Annual Report

2005

OTP BANK

Contents

Message from the Chairman and Chief Executive Officer

DEAR SHAREHOLDERS,

The OTP Group can look back with satisfaction at what was an extremely successful year in 2005. Our after-tax profit, in terms of volume, exceeded both market expectations and the business targets set previously by management, while its structure was a testament to the success of our endeavours, with record net interest income, rising fee and commission revenues, and an improvement in the business results of insurance operations.

The pace of transformation and integration of foreign subsidiaries accelerated, with the work completed in several locations, while the contribution of these companies to the consolidated profit increased. As in previous years, the Bank was once again awarded the titles of Best Bank in Hungary and Best Corporation in the Emerging European Region by a host of leading international financial periodicals (Euromoney, Global Finance, The Banker). The Bank's operations continue to be stable, with an A1 credit rating from Moody's, while its financial strength rating (B-), indicating its profitability and profit-generating potential, is the highest in the region.

Share price of OTP Bank increased by 25% in 2005

In 2005 we celebrated the 10th anniversary of the Bank's flotation. Reporting on the Bank's successful stock-exchange career to date, Euromoney commented that over the past decade OTP Bank's was "probably the greatest business success story in Eastern Europe."

However, despite the excellent results, we are not completely satisfied. The market price of OTP shares, the most important measure of shareholder value, only partially reflects the institution's stable business foundations, as the imbalances in the Hungarian economy prompted many investors to sell their stock, pushing prices down in the last quarter. Although the price of OTP Bank shares had risen to HUF 6,967 by the end of 2005, which represents an annual increase of 25%, not only did this fail to match the 41% growth in the BUX share index over the past year, it also remains considerably below the HUF 8,790 all-time high recorded on September 28, 2005. While our profitability and efficiency indicators were outstanding even by international standards, the majority of analysts consider OTP stock to be undervalued. We hope – and our medium-term strategy also serves this purpose – that our operations and business results will continue to assure OTP Bank's standing among investors as a reliable, stable investment, and, as the macroeconomic environment recovers, that this will also be reflected in the market value of our shares.

OTP Group has excellent profitability and efficiency ratios by international standards as well

In 2005, the OTP Group achieved after-tax profit of HUF 158.3 billion, which is 20.3% higher than the previous year's consolidated profit, while the balance sheet total rose by 25.3% at group level, to almost HUF 5,216 billion. The OTP Bankgroup's equity totalled HUF 547.5 billion (around EUR 2.2 billion), which places it at the forefront of the medium-sized banks in terms of capital strength. Although the OTP Bankgroup's profitability ratios declined in comparison to the record levels of 2004, by global standards we continue to number among the most profitable banking groups. The consolidated rate of return on average assets (ROAE) was 3.38% (a fall of eight basis points), while the return on average equity (ROAE) was 32.3% at group level, which is 3 percentage points lower than in the previous year.

Within the Group, the results of OTP Bank were once again decisive, with further gains achieved in both profitability and efficiency. The Bank's after-tax profit rose by 17.1%, to HUF 132.8 billion, while the cost-to-income ratio fell by 2.3 percentage points, to 45.0%. The 30.8% return on average equity and 4.00% return on assets are excellent by both Hungarian and international standards.

The dynamic profit growth of several domestic and foreign subsidiaries also contributed to the better-than-expected consolidated result. In this regard the performances of OTP Mortgage Bank, OTP Garancia Insurance, the Merkantil Group, OTP Fund Management and the DSK Group were particularly noteworthy last year.

All these results were achieved in the face of continuous challenges faced by the group, resulting from the prevailing macroeconomic and regulatory environment, and the fiercely competitive markets in which it operates.

In 2005 the Central Bank base rate fell by a total of 350 basis points, and this, coupled with escalating competition in the retail banking sector, exerted a constant downward pressure on the net interest margin. A new challenge resulted from the fact that foreign-currency loans have come to dominate the lending sector, as it became necessary to apply stricter customer rating procedures and a prudent provisioning policy in order to ensure that quality remained consistent despite the dramatic growth in the loan portfolio. The introduction of a special banking tax, as well as application of the amended IFRS standards, resulted in approximately HUF 18 billion in extra outgoings, but this growth in non-interest expenses was offset by the marked growth in revenues.

In 2005, OTP Bank continoued its foreign acquisition activities

The past year also saw a continuation of the Group's foreign acquisition activities. After Slovakia, Bulgaria and Romania, OTP Bank has now established a presence in Croatia with the completion of its takeover of Nova banka, and in Serbia through the purchase of Niška banka. The search for new acquisition opportunities, as well as the conversion and transformation of the existing subsidiaries, required a considerable investment of capital and resources.

