Note</u>	<u>Share Capital</u>	<u>Retained Earnings and Reserves</u>	<u>Treasury Shares</u>	<u>Minority interest</u>	<u>Total</u>
<b>Balance as at January 1, 2005</b>		<b><u>28,000</u></b>	<b><u>431,127</u></b>	<b><u>(25,867)</u></b>	<b><u>425</u></b>	<b><u>433,685</u></b>
Net income		--	158,235	--	--	158,235
Fair value adjustment of securities available- for-sale recognised directly through equity		--	2,051	--	--	2,051
Share-based payment		--	7,497	--	--	7,497
Derecognition of opening balance of negative goodwill		--	3,034	--	--	3,034
Dividend for the year 2004		--	(41,206)	--	--	(41,206)
Gain on sale of treasury shares		--	7,426	--	--	7,426
Change in carrying value of treasury shares		--	--	(27,719)	--	(27,719)
Derivative financial instruments designated as cash-flow hedge		--	(46)	--	--	(46)
Foreign currency translation gain		--	4,449	--	--	4,449
Minority interest		--	--	--	66	66
<b>Balance as at December 31, 2005</b>		<b><u>28,000</u></b>	<b><u>572,567</u></b>	<b><u>(53,586)</u></b>	<b><u>491</u></b>	<b><u>547,472</u></b>
Net income		--	187,051	--	--	187,051
Fair value adjustment of securities available- for-sale recognised directly through equity, net		--	(3,430)	--	--	(3,430)
Share-based compensation	26	--	5,927	--	--	5,927
Dividend for the year 2005		--	(55,160)	--	--	(55,160)
Gain on sale of treasury shares		--	3,132	--	--	3,132
Change in carrying value of treasury shares		--	--	(10,130)	--	(10,130)
Derivative financial instruments designated as cash-flow hedge		--	(1,131)	--	--	(1,131)
Issue of equity instrument (ICES)	38	--	120,305	--	--	120,305
Foreign currency translation gain		--	(8,478)	--	--	(8,478)
Deferred tax		--	36	--	--	36
Minority interest		--	--	--	2,619	2,619
<b>Balance as at December 31, 2006</b>		<b><u>28,000</u></b>	<b><u>820,819</u></b>	<b><u>(63,716)</u></b>	<b><u>3,110</u></b>	<b><u>788,213</u></b>

The accompanying notes to consolidated financial statements on pages 7 to 57 form an integral part of these consolidated financial statements.

OTP BANK PLC.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2006

**NOTE 1: ORGANIZATION AND BASIS OF CONSOLIDATED FINANCIAL STATEMENTS**

**1.1. General information**

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

The Bank's registered office address is 16 Nador street, Budapest 1051.

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

As at December 31, 2006 approximately 96.2% of the Bank's shares were held by domestic and foreign private and institutional investors. The remaining shares are owned by employees (3%) and the Bank (0.8%).

The Bank and its subsidiaries (together the "Group") provide a full range of commercial banking services through a wide network of 1,085 branches. The group has operations in Hungary, Bulgaria, Slovakia, Romania, Croatia, Serbia, Ukraine and Russia.

As at December 31, 2006 the number of employees at the Group was 26,866. The average number of employees for the one year period ended December 31, 2006 was 24,535.

**1.2. Accounting**

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

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

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

OTP BANK PLC.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2006

**NOTE 1: ORGANIZATION AND BASIS OF CONSOLIDATED FINANCIAL STATEMENTS [continued]**

**1.2. Accounting [continued]**

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union (the "EU"). IFRS as adopted by the EU do not currently differ from IFRS as issued by the International Accounting Standards Board (IASB), except for portfolio hedge accounting under IAS 39 which has not been approved by the EU. As the Group does not apply portfolio hedge accounting under IAS 39, there is no impact on these consolidated financial statements, had it been approved by the EU at the balance sheet date.

**1.2.1. The effect of adopting revised International Financial Reporting Standards effective from January 1, 2006 on the 2006 financial statements**

Effective from January 1, 2005 the Bank has adopted all of the new and revised Standards and Interpretations issued by the International Accounting Standards Board (the IASB) and the International Financial Reporting Interpretations Committee (IFRIC) of the IASB that are relevant to its operations and effective for accounting periods beginning on January 1, 2006, especially:

- Amendments to IAS 39 'Financial Instruments: Recognition and Measurement' in respect of cash flow hedge accounting and fair value option (effective January 1, 2006);
- Amendments to IAS 39 'Financial Instruments: Recognition and Measurement' and IFRS 4 'Insurance Contracts' for financial guarantee contracts (effective January 1, 2006);
- Amendments to IAS 1 'Presentation of Financial Statements' on capital disclosures (effective January 1, 2007).

The adoption of the above amendments had no significant impact on the 2006 consolidated financial statements.

Revisions to a number of other IAS also took effect in the consolidated financial statements of the Bank, but those revisions concerned matters of detailed application which have no significant effect on amounts reported.

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

At the date of authorisation of these financial statements, the following standards were in issue but not yet effective:

- IFRS 7 'Financial Instruments: Disclosures' (effective January 1, 2007);
- the introduction of new disclosures regarding capital in IAS 1 (effective January 1, 2007);
- new interpretations (IFRIC 7, 8, 9, and 10)

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

OTP BANK PLC.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2006

**NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

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

**2.1. Basis of Presentation**

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

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

**2.2. Foreign currency translation**

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

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

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

**2.3. Principles of consolidation**

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

OTP BANK PLC.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2006

**NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES [continued]**

**2.4. Accounting for acquisitions**

Upon acquisition, subsidiaries are accounted for under the purchase method of accounting. Any goodwill or negative goodwill arising on acquisition is recognized in the consolidated balance sheet and accounted for as indicated below.

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

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

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

**2.5. Securities held-to-maturity**

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

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

**2.6. Financial assets at fair value through statements of operations**

**2.6.1. Securities held for trading**

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

OTP BANK PLC.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2006

**NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES [continued]**

**2.6.2. Derivative financial instruments**

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

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

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

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

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

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

**2.7. Securities available-for-sale**

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



OTP BANK PLC.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2006

**NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES [continued]**

**2.7. Securities available-for-sale [continued]**

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

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

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

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

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

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

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

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

**2.9. Sale and repurchase agreements**

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

OTP BANK PLC.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2006

**NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES [continued]**

**2.10. Associates and other investments**

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

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

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

**2.11. Premises, equipment and intangible assets**

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

Buildings	0.6 – 19.7%
Machinery and equipment	2.5 – 50%
Vehicles	3 – 50%
Leased assets	14 – 100%
Software	8 – 100%
Property rights	14.5 – 50%

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

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

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

OTP BANK PLC.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
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**NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES [continued]**

**2.12. Leases**

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

**The Group as lessor**

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

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

**The Group as lessee**

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

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

**2.13. Properties held for resale**

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

OTP BANK PLC.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2006

**NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES [continued]**

**2.14. Insurance reserves**

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

**2.15. Treasury shares**

Treasury shares are purchased on the stock exchange and the over-the-counter market by the Bank and its subsidiaries and are presented in the Consolidated Balance Sheet at acquisition cost as a deduction from consolidated shareholders' equity.

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

**2.16. Interest Income and Interest Expense**

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

**2.17. Fees and Commissions**

Fees and commissions are recognised in the Consolidated Statement of Operations on an accrual basis.

**2.18. Income taxes**

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

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

**2.19. Off-balance sheet commitments and contingent liabilities**

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

OTP BANK PLC.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2006

**NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES [continued]**

**2.19. Off-balance sheet commitments and contingent liabilities [continued]**

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

**2.20. Share-based compensation**

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

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

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

**2.21. Consolidated Statement of Cash Flows**

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

**2.22. Segment reporting**

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

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

Unallocated items mainly comprise administrative expenses. Segment results are determined before any adjustments for minority interest.

Segment assets and liabilities comprise those operating assets and liabilities that are directly attributable to the segment on a reasonable basis. Segment assets are determined after deducting related adjustments that are reported as direct offsets in the Group's balance sheet.

**2.23. Comparative figures**

Certain amounts in the 2005 consolidated financial statements have been reclassified to conform to the current year presentation.

OTP BANK PLC.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
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**NOTE 3:     SIGNIFICANT ACCOUNTING ESTIMATES AND DECISIONS IN THE  
APPLICATION OF ACCOUNTING POLICIES**

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

**3.1. Impairment of Loans and Advances**

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

**3.2. Valuation of Instruments without Direct Quotations**

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

**3.3. Provisions**

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

**3.4. Insurance liabilities**

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

OTP BANK PLC.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
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**NOTE 4: CASH, DUE FROM BANKS AND BALANCES WITH  
THE NATIONAL BANK OF HUNGARY (in HUF mn)**

	2006	2005
Cash on hand:		
In HUF	46,286	47,676
In foreign currency	<u>52,471</u>	<u>25,609</u>
	<u>98,757</u>	<u>73,285</u>
Due from banks and balances with the National Bank of Hungary:		
Within one year:		
In HUF	389,684	404,753
In foreign currency	<u>44,184</u>	<u>5,153</u>
	<u>433,868</u>	<u>409,906</u>
Total	<u>532,625</u>	<u>483,191</u>

Based on the requirements for compulsory reserve set by the National Bank of Hungary, the balance of compulsory reserves maintained by the Group amounted to HUF 135,967 million and HUF 121,195 million for the years ended December 31, 2006 and 2005, respectively.

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

	2006	2005
Within one year:		
In HUF	37,808	94,110
In foreign currency	<u>526,024</u>	<u>317,654</u>
	<u>563,832</u>	<u>411,764</u>
Over one year:		
In HUF	3,000	3,000
In foreign currency	<u>35,783</u>	<u>24,004</u>
	<u>38,783</u>	<u>27,004</u>
Total	<u>602,615</u>	<u>438,768</u>

Placements of foreign subsidiaries with their respective National Banks amounted to HUF 184,799 million and HUF 77,879 million for the years ended December 31, 2006 and 2005, respectively.