In 2005 the contribution of foreign subsidiaries to consolidated profit rose by 1.9 percentage points, to 10.3%. Once again, the highest after-tax profit was generated by the Bulgarian DSK Bank. At HUF 16.6 billion, after-tax profit was up 38.2% year on year, besides which the bank achieved a 6.9% interest margin, which is outstanding even at group level, and a cost-to-income ratio of 45.2%. All this should be viewed in the light of the fact that lending operations were dogged by a gamut of restrictive local regulations.

The Slovakian and Croatian subsidiaries also closed a successful year, while in Romania the organic growth entailed by the ongoing branch network expansion means that this operation is loss-making for the time being.

We continued to focus on the rationalisation of operations, improvements in cost-effectiveness and the modernisation and expansion of sales channels in 2005. From April, a performance appraisal and measurement system was introduced for branch staff, with the aim of providing sales incentives, while the ratio of agent sales grew substantially in the case of retail products, primarily mortgage and consumer loans, and we have introduced further measures to boost the effectiveness of cross selling within the OTP Group. All of these measures are intended not only to increase and consolidate market share, but also to strengthen customer satisfaction and loyalty towards the Bank, and ultimately to create a positive corporate image for OTP Bank.

The primary objective of the medium-term strategic plan is to continue creating shareholder value. With our stable profit-generating capacity and dynamic growth, we intend to become one of the key bank groups in the region by the end of this decade. Although our operations continue to be focused

The primary objective of the medium-term strategy is to continue creating shareholder value

on he provision of high-quality retail services, we are doing all we can to provide our expanding customer base with a fully comprehensive range of banking and financial services. To this end, we are continuously engaged in the development of new products and services, adapted to local requirements, both in Hungary and at our foreign subsidiary banks.

It is one of our prime strategic objectives to maintain, and wherever possible to improve, our market position, while maintaining high profitability. The solid foundations upon which this strategy is built are provided not just by our existing Hungarian and foreign banks and subsidiaries, since we are constantly seeking new acquisition opportunities that are suitable for integration with the Bankgroup's core business activities, and which, when combined with our reorganisation and integration experience, will represent new sources of growth for the OTP Bankgroup.

I am confident that the group's performance to date, the soundness of our strategic plans, the dedication of our employees, and the satisfaction and loyalty of our customers are all values which, notwithstanding the temporary difficulties arising from circumstances beyond our control, are vital factors that determine how we are judged by the market. To us, the trust of our shareholders represents a set of expectations, obligations and responsibilities, as well as the motivation to achieve new successes and even better results.

It is my firm conviction that the OTP Group possesses the corporate culture, innovative capabilities and management experience it needs to successfully prepare for joining the banking system and competitive environment of the euro zone.

Dr. Sándor Csányi
Chairman and Chief Executive Officer

Financial Highlights (consolidated, based on IFRS)

Profit and Loss Account (in HUF mn)	2004	2005	Change %
Net interest income	260,889	297,225	13.9
Net interest income after provision	244,841	269,183	9.9
Non-interest income	161,769	216,497	33.8
Total income (with net fees)	402,070	493,792	22.8
Operating cost	229,998	273,673	19.0
Profit before tax	156,024	192,077	23.1
Profit after tax	131,518	158,274	20.3
Balance Sheet * (in HUF bn)	**2004**	**2005**	**Change %**
Total assets	4,162.4	5,215.9	25.3
Loans and advances to customers	2,586.1	3,297.2	27.5
Retail loans	1,547.4	1,965.8	27.0
Corporate loans	920.6	1,195.4	29.8
Municipal loans	118.1	136.0	15.2
Interbank loans and advances	286.2	438.8	53.3
Deposits from customers	2,902.2	3,428.2	18.1
Retail deposits	2,155.8	2,562.9	18.9
Corporate deposits	549.8	662.2	20.4
Municipal deposits	196.5	203.1	3.4
Issued securities	317.2	543.5	71.3
Total receivables	2,586.1	3,297.2	27.5
Performing loans	2,284.7	2,876.5	25.9
Qualified loans	301.4	420.7	39.6
Non-performing loans (NPLs)	90.7	119.1	31.3
Provisions for possible loan losses	79.3	105.9	33.5
Shareholders' equity	433.7	547.5	26.2

Performance Ratios	2004	2005	Change %
Cost/income ratio %	57.2	55.4	(1.8)
Return on average equity (ROAE) %	35.3	32.3	(3.0)
Return on average assets (ROAA) %	3.45	3.38	(0.07)
Capital adequacy ratio* (unconsolidated, HAR) %	11.19	10.56	(0.63)
Undiluted EPS	HUF 501	HUF 603	HUF 102
Diluted EPS	HUF 499	HUF 599	HUF 100

Market Share **	2004	2005
Households' deposits %	35.4	34.7
Households' loans %	40.1	37.7
Corporate deposits %	13.3	11.4
Corporate loans %	12.3	11.7
Municipal deposits %	66.2	63.4
Municipal loans %	52.0	52.7

*as at December 31

**as at December 31, market share of the Hungarian members of OTP Group

Macroeconomic and Monetary Environment in 2005

In 2005, the Hungarian economy grew dynamically, with the main driver being an expansion in exports and investments. Despite the rapid growth, inflation fell, enabling the central bank to gradually reduce the base rate. The internal imbalance in the economy worsened last year, while there was a slight improvement in the external equilibrium. The volume of loans and deposits in the banking sector grew at a rate similar to that of 2004.

In the past year economic growth remained strong, at more than 4%. While growth slowed in the European Union compared to 2004, the domestic economy – with the exception of the first quarter – grew steadily. The weaker performance of the economy in the first quarter can be explained by the slowdown in growth in the Western European economic region. While in the first quarter exports grew by 6.4%, in the following three quarters a more than 11% increase was achieved. Besides exports, the strong economic growth was also due to a 7% rise in investments, while the rate of increase in household and community consumption remained well below this, since the final consumption figure indicated a rise of just 1.7%.

On the production side, the construction industry and the added value of transportation services increased at the highest rate, and clearly reflected in the performance of both sectors was the impact of investments implemented in connection with the numerous road construction projects last year.

The structure of GDP growth

Investment growth was affected in contrary directions by residential building projects and state road-construction projects during the year. The number of building permits issued for new homes fell to 51,500 and the number of new homes handed over was just 41,000. The main drivers behind investments last year were state road-construction and road-reconstruction projects.

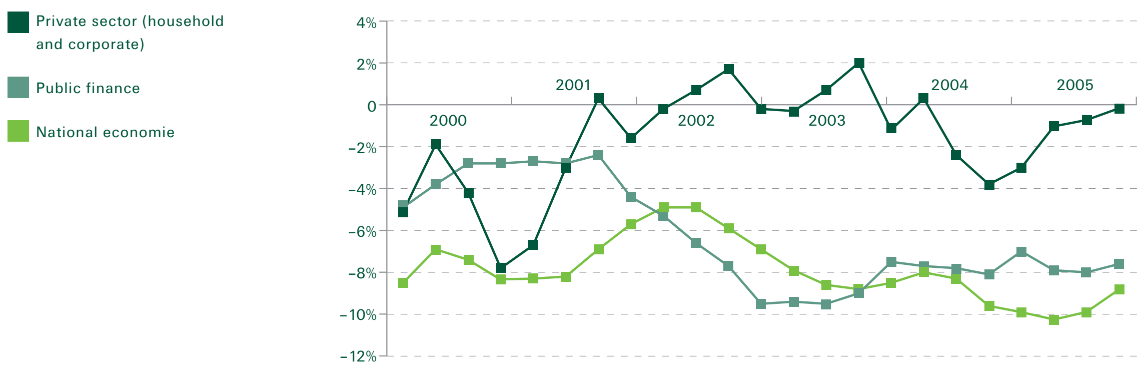
Nominal wages rose by nearly 9% and real wages by 4.5% over the past year. Since household consumer spending rose barely 2.4%, the volume of savings grew in the household sector compared to the previous year.

Inflation declined steadily over the course of the year. Thus, while average inflation was 3.6% for the year as a whole, in the last quarter it was just 3.3%. The prices of household energy, fuel, and services rose at an above average rate, while the price of food, clothing, and industrial products increased at a below-average rate.

The favourable inflationary trends meant that interest rates could continue to fall during the year. The central-bank base rate dropped from 9.5% at the beginning of the year to 6% by September. After this, the base rate did not fall further, and due to the uncertainties surrounding the future of budgetary policy, the yields on government securities with a maturity of over one year rose by more than 1 percentage point during the remaining part of the year.

The budget deficit, less private pension payments, grew to 6.4% of GDP in 2005. The main reasons for the rise in the deficit were the considerable expansion in state investments and the growth in cash grants on the cost side, while on the revenue side the fall in VAT revenues is particularly notable as a contributory factor in the rise of the deficit.