OTP BANK PLC.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
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**NOTE 5: PLACEMENTS WITH OTHER BANKS, NET OF ALLOWANCE  
FOR PLACEMENT LOSSES (in HUF mn) [continued]**

Placements with other banks in foreign currency as at December 31, 2006 and 2005 bear interest rates in the range from 0.43% to 16.5% and from 0% to 12%, respectively.

Placements with other banks in HUF as at December 31, 2006 and 2005 bear interest rates in the range from 4.24% to 9.55% and from 0.5% to 7.6%, respectively.

There was no allowance for placement losses as at December 31, 2006 and 2005.

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

	2006	2005
Securities held for trading:		
Treasury bills	1,562	160
Hungarian Government interest bearing Treasury bills	5,709	1,485
Government bonds	41,421	34,151
Mortgage bonds	574	895
Other securities	<u>35,601</u>	<u>1,282</u>
	<u>84,867</u>	<u>37,973</u>
Derivative financial instruments designated as held for trading	<u>25,709</u>	<u>10,081</u>
Total	<u>110,576</u>	<u>48,054</u>

Approximately 38% and 43% of the government bonds were denominated in foreign currency as at December 31, 2006 and 2005, respectively. Approximately 12%, 21%, 19% and 48% of this portfolio was denominated in USD, EUR, BGN and RUB as at December 31, 2006, and 17%, 31%, 24%, and 28% of this portfolio was denominated in USD, EUR, SKK and BGN as at December 31, 2005.

Interest rates on securities held for trading are ranged from 2% to 12.5% and from 2.16% to 9.5% as at December 31, 2006 and 2005, respectively.

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

	2006	2005
Within five years		
with variable interest	1,136	1,492
with fixed interest	<u>68,683</u>	<u>27,160</u>
	<u>69,819</u>	<u>28,652</u>

OTP BANK PLC.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2006

**NOTE 6: FINANCIAL ASSETS AT FAIR VALUE THROUGH STATEMENT OF OPERATIONS (in HUF mn) [continued]**

	2006	2005
Over five years		
with variable interest	3,249	3,764
with fixed interest	<u>10,802</u>	<u>5,100</u>
	<u>14,051</u>	<u>8,864</u>
Non-interest bearing securities	<u>997</u>	<u>457</u>
Total	<u>84,867</u>	<u>37,973</u>

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

	2006	2005
Available-for-sale securities:		
Government bonds	267,455	283,342
Treasury bills	112,143	51,621
Mortgage bonds	392	540
Other securities	<u>109,289</u>	<u>74,442</u>
	489,279	409,945
Provisions for securities available for sale	<u>29</u>	<u>--</u>
Total	<u>489,250</u>	<u>409,945</u>

Approximately 79% and 75% of the available-for-sale securities portfolio was denominated in HUF as at December 31, 2006 and 2005, respectively.

Approximately 20% and 23% of the government bonds were denominated in foreign currency as at December 31, 2006 and 2005, respectively. Approximately 4%, 50%, 26%, 19%, 1% of this portfolio was denominated in USD, EUR, HRK, BGN and SKK as at December 31, 2006, and 4%, 54%, 21%, and 21% of this portfolio was denominated in USD, EUR, HRK and BGN as at December 31, 2005, respectively.

Interest rates on securities available-for-sale ranged from 2% to 28.8% and from 1.6% to 8.08% as at December 31, 2006 and 2005, respectively.

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

	2006	2005
Within five years		
with variable interest	41,934	116,784
with fixed interest	<u>315,660</u>	<u>182,886</u>
	<u>357,594</u>	<u>299,670</u>

OTP BANK PLC.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
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**NOTE 7: SECURITIES AVAILABLE-FOR-SALE (in HUF mn) [continued]**

	2006	2005
Over five years		
with variable interest	7,262	4,261
with fixed interest	<u>91,384</u>	<u>81,364</u>
	<u>98,646</u>	<u>85,625</u>
Non-interest bearing securities	<u>33,039</u>	<u>24,650</u>
Total	<u>489,279</u>	<u>409,945</u>

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

	2006	2005
Balance as at January 1	--	--
Provisions for securities available for sale	<u>29</u>	--
Balance as at December 31	<u>29</u>	--

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

	2006	2005
Loans and trade bills within one year	1,338,653	925,331
Loans and trade bills over one year	<u>3,136,049</u>	<u>2,371,887</u>
	4,474,702	3,297,218
Allowance for loan losses	<u>(127,611)</u>	<u>(105,920)</u>
Total	<u>4,347,091</u>	<u>3,191,298</u>

Foreign currency loans represent approximately 59% and 46% of the total loan portfolio, before allowance for losses, as at December 31, 2006 and 2005, respectively.

Loans denominated in HUF, with maturity within one year as at December 31, 2006 and 2005, bear interest rates in the range from 6% to 30% and from 6% to 30%, respectively.

Loans denominated in HUF, with maturity over one year as at December 31, 2006 and 2005, bear interest rates in the range from 4% to 22.8% and from 4% to 22.3%, respectively.

Foreign currency loans as at December 31, 2006 and 2005, bear interest rates in the range from 1.5% to 42% and from 0.04% to 24%, respectively.

Approximately 4% of the gross loan portfolio represented loans on which interest is not being accrued as at December 31, 2006 and 2005, respectively.

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

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

	2006		2005	
Commercial loans	1,609,989	36%	1,195,374	36%
Municipality loans	218,299	5%	136,039	4%
Housing loans	1,520,053	34%	1,222,397	37%
Consumer loans	<u>1,126,361</u>	<u>25%</u>	<u>743,408</u>	<u>23%</u>
Total	<u>4,474,702</u>	<u>100%</u>	<u>3,297,218</u>	<u>100%</u>

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

	2006	2005
Balance as at January 1	105,920	79,315
Provision for loan losses	28,559	28,043
Write-offs	(6,718)	(1,808)
Foreign currency translation loss/(gain)	<u>(150)</u>	<u>370</u>
Balance as at December 31	<u>127,611</u>	<u>105,920</u>

**NOTE 9: EQUITY INVESTMENTS (in HUF mn)**

	2006	2005
Equity investments:		
Unconsolidated subsidiaries	2,975	11,356
Associated companies	632	679
Other investments	<u>67,539</u>	<u>2,466</u>
	71,146	14,501
Allowance for permanent diminution in value	<u>(207)</u>	<u>(2,144)</u>
Total	<u>70,939</u>	<u>12,357</u>

The other assets contain Kulska banka a.d. Novi Sad, Crnogorska komercijalna banka a.d. purchase price. The control over these companies is exercised from January 1, 2007.

Total assets of unconsolidated subsidiaries	<u>31,876</u>	<u>63,102</u>
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An analysis of the change in the allowance for permanent diminution in value is as follows:

	2006	2005
Balance as at January 1	2,144	1,978
(Release)/Provision for permanent diminution in value	(1,892)	166
Write-offs	(70)	--
Foreign currency translation gain	<u>25</u>	<u>--</u>
Balance as at December 31	<u>207</u>	<u>2,144</u>

OTP BANK PLC.  
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**NOTE 10: HELD-TO-MATURITY INVESTMENTS (in HUF mn)**

	2006	2005
Government securities	218,688	242,094
Hungarian Government discounted Treasury Bills	28,452	29,962
Mortgage bonds	12,631	11,264
Other debt securities	<u>8,509</u>	<u>6,483</u>
Total	<u>268,280</u>	<u>289,803</u>

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

	2006	2005
Within five years		
with variable interest	30,773	60,836
with fixed interest	<u>176,092</u>	<u>155,524</u>
	<u>206,865</u>	<u>216,360</u>
Over five years		
with variable interest	37,246	43,051
with fixed interest	<u>24,169</u>	<u>30,392</u>
	<u>61,415</u>	<u>73,443</u>
Total	<u>268,280</u>	<u>289,803</u>

Approximately 81% and 80% of the debt securities portfolio was denominated in HUF as at December 31, 2006 and 2005, respectively. In most cases, interests on variable rate bonds are based on the interest rates of 90-day Hungarian Government Treasury bills and are adjusted semi-annually.

Interest rates on fixed interest securities denominated in HUF are ranged from 2.2% to 10% and from 3.25% to 10% as at December 31, 2006 and 2005, respectively. Interest on fixed rate and variable rate securities is, in most cases, paid semi-annually.

The fair value of held-to-maturity investments was HUF 267,589 million and HUF 291,894 million as at December 31, 2006 and 2005, respectively.