Net savings by economic sector, as a percentage of GDP (four-quarter cumulated data)



By contrast to this, the external imbalance improved, since the 2004 current account deficit of EUR 6.9 billion fell by EUR 0.5 billion. The main reason for this improvement was the EUR 1 billion fall in the foreign trade deficit.

Behind the economy’s lower external net financing requirement lay the rise in net savings in the household sector and the increase in received EU subsidies.

Once again in 2005, the primary source of growth in the banking sector was the expansion in lending. While total domestic loans of the credit institutions sector expanded by 18% last year, the banks’ domestic deposits grew slightly more modestly, by 15%, compared to the previous year’s volume. The balance sheet total of the banking sector rose by 18% last year.

The corporate loan portfolio increased by 14%, a figure similar to that of the previous year. A look at the composition of new loans reveals that companies favoured relatively short-term loans. Among new loans, compared to the previous year there were 12.5% fewer long-term loans and 10% more short-term loans. Due to the falling need for funds in the corporate sector, the deposits of businesses other than those in the financial sector grew by 8.5% in 2005.

Main portfolios of the banking sector, as a percentage of GDP

The 25% increase in the aggregate portfolio of retail loans far exceeded the rate of nominal GDP growth. The rate of growth of the volume of housing loans slowed to 20% in 2005 compared to a 27% increase in 2004, while the volume of consumer and other loans rose by 36%. In the case of both consumer and housing loans, the continued growth in demand for foreign currency-based loans was considerable, which may partly be explained by the persistently wide gap between forint and foreign-currency interest rates.

Total retail bank deposits grew by 10% – well below the increase in loans, but still exceeding the nominal rate of growth of GDP. Within the deposit total, the 32% rate of growth in current account deposits was outstanding, while fixed-term deposits grew by just 4%. The more moderate increase in the volume of fixed-term deposits was due to the preference for non-bank savings vehicles. Thus, for example, the assets held in investment funds nearly doubled over the year, while insurance companies' portfolios rose by 18% and those of pension funds by 40%.

MACROECONOMIC AND FINANCIAL TRENDS IN THE COUNTRIES OF THE FOREIGN SUBSIDIARIES

In 2005, the emerging economies in which the foreign subsidiaries operate – except for Croatia – grew at a rate that outstripped that of the Hungarian economy. The growth rate of the economies of Bulgaria and Slovakia was particularly strong, at 5.2% and 5.5% respectively.

While the growth in these countries remained largely investment and export-driven, as a result of accelerating household consumption the increase in internal demand was also an important factor in the growth. Bulgaria and Slovakia are worthy of mention as the most dynamically expanding economies, with a rate of growth in investments of more than 10%, although in Romania too, the investment rate increased thanks to a 13% rise in investments.

Consumption in the region typically grew faster than the economy as a whole in 2005, with the average growth being 6.5%. In Bulgaria and Romania particularly, consumption increased relative to income, by 8% and 9%, but also in Slovakia, consumption expenditure increased at a rate higher than that of previous years – more than 5%.
The dynamic growth in consumption was essentially a result of a rise, greater than in previous years, in real wages and of an expansion in retail loans, factors that enabled households to indulge in consumption that had been deferred in the previous years.

Thanks to the commitment of the national banks, the curbing of inflation in the above-mentioned countries continued successfully, and this made it possible, on an annual average, to lower benchmark interest rates. Parallel with this, differing trends could be observed, in particular in the second half of the year, in each country as regards inflation and interest rates. In Bulgaria, the price index increased markedly, primarily as a result of the administrative price measures related to preparations for EU membership, and the annual average inflation rate was 5%. Although at a smaller rate, inflation increased in Croatia too, and in comparison to the previous year, the annual average price index grew by more than 1 percentage point, to 3.3%.

In Slovakia and Romania, the consumer price index was lower on an annual average basis, but inflationary pressure grew in both economies in the second half of the year, since forcing the national banks to raise interest rates.