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

	2006	2005
Balance as at January 1	--	30
Release of allowance	--	<u>(30)</u>
Balance as at December 31	<u>--</u>	<u>--</u>

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
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**NOTE 11: PREMISES, EQUIPMENT AND INTANGIBLE ASSETS, NET**  
(in HUF mn)

For the year ended December 31, 2006:

<u>Cost</u>	Intangible assets	Land and buildings	Machinery and equipment	Construction in progress	Total
Balance as at January 1, 2006	130,604	97,524	91,426	12,430	331,984
Acquisition of subsidiary	12,382	10,395	5,471	763	29,011
Net additions	211,853	17,464	26,635	19,020	274,972
Foreign currency translation differences	(5,725)	512	845	265	(4,103)
Net disposals	(2,744)	(15,709)	(12,979)	(18,941)	(50,373)
Balance as at December 31, 2006	<u>346,370</u>	<u>110,186</u>	<u>111,398</u>	<u>13,537</u>	<u>581,491</u>
<u>Depreciation and Amortization</u>					
Balance as at January 1, 2006	28,737	13,367	56,635	--	98,739
Net charge	13,534	4,078	10,191	--	27,803
Foreign currency translation differences	97	134	551	--	782
Net disposals	(2,258)	(2,175)	(6,116)	--	(10,549)
Balance as at December 31, 2006	<u>40,110</u>	<u>15,404</u>	<u>61,261</u>	<u>--</u>	<u>116,775</u>
<u>Net book value</u>					
Balance as at January 1, 2006	<u>101,867</u>	<u>84,157</u>	<u>34,791</u>	<u>12,430</u>	<u>233,245</u>
Balance as at December 31, 2006	<u>306,260</u>	<u>94,782</u>	<u>50,137</u>	<u>13,537</u>	<u>464,716</u>

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

<u>Cost</u>	Goodwill
Balance as at January 1, 2006	70,765
Additions	191,827
Foreign currency translation differences	(5,907)
Balance as at December 31, 2006	<u>256,685</u>
<u>Net book value</u>	
Balance as at January 1, 2006	<u>70,765</u>
Balance as at December 31, 2006	<u>256,685</u>

OTP BANK PLC.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
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**NOTE 11: PREMISES, EQUIPMENT AND INTANGIBLE ASSETS, NET**  
(in HUF mn) [continued]

For the year ended December 31, 2005:

<u>Cost</u>	<u>Intangible assets</u>	<u>Land and buildings</u>	<u>Machinery and equipment</u>	<u>Construction in progress</u>	<u>Total</u>
Balance as at January 1, 2005	82,328	94,626	83,970	12,227	273,151
Acquisition of subsidiary	141	6,783	891	258	8,073
Net additions	49,723	10,065	15,878	--	75,666
Foreign currency translation differences	1,562	1,554	672	70	3,858
Net disposals	(3,150)	(15,504)	(9,985)	(125)	(28,764)
Balance as at December 31, 2005	<u>130,604</u>	<u>97,524</u>	<u>91,426</u>	<u>12,430</u>	<u>331,984</u>
<u>Depreciation and Amortization</u>					
Balance as at January 1, 2005	30,381	15,673	52,322	--	98,376
Net charge	7,766	2,801	11,347	--	21,914
Foreign currency translation differences	91	337	462	--	890
Net disposals	(9,501)	(5,444)	(7,496)	--	(22,441)
Balance as at December 31, 2005	<u>28,737</u>	<u>13,367</u>	<u>56,635</u>	<u>--</u>	<u>98,739</u>
<u>Net book value</u>					
Balance as at January 1, 2005	<u>51,947</u>	<u>78,953</u>	<u>31,648</u>	<u>12,227</u>	<u>174,775</u>
Balance as at December 31, 2005	<u>101,867</u>	<u>84,157</u>	<u>34,791</u>	<u>12,430</u>	<u>233,245</u>

An analysis of the changes in the goodwill and negative goodwill for the year ended December 31, 2005 is as follows:

<u>Cost</u>	<u>Goodwill</u>	<u>Negative goodwill</u>
Balance as at January 1, 2005	44,177	4,204
Additions	35,809	--
Foreign currency translation differences	1,411	--
Adjustment from the effect of adopting revised IFRS	(10,632)	(4,204)
Balance as at December 31, 2005	<u>70,765</u>	<u>--</u>
<u>Amortization</u>		
Balance as at January 1, 2005	10,632	1,170
Charge	--	--
Adjustment from the effect of adopting revised IFRS	(10,632)	(1,170)
Balance as at December 31, 2005	<u>--</u>	<u>--</u>
<u>Net book value</u>		
Balance as at January 1, 2005	<u>33,545</u>	<u>3,034</u>
Balance as at December 31, 2005	<u>70,765</u>	<u>--</u>



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**NOTE 12: OTHER ASSETS (in HUF mn)**

	2006	2005
Property held for resale	12,097	13,408
Due from Hungarian Government for interest subsidies	4,188	3,895
Trade receivables	10,752	5,456
Advances for securities and investments	766	511
Taxes recoverable	6,721	1,654
Inventories	4,724	1,926
Receivables from inventory financing	44,420	--
Other advances	8,835	7,758
Receivables from leasing activities	34,145	13,840
Receivables due from insurance bond holders	2,529	1,883
Receivables due from pension funds and fund management	1,614	2,243
Prepayments and accrued income	6,684	7,792
Receivables from investment services	889	1,231
Suspense Accounts Receivables	32	1,235
Fair value of derivative financial instruments not for trading	2,107	452
Other	<u>20,684</u>	<u>11,514</u>
	161,187	74,798
Allowance for losses on other assets	<u>(4,076)</u>	<u>(3,427)</u>
Total	<u>157,111</u>	<u>71,371</u>

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

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

	2006	2005
Balance as at January 1	3,427	3,372
Charge/(Release) of allowance for losses on other assets	777	(54)
(Write-offs)/Credit	(59)	128
Foreign currency translation gain	<u>(69)</u>	<u>(19)</u>
Balance as at December 31	<u>4,076</u>	<u>3,427</u>

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

	2006	2005
Within one year:		
In HUF	25,369	8,018
In foreign currency	<u>318,880</u>	<u>126,766</u>
	<u>344,249</u>	<u>134,784</u>
Over one year:		
In HUF	50,572	20,510
In foreign currency	<u>265,596</u>	<u>208,830</u>
	<u>316,168</u>	<u>229,340</u>
Total	<u>660,417</u>	<u>364,124</u>

Due to banks and deposits from the National Bank of Hungary and other banks payable in HUF within one year as at December 31, 2006 and 2005, bear interest rates in the range from 4.38% to 12.27% and from 4.9% to 5.3%, respectively.

Due to banks and deposits from the National Bank of Hungary and other banks payable in HUF over one year as at December 31, 2006 and 2005, bear interest rates in the range from 3% to 12.27% and from 3.1% to 4.5%, respectively.

Due to banks and deposits from the National Bank of Hungary and other banks payable in foreign currency within one year as at December 31, 2006 and 2005, bear interest rates in the range from 0.43% to 12.68% and from 0.05% to 6.5%, respectively.

Due to banks and deposits from the National Bank of Hungary and other banks payable in foreign currency over one year as at December 31, 2006 and 2005, bear interest rates in the range from 0.5% to 10.5% and from 0.7% to 6.5%, respectively.

**NOTE 14: DEPOSITS FROM CUSTOMERS (in HUF mn)**

	2006	2005
Within one year:		
In HUF	2,273,960	2,214,998
In foreign currency	<u>1,825,429</u>	<u>1,137,175</u>
	<u>4,099,389</u>	<u>3,352,173</u>
Over one year:		
In HUF	113,708	72,480
In foreign currency	<u>19,056</u>	<u>3,540</u>
	<u>132,764</u>	<u>76,020</u>
Total	<u>4,232,153</u>	<u>3,428,193</u>

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**NOTE 14: DEPOSITS FROM CUSTOMERS (in HUF mn) [continued]**

Deposits from customers payable in HUF within one year as at December 31, 2006 and 2005, bear interest rates in the range from 0.2% to 9.0% and from 0.2% to 6.5%, respectively.

Deposits from customers payable in HUF over one year as December 31, 2006 and 2005, bear interest rates in the range from 0.2% to 8.3% and from 1% to 4.5%, respectively.

Deposits from customers payable in foreign currency within one year as at December 31, 2006 and 2005, bear interest rates in the range from 0.05% to 18.0% and from 0.1% to 18.5%, respectively.

Deposits from customers payable in foreign currency over one year as at December 31, 2006 and 2005, bear interest rates in the range from 0.1% to 14.8% and from 2% to 18%, respectively.

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

	2006		2005	
Commercial deposits	1,098,083	26%	662,215	19%
Municipality deposits	221,315	5%	203,110	6%
Consumer deposits	<u>2,912,755</u>	<u>69%</u>	<u>2,562,868</u>	<u>75%</u>
Total	<u>4,232,153</u>	<u>100%</u>	<u>3,428,193</u>	<u>100%</u>

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

	2006	2005
With original maturity:		
Within one year	56,377	65,520
Over one year	<u>724,938</u>	<u>477,940</u>
Total	<u>781,315</u>	<u>543,460</u>

58.35% and 46.42% of issued securities are denominated in HUF as at December 31, 2006 and 2005, and bear interest rates in the range from 0.3% to 9.5% and from 0.3% to 12.5%, respectively.

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

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

An analysis of significant issued securities as at December 31, 2006 and 2005, respectively:

	2006	2005
Variable-rate Euro Bonds	201,713	202,267
Mortgage bonds	520,498	267,432
Other securities	<u>59,103</u>	<u>73,761</u>
Total	<u>781,315</u>	<u>543,460</u>

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**NOTE 16: OTHER LIABILITIES (in HUF mn)**

	2006	2005
Deferred tax liabilities	8,337	2,761
Taxes payable	9,003	8,363
Giro clearing accounts	29,873	22,744
Accounts payable	14,940	12,253
Insurance liabilities	162,607	130,354
Salaries and social security payable	14,060	10,839
Liabilities from security trading	9,467	9,307
Allowances for losses on off-balance sheet commitments and contingent liabilities	15,156	7,376
Dividends payable	712	617
Advances received from customers	5,772	689
Accrued expenses	14,708	10,214
Loan for collection	1,674	1,860
Advance of Government grants for housing purposes	5,355	5,427
Fair value of derivative financial instruments designated as hedge accounting relationship	3,715	2,230
Fair value of derivative financial instruments designated as held for trading	7,991	8,199
Liabilities from trading activities (repurchase agreements)	1,267	5,785
Other	33,954	21,710
Total	<u>338,591</u>	<u>260,728</u>

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

	2006	2005
Allowance for litigation	4,413	2,138
Allowance for losses on off-balance sheet commitments and contingent liabilities	6,663	3,674
Other allowance for expected liabilities	3,929	1,234
Allowance for housing warranties	151	330
Total	<u>15,156</u>	<u>7,376</u>

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

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**NOTE 16: OTHER LIABILITIES (in HUF mn) [continued]**

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

	2006	2005
Balance as at January 1	7,376	7,378
Changes of allowance for possible off-balance sheet commitments and contingent liabilities	6,982	(1,544)
Release of allowance	(509)	--
Increase due to the acquisition	1,357	1,545
Foreign currency translation differences	(50)	(3)
Balance as at December 31	<u>15,156</u>	<u>7,376</u>

Movements in insurance liabilities can be summarized as follows:

	2006	2005
Balance as at January 1	130,354	98,591
Net increase in insurance liabilities	31,379	31,763
Increase due to the acquisition	830	--
Foreign currency translation differences	44	--
Balance as at December 31	<u>162,607</u>	<u>130,354</u>

**NOTE 17: SUBORDINATED BONDS AND LOANS**

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

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

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

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**NOTE 17: SUBORDINATED BONDS AND LOANS [continued]**

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

On August 30, 2006 the Bank updated EMTN Program (European Medium Term Note Program) and increased the Program amount from EUR 1 billion to EUR 3 billion.