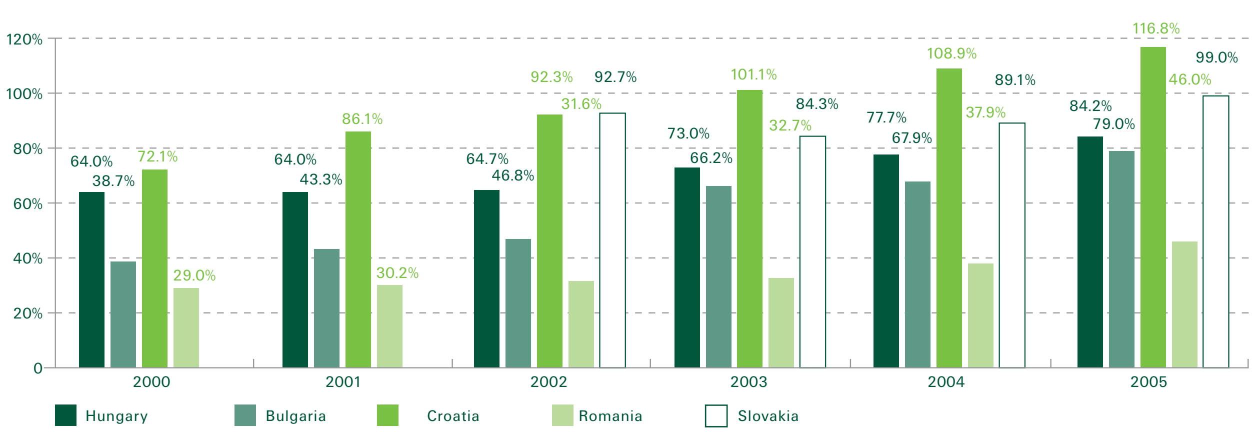
In terms of equilibrium, the respective economies in which the four subsidiaries operate continue to be in a more favourable position than is the Hungarian economy. The budgetary position in each country improved by a few tenths of a percentage point in 2005.

Despite what can be regarded as relatively favourable budgetary positions – mainly due to the rapid growth in internal demand mentioned above – in the countries where the subsidiaries operate large balance of payments deficits developed, reflecting their weak external balance position. Balance of payments deficits of the four countries was significant, with Romania and Bulgaria posting extremely high deficits of 12% and 9% of GDP respectively. In relation to this, it is important to emphasise that due, among other factors, to considerable FDI inflows, the balance of invisibles in each country amply covered the deficit on the current account, and debt rates did not increase. In 2005, thanks to the strong inflows of capital – except for Bulgaria, which applies a fixed exchange rate – the national currency grew stronger against the euro in each of the countries concerned.

Despite a marked increase over the past years, the level of banking penetration in the relevant countries remains below the EU average, although the depth of penetration of the financial intermediation system, calculated based on balance sheet total, in the banking sector in Croatia and Slovakia exceeds the figure for Hungary.

Primarily thanks to the expansion on the loans side, in each country the balance sheet total of the banking sector increased dynamically in 2005, at rates that exceeded the nominal growth of GDP by between 8% and 11%. The growth was most notable in Bulgaria and Slovakia, at more than 10%, although the penetration of the banking sector in Croatia and Romania, at about 8% of GDP, was also in excess of the 6% seen in Hungary.

Balance sheet total of the banking sector as a percentage of GDP



Within lending, the growth in retail lending was outstanding: the increase in the aggregate volume of retail loans in the four countries concerned exceeded the growth of GDP by nearly 3 percentage points, and the expansion of corporate loans outstripped the growth of the economy by a similar margin. Throughout the region, foreign currency-based retail loans have proved extremely popular.

During the past year, with the exception of Slovakia, measures restricting lending were enforced in all of the countries. Due to the rapid growth in lending, the central bank of Bulgaria ruled that if the rate of growth of the total loan portfolio of a commercial bank exceeds a certain rate (5% in 3 months, 12.5% over 6 months, 17.5% over 9 months, or 23% over a 12-month period), and provided all other conditions are met, the bank concerned must place an interest-free deposit at the central bank in an amount equal to 2-4 times the excess loan placement. The National Bank of Romania took two measures to slow the expansion in lending: first it raised the provisioning requirement to 40% in respect of banks' foreign exchange sources, and later it stipulated that the volume of corporate and retail loans in foreign exchange with no collateral in kind may not exceed 300% of the lending bank's equity. The central bank of Croatia, in several steps, tightened the conditions pertaining to the raising of foreign funding sources in 2005. The rate of non-interest bearing compulsory reserves to be deposited in respect of newly raised foreign sources was increased from 30% to 40% in May of 2005 and then to 50% in December.

Although lending was the major source of growth in each country, with the exception of Slovakia a growth in the volume of savings was also strongly apparent in the banking sector: retail bank deposits grew at a rate 2-4% faster than the growth of national income last year. An increasing amount of savings were placed in non-banking products, most notably in Croatia and Slovakia, with investment funds and insurance schemes proving particularly popular.