Under the EMTN Program on September 12, 2006 the Bank issued fixed rate subordinated bonds in a total nominal value of EUR 300 million to finance acquisitions. The EUR 300 million nominal value bonds were issued at 100% of the face value with September 19, 2006 as payment date, and September 19, 2016 as maturity date. The bonds bear a coupon of 5.27%.

In December 1999, the CJSC OTP Bank obtained a USD 10 million subordinated loan from the European Bank for Reconstruction and Development with the maturity date of December 23, 2009. The interest on subordinated loan is 8.08%. The repayment of the loan will be completed semi-annually, in five equal instalments, the first repayment date is December 23, 2007.

In July 3, 2003, the CJSC OTP Bank obtained an USD 5 million subordinated loan from the European Bank for Reconstruction and Development with the maturity date of June 23, 2010. The interest on subordinated loan is 8.13%. The repayment of the loan will be completed semi-annually in four equal instalments, the first repayment date is January 3, 2009.

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**NOTE 18: SHARE CAPITAL (in HUF mn)**

	2006	2005
Authorized, issued and fully paid:		
Common shares	<u>28,000</u>	<u>28,000</u>
	<u>28,000</u>	<u>28,000</u>

From September 3, 1997, the Bank has one preferential voting share (the "Special Share") outstanding with a nominal value of HUF 1 thousand.

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

	2006	2005
Balance as at January 1	572,567	431,127
Fair value adjustment of available-for-sale securities		
recognised through equity	(3,430)	2,051
Share-based compensation	5,927	7,497
Net income after income taxes	187,051	158,235
Gain on sale of treasury shares	3,132	7,426
Foreign currency translation (loss)/gain	(8,478)	4,449
Derivative financial instruments designated as cash-flow hedge	(1,131)	(46)
Derecognition of opening balance of		
negative goodwill	--	3,034
Issue of equity instrument (ICES)	120,305	--
Deferred tax	36	--
Dividends	<u>(55,160)</u>	<u>(41,206)</u>
Balance as at December 31	<u>820,819</u>	<u>572,567</u>

The Bank's unconsolidated reserves under Hungarian Accounting Standards were HUF 397,904 million and HUF 310,215 million as at December 31, 2006 and 2005, respectively.

Of these amounts, legal reserves represent HUF 87,675 million and HUF 107,619 million as at December 31, 2006 and 2005, respectively. The legal reserves are not available for distribution.

Dividends of HUF 55,160 million for the year 2005 were approved by the Annual General Meeting on April 29, 2006.

Dividends for the year ended December 31, 2006 will be approved by the Annual General Meeting in April, 2007. The proposed dividend for the Bank is HUF 40,320 million.

For conditions of the issue of equity instrument (ICES), see Note 38.

**NOTE 20: TREASURY SHARES (in HUF mn)**

	2006	2005
Nominal value (Common Shares)	<u>1,751</u>	<u>1,796</u>
Carrying value at acquisition cost	<u>63,716</u>	<u>53,586</u>

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**NOTE 21: MINORITY INTEREST (in HUF mn)**

	2006	2005
Balance as at January 1	491	425
Minority interest purchased	2,660	398
Foreign currency translation difference	(54)	23
Changes due to ownership structure	(45)	(394)
Minority interest included in net income	<u>58</u>	<u>39</u>
Balance as at December 31	<u>3,110</u>	<u>491</u>

**NOTE 22: OTHER EXPENSES (in HUF mn)**

	2006	2005
Provision/(Release of allowance) for securities held-to-maturity	37	(30)
(Release of Provision)/Provision for permanent diminution in value of equity investments	(1,892)	166
Provision for other assets	777	118
Provision/(Release of Provision) for off-balance sheet commitments and contingent liabilities	6,982	(1,544)
Administration expenses, including rental	32,783	29,831
Advertising	9,066	6,308
Taxes, other than income taxes	21,617	17,591
Additional tax for banks	11,153	10,151
Services	28,373	22,993
Professional fees	6,726	5,169
Other	<u>9,629</u>	<u>7,320</u>
Total	<u>125,251</u>	<u>98,073</u>

**NOTE 23: INCOME TAXES (in HUF mn)**

The Group is presently liable for income tax at rates between 10% and 30% of taxable income.

Deferred tax is calculated at the income tax rate of 10% in Serbia, 15% in Bulgaria, 16% in Romania, 19% in Slovakia, 20% in Hungary and Croatia and 25% in Ukraine as these are the income tax rates effective from January 1, 2006.



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**NOTE 23: INCOME TAXES (in HUF mn) [continued]**

A reconciliation of the income tax charges is as follows:

	2006	2005
Current tax	29,283	32,803
Additional tax	1,369	--
Deferred tax	854	1,000
Total	<u>31,506</u>	<u>33,803</u>

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

	2006	2005
Balance as at January 1	(2,761)	(2,175)
Acquisition of subsidiaries	(1,850)	1,795
Foreign currency translation gain/(loss)	139	(180)
Deferred tax (charge)/credit	(665)	(1,000)
Recognised in retained earnings and reserves	<u>(3,200)</u>	<u>(1,201)</u>
Balance as at December 31	<u>(8,337)</u>	<u>(2,761)</u>

A reconciliation of the income tax charges is as follows:

	2006	2005
Net income before income taxes	218,602	192,077
Income tax with statutory tax rate	35,322	30,732
Additional tax	2,678	--
Income tax adjustments are as follows:		
Reversal of statutory general provision	(1,441)	(1,191)
Tax effect of amortization of statutory goodwill and negative goodwill	(1,318)	(1,318)
Revaluation of investments denominated in foreign currency to historical cost	(846)	305
Profit on sale of Treasury Shares	--	1,188
Fair value of share-based compensations (IFRS 2)	948	1,200
Deferred tax effect of introduction of additional tax (+4%)	615	--
Other	(4,452)	2,887
Income tax	<u>31,506</u>	<u>33,803</u>
Effective tax rate	14.41%	17.6%

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**NOTE 23: INCOME TAXES (in HUF mn) [continued]**

A breakdown of the deferred tax asset and liability is as follows:

	2006	2005
Difference in accounting for finance leases	135	233
Fair value adjustment of securities held-for-trading, securities available-for-sale and equity investments	160	464
Fair value adjustment of derivative financial instruments	241	--
Repurchase agreements	94	--
Accrued losses	--	1,023
Temporary differences arising on consolidation	658	--
Other	<u>1,391</u>	<u>--</u>
Deferred tax asset	<u>2,679</u>	<u>1,720</u>
Fair value adjustment of held for trading and available-for-sale financial assets	(608)	(88)
Allowance for losses on off-balance sheet commitments and contingent liabilities on derivative financial instruments	(4)	(99)
Fair value adjustment of securities held-for-trading, securities available-for-sale and equity investments.	(1,310)	(1,304)
Repurchase agreements	--	(4)
Issue of equity instrument (ICES)	(2,952)	--
Fixed assets	(3,045)	(2,606)
Temporary differences arising on consolidation	--	(337)
Other	<u>(3,097)</u>	<u>(43)</u>
Deferred tax liabilities	<u>(11,016)</u>	<u>(4,481)</u>
Net deferred tax liabilities	<u>(8,337)</u>	<u>(2,761)</u>

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**NOTE 24: FINANCIAL INSTRUMENTS**

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

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

***Credit risk***

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

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

***Market risk***

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

***Liquidity risk***

See Note 33.

***Foreign currency risk***

See Note 34.

***Interest rate risk***

See Note 35.

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

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

**(a) Contingent liabilities**

	2006	2005
Commitments to extend credit	854,193	620,231
Guarantees arising from banking activities	183,256	118,203
Confirmed letters of credit	23,800	12,850
Legal disputes	6,311	4,180
Others	<u>41,084</u>	<u>164</u>
Total	<u>1,108,644</u>	<u>755,628</u>

**Commitments to extend credit, from guarantees and letters of credit**

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

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

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

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

*(a) Contingent liabilities [continued]*

**Legal disputes**

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

The Group believes that the various asserted claims and litigations in which it is involved will not materially affect its financial position, future operating results or cash flows, although no assurance can be given with respect to the ultimate outcome of any such claim or litigation. Provisions due to legal disputes were HUF 4,413 million and HUF 2,138 million as at December 31, 2006 and 2005, respectively. (See Note 16.)

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

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

	2006	2005
Foreign currency contracts		
Assets	70,818	50,242
Liabilities	<u>72,503</u>	<u>51,571</u>
Net	<u>(1,685)</u>	<u>(1,329)</u>
Net fair value	<u>(1,509)</u>	<u>(856)</u>
Foreign currency contracts designated as hedge accounting relationships		
Assets	474	--
Liabilities	<u>474</u>	<u>--</u>
Net	<u>--</u>	<u>--</u>
Net fair value	<u>--</u>	<u>--</u>
Foreign exchange swaps and interest rate swaps designated as held for trading		
Assets	831,045	613,217
Liabilities	<u>789,209</u>	<u>597,038</u>
Net	<u>41,836</u>	<u>16,179</u>
Net fair value	<u>14,531</u>	<u>1,228</u>
Foreign exchange swaps and interest rate swaps designated as hedge accounting relationships		
Assets	263,391	12,031
Liabilities	<u>251,894</u>	<u>14,023</u>
Net	<u>11,497</u>	<u>(1,992)</u>
Net fair value	<u>(2,171)</u>	<u>(687)</u>
Option contracts		
Assets	9,436	--
Liabilities	<u>10,477</u>	<u>--</u>
Net	<u>(1,041)</u>	<u>--</u>
Net fair value	<u>423</u>	<u>--</u>
Other options		
Assets	--	--
Liabilities	<u>--</u>	<u>341</u>
Net	<u>--</u>	<u>(341)</u>
Net fair value	<u>--</u>	<u>--</u>

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

*(b) Derivatives and other options (nominal amount, unless otherwise stated) [continued]*

	2006	2005
Dated stock transactions		
Assets	149	--
Liabilities	<u>149</u>	--
Net	<u>--</u>	--
Net fair value	<u>3</u>	<u>--</u>

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

As December 31, 2006, the Group has derivative instruments with positive fair values of HUF 27,816 million and negative fair values of HUF 11,706 million. Positive fair values of derivative instruments designated as hedge accounting relationships are included in other assets, while positive fair values of derivative instruments designated as held for trading are included in financial assets at fair value through statements of operations. Negative fair values of derivative instruments are included in other liabilities. Corresponding figures as at December 31, 2005 are HUF 10,533 million and HUF 10,429 million.

**Foreign currency contracts**

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

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

**Foreign exchange swaps and interest rate swaps**

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

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

*(b) Derivatives and other options (nominal amount, unless otherwise stated) [continued]*

**Foreign exchange swaps and interest rate swaps [continued]**

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

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

**Forward rate agreements**

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

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

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

**NOTE 26: SHARE-BASED COMPENSATION**

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

The 2006 Annual General Meeting approved a five year share option program for the years of 2006 to 2010 under which options are granted annually.

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

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



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**NOTE 26: SHARE-BASED COMPENSATION [continued]**

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

	For the year ended December 31, 2006		For the year ended December 31, 2005	
	Options (piece of shares)	Weighted average exercise price (in HUF)	Options (piece of shares)	Weighted average exercise price (in HUF)
Outstanding at beginning of period	3,346,200	6,079	3,575,930	2,552
Granted during the period	3,832,000	7,038	4,251,500	5,446
Forfeited during the period	218,430	6,536	30,000	3,107
Exercised during the period	2,159,945	5,174	4,451,230	2,661
Outstanding at the end of the period	4,799,825	7,231	3,346,200	6,079
Exercisable at the end of the period	1,799,825	6,536	446,200	3,107

The weighted average share price for share options of 2004 exercised during the one year period ended December 31, 2006 was HUF 7,190 at the date of exercise. The options outstanding at December 31, 2006 and at December 31, 2005 had a weighted average exercise price of HUF 7,231 and HUF 6,079 with a weighted average remaining contractual life of 22 and 18 months, respectively.

The inputs into the Binominal model are as follows:

	2006	2005	2004
Weighted average share price (HUF)	5,969	6,060	2,210
Weighted average exercise price (HUF)	4,882	6,536	1,264
Expected volatility (%)	36	35	30
Expected life (average year)	0.52	3.34	3.42
Risk free rate (%)	6.71	7.46	7.17
Expected dividends (%)	3.35	2.41	1.24

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

In connection with the share-based compensation programs approved by the Bank and applying IFRS 2, HUF 5,927 million and HUF 7,497 million has been recognised as an expense for year ended December 31, 2006 and 2005, respectively.

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**NOTE 27: RELATED PARTY TRANSACTIONS**

The members of the Board of Directors and the Supervisory Board had credit lines of HUF 190 million and HUF 188 million as at December 31, 2006 and 2005. Such credit is made available at normal market conditions.

In the normal course of business, the Bank gives loans and provides services to other related parties at normal market conditions. The amount of these loans was HUF 438 million and HUF 283 million, with commitments to extend credit and guarantees of HUF 108 million and HUF 112 million as at December 31, 2006 and 2005, respectively.

The amount of loans extended to unconsolidated subsidiaries was HUF 39,440 million and HUF 45,603 million as at December 31, 2006 and 2005, respectively.

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

	2006	2005
Short-term employee benefits	6,530	9,964
Other long-term employee benefits	3,063	--
Termination benefits	127	15
Share-based compensation	<u>2,744</u>	<u>4,517</u>
Total	<u>12,464</u>	<u>14,496</u>

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

	2006	2005
Cash, due from banks and balances with the National Bank of Hungary	532,625	483,191
Compulsory reserve established by the National Bank of Hungary	<u>(135,967)</u>	<u>(121,195)</u>
	<u>396,658</u>	<u>361,996</u>

**NOTE 29: ACQUISITIONS (in HUF mn)**

**a. Purchase and consolidation of subsidiary undertakings**

On March 7, 2006 the Group completed the acquisition of 89.39% of the shares of Niška banka a.d. The total purchase price of Niška banka was EUR 14,21 million. OTP Bank holds 99.95% of Niška banka a.d. as at December 31, 2006.

On October 13, 2006 the Group completed the acquisition of 75.10% of shares of Serbian Zepter banka a.d. The total purchase price was USD 41,3 million.

On October 30, 2006 the Bank signed the purchase agreement on acquiring the majority interest in Russian Investsberbank OAO. Since then, they signed the sales and purchase agreement. The total purchase price was EUR 477 million.

On June 1, 2006 the Bank signed the sale and purchase agreement for the acquisition of a 100% stake in Raiffeisenbank Ukraine (RBUA) - renamed as CJSC OTP Bank (Ukraine).

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**NOTE 29: ACQUISITIONS (in HUF mn) [continued]**

**a. Purchase and consolidation of subsidiary undertakings [continued]**

OTP transferred the purchase price of EUR 650 million on November 20, 2006, upon receipt of the necessary approvals.

On July 7, 2006 the Group completed the acquisition of 67% of these shares of Kulska banka a.d. Novi Sad (Kulska banka). The total price was EUR 118,6 million. On August 29, 2006 the Group completed the acquisition of 67% of these shares of Crnogorska komercijalna banka. The total price was EUR 104 million. The control over these companies is exercised from January 1, 2007.

On March 10, 2005 the Group completed the acquisition of 95.59% of the shares of OTP banka Hrvatska d.d. (renamed Nova banka d.d.), which has subsequently been increased to 100%. The total purchase price of Nova banka d.d. of EUR 248 million was provided in cash. The Bank acquired 100% of the shares of OTP banka Hrvatska d.d. through a series of transactions.

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

	<i>At acquisition date Niška banka a.d, Zepter banka a.d, Investsberbank OAO, CJSC OTP Bank</i>	<i>At acquisition date OTP banka Hrvatska d.d.</i>
Cash, due from banks, and balances with the National Bank	(36,881)	(2,274)
Placements with other banks, net of allowance for placement losses	(83,148)	(73,431)
Securities held-for-trading	(44,324)	--
Securities available-for-sale	(5,463)	(40,929)
Loans, net of allowance for loan losses	(582,727)	(122,056)
Accrued interest receivable	(6,294)	(1,643)
Equity investment	(12)	(669)
Debt securities held-to-maturity	(3)	(1,168)
Premises, equipment and intangible assets	(28,611)	(7,944)
Other assets	(4,336)	(3,439)
Due to banks and deposits from the National Bank and other banks	209,999	9,201
Deposits from customers	444,206	212,841
Issued securities	17,229	--
Accrued interest payable	4,308	1,566
Other liabilities	12,487	4,580
Subordinated loans	11,227	1,233
Minority Interest	3,033	--
Net assets	(89,310)	(24,132)
Goodwill	(191,274)	(35,809)
Cash consideration	(280,584)	(59,941)

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**NOTE 29: ACQUISITIONS (in HUF mn) [continued]**

**b. Analysis of net outflow of cash in respect of purchase of subsidiaries**

	<i>At acquisition date Niška banka a.d, Zepter banka a.d, Investsberbank OAO, CJSC OTP Bank</i>	<i>At acquisition date OTP banka Hrvatska d.d.</i>
Cash consideration	(280,584)	(59,941)
Cash acquired	<u>36,881</u>	<u>2,274</u>
Net cash outflow	<u>(243,703)</u>	<u>(57,667)</u>

**NOTE 30: MAJOR SUBSIDIARIES**

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

<u>Name</u>	<u>Ownership (Direct and Indirect)</u>		<u>Activity</u>
	<i>December 31, 2006</i>	<i>December 31, 2005</i>	
OTP Garancia Insurance Ltd.	100.00%	100.00%	insurance
OTP Real Estate Ltd.	100.00%	100.00%	real estate management and Development
HIF Ltd. (United Kingdom)	100.00%	100.00%	forfaiting
Merkantil Bank Ltd.	100.00%	100.00%	finance lease
Merkantil Car Ltd.	100.00%	100.00%	finance lease
OTP Building Society Ltd.	100.00%	100.00%	flat finance and reconstruction
Bank Center No. 1. Ltd.	100.00%	100.00%	real estate lease
OTP Factoring Ltd.	100.00%	100.00%	work-out
Inga Two Commercial Llc.	100.00%	100.00%	property management
OTP Fund Management Ltd.	100.00%	100.00%	fund management
OTP Mortgage Bank Ltd.	100.00%	100.00%	mortgage lending
OTP Funds Servicing and Consulting Ltd.	100.00%	100.00%	fund services
OTP Trade Commercial Llc.	100.00%	--	trade finance
OTP Real Estate Leasing Ltd.	100.00%	--	real estate leasing
OTP Life Annuity Real Estate Investment Ltd.	100.00%	--	life annuity services