Business Report

OTP BANK

Brief Description of the OTP Group's Activities and Results

The OTP Group closed an extremely successful year in 2005: the volume of customer loans and customer deposits grew considerably, the Group's income increased dynamically, its operating efficiency improved, and its after-tax profit – despite an unfavourable change in taxation – increased at an outstanding rate.

The Group's financial performance in 2005

In 2005, the Group's consolidated after-tax profit based on IFRS was HUF 158.3 billion, up by 20.3% compared to the previous year and 19.2% more than the parent company's pre-tax profit for the same period. In 2005 the Bank's consolidated return on average assets (ROAA) and its consolidated return on average equity (ROAE) were 3.38% and 32.3% respectively (in 2004: 3.45% and 35.3%).

As of December 31, 2005, OTP Bank's consolidated balance sheet total was HUF 5,215.9 billion, based on IFRS, up by 25.3% or HUF 1,053.5 billion from a year earlier, and exceeding the parent company's balance sheet total of the same period by 45.2%.

As of December 31, 2005, the aggregate balance sheet total of those members of the OTP Group that conduct banking activities (OTP Bank, Merkantil Bank, OTP Building Society and OTP Mortgage Bank) represented 24.1% of the balance sheet total of the entire Hungarian credit institution sector.

The parent company, the largest contributor to the consolidated balance sheet total and profits, can also look back with satisfaction on what was a highly successful year. Its income grew dynamically, and the Bank retained its leading position in terms of absolute profits. Its after-tax earnings account for 43% of the banking sector's aggregate total after-tax profit, and in terms of ROA and ROE, it is the clear front-runner in the region as a whole.

From among the Hungarian subsidiaries, OTP Garancia Insurance achieved outstanding results in 2005: its gross premium income grew by 36% and its after-tax profit by 97%. The Merkantil Group increased its loan portfolio by more than 33% in a stagnating vehicle sales market, and the aggregate total after-tax profit of its members grew by more than 67% in 2005. The net asset value of the investment funds managed by OTP Fund Management grew by close to 50% compared to year-end 2004, and its after-tax profit was 39% more than in the base period. The assets and membership of the OTP Funds increased considerably, and their share of household deposits exceeded 20% at the end of 2005.

The foreign subsidiaries also achieved considerable growth. In 2005 DSK Bank's loan portfolio grew by 41%, its deposit portfolio by 31%, and its after-tax profit by more than 38%. The number of debit cards issued exceeded 900,000, and the bank's sales network and electronic services were greatly strengthened. The loan portfolio of the Slovakian OBS grew by 41%, its deposit portfolio by 8.5%, and its after-tax profit was almost three times as high as in 2004. The Bank's Romanian subsidiary, OTP Bank Romania, launched its retail services and expanded its branch network. By year-end 2005 the number of OBR branches had grown from 14 at the end of 2004 to 27.

In 2005 the Bank purchased the Croatian Nova banka, which now operates under the name OTP banka Hrvatska (OBH). As of December 31, 2005 the consolidated balance sheet total of OBH stood at HUF 298.2 billion, and the Bank's share of the Croatian market was 3.4%. In 2005 we launched an acquisition bid for the Serbian Niška banka and completed the transaction in March 2006.

Share price in 2005

The increase in the price of OTP shares in the past years has been considerably greater than that of the typical share prices of eastern and western European banks. In 2005 the price of OTP Bank's shares increased by 25.1% to HUF 6,967 at year-end, while the BUX, the share index of the Budapest Stock Exchange, increased by 41% in a year. The market value of the Bank's shares had risen to HUF 1,950 billion or EUR 7.7 billion by the end of December 2005. Up until the fall of 2005 the Bank's share price outperformed the benchmark indices; however, in the fall – primarily due to investors' assessment of the emerging economics and of Hungarian macroeconomic performance in particular – it was lower than the benchmarks. The price of the Bank's shares grew by a factor of almost 61 (in forint terms) from August of 1995 (from the listing) to the end of December 2005.

The price of OTP shares in 2005

Number of customers, sales network and headcount at the Bank Group

As of December 2005 OTP Bank and its foreign subsidiaries were offering high-quality solutions to the financial needs of some 9.7 million customers in 5 countries of the region. As of December 31, 2005 the number of the parent bank's customers stood at close to 4.8 million, consisting of close to 4.6 million retail customers, 196,000 micro and small businesses, more than 19,000 medium-sized companies and large corporations, and close to 2,400 municipal customers. The total number of customers of the Bank Group's foreign subsidiaries was more than 4.9 million, more than 4.6 million of whom were retail customers. Among the foreign subsidiaries, DSK Bank has an extensive customer base: the bank had more than 4.2 million customers in December 2005, which is comparable to the figures in Hungary.