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**NOTE 30: MAJOR SUBSIDIARIES [continued]**

<u>Name</u>	<u>Ownership (Direct and Indirect)</u>		<u>Activity</u>
	<i>December 31, 2006</i>	<i>December 31, 2005</i>	
OTP Banka Slovensko, a. s. (Slovakia)	97.23%	97.23%	commercial banking services
DSK Bank EAD (Bulgaria)	100.00%	100.00%	commercial banking services
OTP Bank Romania S.A. (Romania)	100.00%	100.00%	commercial banking services
OTP banka Hrvatska d.d. (Croatia)	100.00%	100.00%	commercial banking services
Niška banka a.d. (Serbia)	99.95%	--	commercial banking services
Zepter banka a.d. (Serbia)	75.10%	--	commercial banking services
CJSC OTP Bank.(Ukraine)	100.00%	--	commercial banking services
Investsberbank OAO (Russia)	96.41%	--	commercial banking services

**NOTE 31: TRUST ACTIVITIES**

The Bank acts as a trustee for certain loans granted by companies or employers to their employees, mainly for housing purposes. The ultimate risk for these loans rests with the party advancing the funds. As these loans and related funds are not considered to be assets or liabilities of the Bank, they have been excluded from the accompanying Consolidated Balance Sheet. The total amount of such loans managed by the Bank as a trustee amounted to HUF 46,212 million and HUF 46,825 million as at December 31, 2006 and 2005, respectively.

**NOTE 32: CONCENTRATION OF ASSETS AND LIABILITIES**

Approximately 13% and 19% of the Group's total assets consist of receivables from, or securities issued by the Hungarian Government or the National Bank of Hungary as at December 31, 2006 and 2005, respectively.

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

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

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

As at December 31, 2006	Within 3 months	Within one year and over 3 months	Within 5 years and over one year	Over 5 years	Total
Cash, due from banks and balances with the National Bank of Hungary	527,708	4,917	--	--	532,625
Placements with other banks, net of Allowance for placement losses	449,506	114,327	38,741	41	602,615
Financial assets at fair value through statements of operations	15,360	29,475	49,648	16,093	110,576
Securities available-for-sale	103,294	115,178	154,208	116,570	489,250
Loans, net of allowance for loan losses	469,733	817,115	1,372,814	1,687,429	4,347,091
Accrued interest receivable	48,943	3,757	802	721	54,223
Equity investments	--	--	--	70,939	70,939
Securities held-to-maturity	29,297	22,181	155,339	61,463	268,280
Premises, equipment and intangible assets, net	2,312	2,470	362,623	97,311	464,716
Other assets	83,118	33,467	19,968	20,558	157,111
<b>TOTAL ASSETS</b>	<b><u>1,729,271</u></b>	<b><u>1,142,887</u></b>	<b><u>2,154,143</u></b>	<b><u>2,071,125</u></b>	<b><u>7,097,426</u></b>
Due to banks and deposits from the National Bank of Hungary and other banks	224,041	112,581	237,269	86,526	660,417
Deposits from customers	3,531,007	598,147	91,735	11,264	4,232,153
Liabilities from issued securities	23,069	23,395	547,810	187,041	781,315
Accrued interest payable	34,150	8,650	2,991	220	46,011
Other liabilities	132,654	20,798	78,107	107,032	338,591
Subordinated bonds and loans	107	382	11,229	239,008	250,726
<b>TOTAL LIABILITIES</b>	<b><u>3,945,028</u></b>	<b><u>763,953</u></b>	<b><u>969,141</u></b>	<b><u>631,091</u></b>	<b><u>6,309,213</u></b>
Share capital	--	--	--	28,000	28,000
Retained earnings and reserves	--	--	--	820,819	820,819
Treasury shares	(1,746)	--	--	(61,970)	(63,716)
Minority interest	--	--	--	3,110	3,110
<b>TOTAL SHAREHOLDERS' EQUITY</b>	<b><u>(1,746)</u></b>	<b><u>--</u></b>	<b><u>--</u></b>	<b><u>789,959</u></b>	<b><u>788,213</u></b>
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>	<b><u>3,943,282</u></b>	<b><u>763,953</u></b>	<b><u>969,141</u></b>	<b><u>1,421,050</u></b>	<b><u>7,097,426</u></b>
<b>LIQUIDITY (DEFICIENCY)/EXCESS</b>	<b><u>(2,214,011)</u></b>	<b><u>378,934</u></b>	<b><u>1,185,002</u></b>	<b><u>650,075</u></b>	<b><u>--</u></b>

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

As at December 31, 2005	Within 3 months	Within one year and over 3 months	Within 5 years and over one year	Over 5 years	Total
Cash, due from banks and balances with the National Bank of Hungary	483,191	--	--	--	483,191
Placements with other banks, net of Allowance for placement losses	391,722	17,502	26,933	2,611	438,768
Financial assets at fair value through statements of operations	2,029	6,524	29,119	10,382	48,054
Securities available-for-sale	49,966	86,875	170,402	102,702	409,945
Loans, net of allowance for loan losses	320,488	518,413	1,157,581	1,194,816	3,191,298
Accrued interest receivable	33,294	3,142	795	639	37,870
Equity investments	--	--	36	12,321	12,357
Securities held-to-maturity	42,339	81,780	92,235	73,449	289,803
Premises, equipment and intangible assets, net	331	1,120	84,030	147,764	233,245
Other assets	<u>29,182</u>	<u>24,344</u>	<u>14,727</u>	<u>3,118</u>	<u>71,371</u>
<b>TOTAL ASSETS</b>	<b><u>1,352,542</u></b>	<b><u>739,700</u></b>	<b><u>1,575,858</u></b>	<b><u>1,547,802</u></b>	<b><u>5,215,902</u></b>
Due to banks and deposits from the National Bank of Hungary and other banks	109,974	24,478	193,144	36,528	364,124
Deposits from customers	3,068,438	283,734	63,995	12,026	3,428,193
Liabilities from issued securities	21,318	44,345	273,509	204,288	543,460
Accrued interest payable	14,751	6,843	3,119	189	24,902
Other liabilities	109,301	8,391	52,950	90,086	260,728
Subordinated bonds and loans	--	--	9,831	37,192	47,023
<b>TOTAL LIABILITIES</b>	<b><u>3,323,782</u></b>	<b><u>367,791</u></b>	<b><u>596,548</u></b>	<b><u>380,309</u></b>	<b><u>4,668,430</u></b>
Share capital	--	--	--	28,000	28,000
Retained earnings and reserves	--	--	--	572,567	572,567
Treasury shares	(200)	(15,431)	(37,955)	--	(53,586)
Minority interest	--	--	--	491	491
<b>TOTAL SHAREHOLDERS' EQUITY</b>	<b><u>(200)</u></b>	<b><u>(15,431)</u></b>	<b><u>(37,955)</u></b>	<b><u>601,058</u></b>	<b><u>547,472</u></b>
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>	<b><u>3,323,582</u></b>	<b><u>352,360</u></b>	<b><u>558,593</u></b>	<b><u>981,367</u></b>	<b><u>5,215,902</u></b>
<b>LIQUIDITY (DEFICIENCY)/EXCESS</b>	<b><u>(1,971,040)</u></b>	<b><u>387,340</u></b>	<b><u>1,017,265</u></b>	<b><u>566,435</u></b>	<b><u>--</u></b>

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

As at December 31, 2006

	<u>USD</u>	<u>EUR</u>	<u>Others</u>	<u>Total</u>
Assets	627,445	1,030,482	1,953,843	3,611,770
Liabilities	(435,419)	(1,608,449)	(1,218,645)	(3,262,513)
Off-balance sheet assets and liabilities, net	<u>(199,146)</u>	<u>297,188</u>	<u>(383,499)</u>	<u>(285,457)</u>
<b>Net position</b>	<b><u>(7,120)</u></b>	<b><u>(280,779)</u></b>	<b><u>351,699</u></b>	<b><u>63,800</u></b>

As at December 31, 2005

	<u>USD</u>	<u>EUR</u>	<u>Others</u>	<u>Total</u>
Assets	201,662	746,710	1,128,786	2,077,158
Liabilities	(174,739)	(858,881)	(838,748)	(1,872,368)
Off-balance sheet assets and liabilities, net	<u>(35,644)</u>	<u>(71,103)</u>	<u>(259,463)</u>	<u>(366,210)</u>
<b>Net position</b>	<b><u>(8,721)</u></b>	<b><u>(183,274)</u></b>	<b><u>30,575</u></b>	<b><u>(161,420)</u></b>

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

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

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

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

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

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



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**NOTE 35: INTEREST RATE RISK MANAGEMENT (in HUF mn) [continued]**