At the regional level, the Bank Group's customers receive high-quality services and have 960 branches, 2,221 ATMs, 27,976 POS terminals, as well as call centres, mobile banking and internet banking services, business terminals and an agency sales network at their disposal. In Hungary, in addition to OTP Bank's branch network consisting of 408 branches – where the Bank also sells the products of the Bank Group's Hungarian members – OTP Garancia Insurance has a considerable network consisting of 192 units. The foreign subsidiaries offer services to their customers through a total of 552 branches, 721 ATMs, and 2,443 POS terminals.

Reaching the OTP Group's objectives requires a highly-qualified work force, and therefore one of the Bank Group's priorities is to establish, maintain and train appropriately prepared, sales-oriented and loyal customer service representatives and to retain talented experts. As of December 31, 2005, the closing headcount of the OTP Group's employees was 17,977, which is 1,004 more than in the same period last year. The reason for this growth in headcount was the acquisition of the Croatian subsidiary. The acquired banks are undergoing rationalisation and consolidation projects which will result in a reduced headcount; at the same time, launching new divisions in Romania and establishing financial groups at the other foreign subsidiaries will result in headcount growth. One third of the Bank Group's employees work abroad, while close to two-thirds work for the Hungarian members of the Bank Group, of whom 7,899 are employed by OTP Bank.

Main developments in OTP Bank in 2005

In 2005 the Bank continued to implement large-scale capital projects aimed at strengthening its competitiveness, rationalising and streamlining operations, cutting costs and improving the quality of services. In the course of the year we also performed follow-up work in connection with numerous developments that were implemented in 2004.

Work in the framework of the START Project, intended for promoting sales and improving branch processes, continued, and its effects are already being felt in the everyday work of the branches. The customer satisfaction surveys conducted by GFK Hungária Market Research Institute confirm that the quality of customer service has improved considerably, waiting times have been shortened, and that the rationalisation of branch processes has produced tangible results. The Bank's experts continue to improve the system on the basis of continuous feedback.

The Basel II and the IFRS projects, which are intended to help the Bank prepare for international accounting and settlement requirements, were respectively continued and commenced. Since October 2004 the Basel II Implementation Project has completed the majority of tasks required for its launch in 2007 and for approval by the supervisory authority. The objective of the IFRS project is to establish and introduce consolidated IFRS accounting and controlling procedures as well as a settlement system.

In addition, mandatory data provision by the Bank has become considerably simpler. The Mandatory Report Preparation System (MRPS) enables the Bank to produce reports for the supervisory authority automatically and to maintain uniform procedures. As a result, activities that have been performed manually have become automated, manual data input is supported by a controlled interface, general ledger reconciliation has been expanded, and uniform procedures are used in preparing reports to the supervisory authority, all of which has lifted a burden from our employees' shoulders. In 2005 the Interest system that had been used for handling securities was replaced, and the CLAVIS system was introduced and launched. In the course of the year problems were solved, and the system, with its continuously expanding functions, is now at our customers' disposal.

In 2005 we continued to improve the electronic banking systems. Several convenient functions were added to the system (e.g. credit card bank statements can be downloaded retroactively, and applications were enhanced). In connection with this, the MiddleWare and Base24 systems, providing support for the sales channels and card systems, were also improved.

Bank card systems were also enhanced: the operational system supporting ATMs was changed in order to improve the ATM system, and the ATM cash optimisation application was introduced. The new developments ensure undisturbed use of the increasingly higher quality services offered by ATMs 24 hours a day. OTP Bank's goal is to develop and improve the efficiency of its agency sales network. In order to achieve this, the Partner Project was launched. In its first phase the areas to be improved were identified (capacity utilisation, product offering, customer relations, improving the system of incentives, training and support). In the fall of 2005 the implementation phase was commenced, and the first campaigns were launched with an expanded selection of products under the new support and control system.

In addition, smaller improvements were made to several of the Bank's IT systems. These systems and the connections they provide enable the Bank to be prepared to respond to market challenges both in terms of information and infrastructure. In the last year a new process was launched to unite the various IT systems and to bring them up to the same level within the group. Its ultimate goal is to ensure that each member of the OTP Group is able to serve its customers at the same high level, with the help of a similar infrastructure.