As at December 31, 2006

	Within 1 month		Over 1 month and Within 3 months		Over 3 months and Within 12 months		Over 1 year and Within 2 years		Over 2 years		Non-interest-bearing		Total	
	HUF	Currency	HUF	Currency	HUF	Currency	HUF	Currency	HUF	Currency	HUF	Currency	HUF	Currency
<b>ASSETS</b>														
Cash, due from banks and balances with the National Bank of Hungary	385,782	23,280	3,872	1,210	5	4,917	--	--	--	--	46,312	67,247	435,971	96,654
<i>fixed rate</i>	345,683	11,117	3,842	3	--	--	--	--	--	--	--	--	389,525	11,120
<i>variable rate</i>	99	12,163	30	1,207	5	4,917	--	--	--	--	--	--	134	18,287
<i>non-interest-bearing</i>	--	--	--	--	--	--	--	--	--	--	46,312	67,247	46,312	67,247
Placements with other banks, net of allowance for possible placement losses	31,221	388,297	9,587	10,943	--	73,317	--	113	--	291	--	88,846	40,808	561,807
<i>fixed rate</i>	27,882	326,559	68	9,608	--	50,360	--	111	--	260	--	--	27,950	386,898
<i>variable rate</i>	3,339	61,738	9,519	1,335	--	22,957	--	2	--	31	--	--	12,858	86,003
<i>non-interest-bearing</i>	--	--	--	--	--	--	--	--	--	--	--	88,846	--	88,846
Securities held for trading	1,226	3,287	2,681	1,083	14,059	13,108	2,274	5,253	13,356	27,543	316	681	33,912	50,955
<i>fixed rate</i>	1,226	--	2,343	567	13,989	13,108	2,274	5,135	13,356	27,487	--	--	33,188	46,297
<i>variable rate</i>	--	3,287	338	516	70	--	--	118	--	56	--	--	408	3,977
<i>non-interest-bearing</i>	--	--	--	--	--	--	--	--	--	--	316	681	316	681
Securities available for sale	45,372	74	76,937	23,645	37,311	10,719	95,533	9,206	103,695	53,748	29,735	3,275	388,583	100,667
<i>fixed rate</i>	44,152	74	54,962	1,955	37,071	9,879	95,533	8,619	103,634	50,915	--	--	335,602	71,442
<i>variable rate</i>	1,020	--	21,975	21,690	240	840	587	11	2,833	--	--	--	33,246	25,950
<i>non-interest-bearing</i>	--	--	--	--	--	--	--	--	--	--	29,735	3,275	29,735	3,275
<b>Loans</b>	1,063,590	1,401,583	196,139	347,837	103,215	232,017	133,969	231,663	233,275	357,252	29,427	17,124	1,759,615	2,587,476
<i>fixed rate</i>	9,392	93,472	7,135	74,324	8,468	170,078	2,382	70,534	38,364	138,046	--	--	53,741	546,454
<i>variable rate</i>	1,054,198	1,308,111	189,004	273,513	94,747	61,939	131,587	161,129	204,911	219,206	--	--	1,674,447	2,033,898
<i>non-interest-bearing</i>	--	--	--	--	--	--	--	--	--	--	29,427	17,124	29,427	17,124
Debt securities held to maturity	7,332	14,217	56,102	5,740	28,179	3,456	19,881	2,862	105,046	35,465	--	--	216,540	51,740
<i>fixed rate</i>	7,332	1,422	14,713	5,182	16,476	2,442	19,881	2,862	105,046	34,905	--	--	163,448	36,813
<i>variable rate</i>	--	12,795	41,389	558	11,703	1,014	--	--	--	560	--	--	53,092	14,927
Fair value of derivative financial instruments	103,737	184,270	172,407	280,194	37,099	23,555	27,339	119	91,273	248,441	--	843	431,855	737,222
<i>fixed rate</i>	97,665	82,557	144,143	108,473	16,748	19,490	27,339	119	91,273	248,441	--	--	377,168	459,080
<i>variable rate</i>	6,072	101,713	28,264	171,721	20,351	3,865	--	--	--	--	--	--	54,687	277,299
<i>non-interest-bearing</i>	--	--	--	--	--	--	--	--	--	--	--	843	--	843

**OTP BANK PLC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
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**NOTE 35: INTEREST RATE RISK MANAGEMENT (in HUF mn) [continued]**

As at December 31, 2006

	Within 1 month		Over 1 month and Within 3 months		Over 3 months and Within 12 months		Over 1 year and Within 2 years		Over 2 years		Non-interest-bearing		Total	
	HUF	Currency	HUF	Currency	HUF	Currency	HUF	Currency	HUF	Currency	HUF	Currency	HUF	Currency
<b>LIABILITIES</b>														
Due to banks and deposits from the National Bank of Hungary and other banks	12,744	172,561	1	265,681	59,600	34,360	1,213	11,518	1,154	53,985	1,229	27,671	75,941	584,476
fixed rate	12,546	51,134	1	92,251	116	10,634	278	648	1,092	21,582	-	-	14,033	178,239
variable rate	198	121,127	-	193,430	59,484	22,726	935	10,870	62	30,403	-	-	60,679	378,566
non-interest-bearing	-	-	-	-	-	-	-	-	-	-	1,229	27,671	1,229	27,671
Deposits from customers	1,932,959	1,353,337	222,656	158,190	158,382	245,902	19,887	12,508	52,576	2,938	1,808	73,610	2,387,668	1,844,485
fixed rate	1,264,729	433,500	20,615	67,080	15,658	108,352	19,879	11,502	52,576	2,278	-	-	1,373,457	622,712
variable rate	668,230	919,837	201,441	91,110	142,724	135,550	8	1,006	-	660	-	-	1,012,403	1,148,163
non-interest-bearing	-	-	-	-	-	-	-	-	-	-	1,808	73,610	1,808	73,610
Liabilities from issued securities	8,842	138,280	27,622	99,803	7,405	19,576	33,394	1,614	189,234	254,429	624	1,392	267,221	514,094
fixed rate	16	8,681	5,900	4,121	7,405	12,266	33,394	1,614	189,334	253,429	-	-	236,049	280,111
variable rate	8,826	129,599	21,722	95,682	-	7,310	-	-	-	-	-	-	30,548	232,591
non-interest-bearing	-	-	-	-	-	-	-	-	-	-	624	1,392	624	1,392
Fair value of derivative financial instruments in other liabilities	14,495	451,947	24,974	409,861	23,425	26,819	847	24,142	101,703	69,142	-	134	165,444	982,045
fixed rate	12,345	165,734	3,942	241,936	9,007	26,819	847	24,142	101,703	69,142	-	-	127,924	537,773
variable rate	2,110	286,213	20,992	167,925	14,418	-	-	-	-	-	-	-	37,520	454,138
non-interest-bearing	-	-	-	-	-	-	-	-	-	-	-	134	-	134
Subordinated bonds and loans	-	-	-	31,677	5,000	211,677	-	1,003	-	1,369	-	-	5,000	245,726
variable rate	-	-	-	31,677	5,000	211,677	-	1,003	-	1,369	-	-	5,000	245,726
Net position	(330,780)	(100,817)	243,072	(314,560)	(33,944)	(174,445)	223,655	198,431	201,878	331,877	102,129	75,209	406,010	15,695

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**NOTE 35: INTEREST RATE RISK MANAGEMENT (in HUF mn) [continued]**

As at December 31, 2005

	Within 1 month		Over 1 month and Within 3 months		Over 3 months and Within 12 months		Over 1 year and Within 2 years		Over 2 years		Non-interest-bearing		Total	
	HUF	Currency	HUF	Currency	HUF	Currency	HUF	Currency	HUF	Currency	HUF	Currency	HUF	Currency
<b>ASSETS</b>														
Cash, due from banks and balances with the National Bank of Hungary	404,489	4,733	4	1,021	72	—	—	—	1	3,423	47,493	21,585	452,429	30,762
fixed rate	—	—	—	—	—	—	—	—	—	—	—	—	—	—
variable rate	404,489	4,733	4	1,021	72	—	—	—	1	3,423	47,493	21,585	452,429	30,762
non-interest-bearing	—	—	—	—	—	—	—	—	—	—	—	—	—	—
Placements with other banks, net of allowance for possible placement losses	76,910	265,337	20,000	16,954	200	8,832	—	89	—	1,321	—	49,225	97,110	341,658
fixed rate	73,910	243,879	20,000	7,754	200	3,943	—	89	—	1,137	—	—	94,110	256,802
variable rate	3,000	21,338	—	9,200	—	4,889	—	—	—	184	—	—	3,000	35,631
non-interest-bearing	—	—	—	—	—	—	—	—	—	—	—	49,225	—	49,225
Securities held for trading	369	3,763	1,110	522	1,850	1,755	8,169	972	10,300	8,706	198	259	21,996	15,977
fixed rate	369	—	211	—	1,778	1,755	8,169	972	10,300	8,706	—	—	20,827	11,433
variable rate	—	3,763	899	522	72	—	—	—	—	—	198	259	971	4,285
non-interest-bearing	—	—	—	—	—	—	—	—	—	—	—	—	—	5,256
Securities available-for-sale	30,305	7,136	39,580	16,241	57,919	17,499	30,678	28,100	124,714	33,148	22,296	2,329	305,492	104,453
fixed rate	7,391	463	11,544	1,704	37,378	12,266	30,678	28,100	124,714	28,666	—	—	231,903	71,099
variable rate	22,714	6,673	28,036	14,537	541	5,233	—	—	—	4,482	—	—	51,291	30,925
non-interest-bearing	—	—	—	—	—	—	—	—	—	—	22,296	2,329	22,296	24,625
Loans	456,855	645,890	459,196	485,887	55,760	94,195	58,626	32,658	714,857	171,614	7,506	8,854	1,752,800	1,438,498
fixed rate	4,760	6,863	7,127	8,347	5,644	24,209	3,552	9,862	7,881	47,569	—	—	38,964	96,850
variable rate	432,095	639,027	452,069	477,540	50,116	69,986	55,074	22,796	706,976	124,045	—	—	1,716,330	1,332,794
non-interest-bearing	—	—	—	—	—	—	—	—	—	—	7,506	8,854	7,506	8,854
Debt securities held-to-maturity	23,688	14,532	61,639	10,495	60,892	4,927	9,945	6,186	76,596	20,348	—	555	232,760	57,043
fixed rate	—	—	—	—	—	—	—	—	—	—	—	—	—	—
variable rate	23,688	14,532	61,639	10,495	60,892	4,927	9,945	6,186	76,596	20,348	—	555	232,760	57,043
non-interest-bearing	—	—	—	—	—	—	—	—	—	—	—	—	—	—
Fair value of derivative financial instruments	90,496	80,444	108,836	92,128	69,538	2,261	16,752	—	45,549	101,459	—	—	331,171	276,692
fixed rate	82,316	72,723	97,269	18,141	56,724	2,261	16,752	—	45,549	101,459	—	—	298,810	194,584
variable rate	7,980	8,211	11,567	73,987	12,814	—	—	—	—	—	—	—	32,361	82,108

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
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**NOTE 35: INTEREST RATE RISK MANAGEMENT (in HUF mn) [continued]**

As at December 31, 2005

	Within 1 month		Over 1 month and Within 3 months		Over 3 months and Within 12 months		Over 1 year and Within 2 years		Over 2 years		Non-interest-bearing		Total	
	HUF	Currency	HUF	Currency	HUF	Currency	HUF	Currency	HUF	Currency	HUF	Currency	HUF	Currency
<b>LIABILITIES</b>														
Due to banks and deposits from the National Bank of Hungary and other banks	28,522	99,893	--	187,342	--	15,685	1	11,329	4	16,856	1	3,991	28,528	335,596
fixed rate	701	38,616	--	7,500	--	5,454	1	5,455	3	9,872	--	--	705	66,897
variable rate	27,821	61,277	--	180,342	--	10,231	--	5,874	1	6,984	--	--	27,822	264,708
non-interest-bearing	--	--	--	--	--	--	--	--	--	--	1	3,991	1	3,991
Deposits from customers	2,057,329	954,508	152,830	87,925	21,851	87,677	12,701	1,424	42,183	2,718	584	6,463	2,287,478	1,140,715
fixed rate	744,560	277,454	152,830	79,369	21,851	74,031	12,701	1,149	42,183	1,881	--	--	974,125	433,884
variable rate	1,312,769	677,054	--	8,556	--	13,646	--	275	--	837	--	--	1,312,769	700,368
non-interest-bearing	--	--	--	--	--	--	--	--	--	--	584	6,463	584	6,463
Liabilities from issued securities	19,657	128,759	31,549	85,100	38,567	6,746	4,823	6,682	149,743	63,907	7,919	8	252,258	291,202
fixed rate	6,602	2,700	9,491	9,248	38,567	6,746	4,823	6,682	149,743	63,907	--	--	209,226	89,383
variable rate	13,055	126,059	22,058	75,852	--	--	--	--	--	--	--	--	35,113	201,911
non-interest-bearing	--	--	--	--	--	--	--	--	--	--	7,919	8	7,919	8
Fair value of derivative financial instruments in other liabilities	44,023	118,047	52,582	148,297	18,614	41,790	18,591	202	158,557	7,066	--	--	292,367	315,402
fixed rate	43,214	111,919	40,396	74,913	14,281	41,790	18,591	202	158,557	7,066	--	--	275,039	235,890
variable rate	809	6,128	12,186	73,384	4,333	--	--	--	--	--	--	--	17,328	79,512
Subordinated bonds and loans	5,000	--	--	31,591	--	10,432	--	--	--	--	--	--	5,000	42,023
variable rate	5,000	--	--	31,591	--	10,432	--	--	--	--	--	--	5,000	42,023
Net position	(1,071,049)	(279,072)	453,404	82,493	167,199	(32,861)	88,054	47,768	621,530	249,472	68,989	72,345	338,127	140,145

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
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**NOTE 36: EARNINGS PER SHARE**

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

	2006	2005
Consolidated net income (in HUF mn)	187,051	158,235
Weighted average number of common shares outstanding during the year for calculating basic EPS (piece)	<u>259,171,517</u>	<u>262,195,663</u>
Consolidated Basic Earnings per share (in HUF)	<u>722</u>	<u>603</u>
Weighted average number of common shares outstanding during the year for calculating diluted EPS (piece)	<u>261,948,322</u>	<u>264,320,310</u>
Consolidated Diluted Earnings per share (in HUF)	<u>714</u>	<u>599</u>

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

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

OTP BANK PLC.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
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**NOTE 37: SEGMENT REPORTING (in HUF mn)**

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

**37.1. Primary reporting format by geographical segments**

	Hungary	United Kingdom	Slovakia	Bulgaria	Romania	Croatia	Serbia	Russia	Ukraine	Elimination	Consolidated
Interest income											
External	437,648	635	17,647	53,501	6,236	18,594	958	--	7,598	--	542,817
Inter-segment	<u>6,869</u>	<u>--</u>	<u>48</u>	<u>2,056</u>	<u>--</u>	<u>--</u>	<u>--</u>	<u>--</u>	<u>--</u>	<u>(8,973)</u>	<u>--</u>
Total	444,517	635	17,695	55,557	6,236	18,594	958	--	7,598	(8,973)	542,817
Non-interest income											
External	205,164	52	6,072	15,439	4,683	7,490	763	--	3,055	--	242,718
Inter-segment	<u>4,774</u>	<u>--</u>	<u>--</u>	<u>988</u>	<u>--</u>	<u>67</u>	<u>--</u>	<u>--</u>	<u>--</u>	<u>(5,829)</u>	<u>--</u>
Total	209,938	52	6,072	16,427	4,683	7,557	763	--	3,055	(5,829)	242,718
Segment income before income taxes	190,960	139	890	25,073	(2,827)	4,370	(164)	--	3,769	(3,608)	218,602
Income taxes	--	--	--	--	--	--	--	--	--	--	(31,506)
Net income after income taxes	--	--	--	--	--	--	--	--	--	--	187,097
Segment assets	4,873,897	1,517	359,972	874,307	200,495	398,551	39,822	387,267	554,941	(593,343)	7,097,426
Segment liabilities	4,603,196	57	337,365	756,534	168,629	333,509	25,847	290,988	389,258	(596,170)	6,309,213
Capital expenditure	4,695	--	2,246	5,585	6,116	378	--	--	--	--	19,020
Depreciation	20,778	1	950	2,625	1,033	793	121	--	163	--	26,464
Allowance for loan and placement losses	14,873	(105)	1,948	8,525	383	2,075	210	--	650	--	28,559

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**NOTE 37: SEGMENT REPORTING (in HUF mn) [continued]**

**37.2. Secondary segment information by business segments**

	Finance segment	Insurance segment
Total segment income	675,314	91,353
Segment net income before income taxes	205,951	6,168
Segment assets	6,884,739	188,596
Capital expenditure	14,602	679

**NOTE 38: SIGNIFICANT EVENTS DURING THE YEAR ENDED DECEMBER 31, 2006**

Based on the decision of the Annual General Meeting of 2005, the Bank repurchased 1,000,000 own shares between January 1 and 25, 2006 at an average price of HUF 7,405.

On October 24, 2005 the Bank made a binding bid for purchasing the 89.39% of the shares of Niška Banka a.d. registered in Serbia. The sale and purchase agreement was signed on December 23, 2005 at the price of EUR 14,21 million. The transaction was closed on March 7, 2006.

On March 31, 2006 the Bank made a sale and purchase agreement on buying the 75.1% of the shares of the privately owned Zepter banka a.d. Beograd registered in Serbia. The Bank transferred the purchase price of USD 41,305 million on October 13, 2006, upon receipt of the necessary regulatory approvals.

On June 1, 2006 the Bank signed the sale and purchase agreement for the acquisition of a 100% stake in Raiffeisenbank Ukraine (RBUA) - renamed as CJSC OTP Bank (Ukraine). OTP transferred the purchase price of EUR 650 million on November 20, 2006, upon receipt of the necessary approvals.

On July 3, 2006 the Bank signed the sale and purchase agreement for the acquisition of a 96.4 % share package of the Investbank Group in Moscow, the capital of the Russian Federation. OTP Bank transferred the 90% of the USD 477 million (EUR 373 million) purchase price upon receipt of the required Russian and Hungarian regulatory approvals on October 30, 2006, while 10% was deposited on an escrow account for a term of one year to cover any guarantee claims.

On July 7, 2006 the Bank signed the sale and purchase agreement on acquiring a majority interest in Kulska banka a.d. Novi Sad registered in Serbia. The Bank transferred a purchase price of EUR 118,6 million for the 67% share package, on December 28, 2006, upon receipt of the necessary regulatory approvals.

On August 29, 2006 the Bank signed the sale and purchase agreement on acquiring the 100% stake in Crnogorska komercijalna banka a.d. (CKB) registered in Montenegro. The purchase price of EUR 104 million was transferred on December 18, 2006 in possession of the necessary approvals.

OTP BANK PLC.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
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**NOTE 38:    SIGNIFICANT EVENTS DURING THE YEAR ENDED  
DECEMBER 31, 2006 [continued]**

On October 19, 2006 the Bank sold 14,5 million treasury shares owned by OTP Group through an issue of Income Certificates Exchangeable for Shares („ICES”). Within the transaction 10 million shares owned by OTP Bank, and 4,5 million shares owned by OTP Fund Management Ltd. were sold during the underwriting period of ICES on the weighted average market price (HUF 7,080) of the Budapest Stock Exchange. The shares have been purchased by Opus Securities S.A., which issued an exchangeable bond with a total face value of EUR 514,274,000 backed by those shares. The exchangeable bonds have been sold at 32% premium over the selling price of the shares. The EUR denominated exchangeable bonds are without final maturity and the investors can exercise the conversion right between year 6 and 10. The bonds carry a fixed coupon of 3.95% during the first 10 years thereafter the Issuer has the right to buy back the bonds at face value. Following the year 10, the bonds carry a coupon of 3 month Euribor +3%.

If the Bank pays dividend on its ordinary shares, than under the subordinated swap agreement, the Bank has to pay the interest on ICES while receives an amount equals to the dividend on the shares owned by Opus.

**NOTE 39:    POST BALANCE SHEET EVENTS**

On February 26, 2007 the Bank issued EUR 750 million floating rate note due 2009 under the EUR 3 billion EUR Medium Term Program.

On February 26, 2007 the Bank also issued EUR 200 million 5.27% subordinated notes due September 19, 2016 under the same program.