Activities of the Hungarian Group Members[1]

BASIC RETAIL SERVICES

OTP Bank's customers continue to regard the institution as Hungary's best-known and safest bank. During the process of consolidation that has taken place in the banking market in the past few years, OTP Bank has maintained its market-leading position in the retail segment owing to its development of up-to-date products that meet the latest needs of its customers, elevating the level of customer service generally, and improving accessibility. The Bank expends considerable efforts on increasing customer satisfaction. In order to achieve this goal, the Transaction Database and the CRM system have been available for more than a year as effective tools for preventing customer churn. Several projects were launched and successfully completed in 2005 to improve customer service. The "Main Developments" section contains more information about these projects.

Account management, channels, banking transactions

At the end of 2005 OTP Bank had 4.6 million retail customers, 2.9 million of whom had forint current accounts. In connection with account management, OTP Bank wishes to make everyday banking simpler for its customers through an increasing number of channels.

Accordingly, the Bank has considerable market share in relation to all the electronic banking channels. The number of customers with a contract for the use of the Bank's electronic channels increased substantially in 2005. Some 727,000 customers made calls to the telephone help desk (33.8% market share), over 533,000 customers used the mobile phone-based services (47.6% market share), while 370,000 customers used internet (51.4% market share). This represents a 24% and 33% increase in the number of telephone banking and internet banking customers respectively, while the number of mobile banking service users grew by an outstanding 112%. The number of text messages sent (e.g. mobile signature, control, interactive text message) grew by 53%, the number of internet transactions by 62%, the number of mobile phone contracts by 108%, and the number of Electronic Account packages by 47%.

Number of OTPdirekt retail customers

[1] According to Hungarian Accounting Standards

In 2005 the functions available through the electronic channels continued to grow. The improvements increased practicality and convenience; for example, customers received help in storing certain frequently occurring data and in issuing multiple direct debit orders. Within internet-based services, application and download options were enhanced, and securities management functions are becoming more widely available.

OTP Bank's goal is to develop and improve the efficiency of its agency sales network. In order to achieve this, the Partner Project was launched, as a result of which a new sales support and incentive system was introduced, the IT support system was further improved, and the number of agents that have a relationship with the Bank had increased considerably by the end of the year to 725. In the course of the year the key products sold by the agents were housing and mortgage-backed loans. In December 2005 more than 40% of the contracted housing loan volume was sold by agents. In the last months of the year, personal loans and credit cards were added to the selection of products offered within the Partner system. The project includes a sales competition to help achieve the targeted volumes.

In 2005 the renovation and modernisation of the branch network continued. Owing to the key projects, the quality of customer service improved considerably and waiting time was shortened due to the rationalisation of task distribution within the branches and the expansion of electronic channels on the one hand, and the restructuring of the customer service representatives' incentive system on the other hand. Within the Infrastructure and Network Optimisation Project, 21 branches had been opened by December 31, 2005. In the remodelled branches, 434 improved workstations are now at the disposal of the Bank's customers and partners.

Bank cards

At year-end 2005, the number of cards issued by the Bank stood at 3,820,000, a 4.9% increase over the previous year's figure (3,641,000).

At year-end 2005, the number of forint-based deposit and credit cards issued in the retail division was close to 3,700,000, representing a rise of 4.7% compared to the 3,500,000 cards at year-end 2004. Within this, the number of classical debit cards issued to current-account holders was 2,784,000, and the number of Multipont charge cards was 500,000, while the number of cards linked to "B-Hitel" and "C-Hitel" overdraft facilities, currently in the process of being phased out, was already down to just 105,000 at year-end 2005. The number of classical credit cards, launched in the final months of 2003, was close to 134,000 at year-end 2005. In 2005 the Bank further expanded its credit-card portfolio, and within this, 52,000 AMEX credit cards had been sold by the end of the year. The number of foreign-currency-based cards issued by the Bank increased by 16.3% over the year, to more than 10,000.

By year-end 2005, the number of OTP-operated ATMs had increased to 1,500, from 1,400 in the previous year. In 2005 the number of transactions carried out using ATMs owned by OTP was 76.1 million, and the total volume of these transactions was HUF 2,188 billion. The number of ATM transactions carried out using cards issued by the Bank was 70.5 million, with a total volume of HUF 1,978 billion. Compared to the previous year, the average value of transactions on the acceptor side increased from HUF 27,000 to 28,700 and income grew by 30.6%.

As at December 31, 2005, the number of POS terminals was 25,478, representing an increase of 3,801 compared to the previous year. The Bank operated 3,439 of these terminals at its own branches, 17,104 at commercial outlets and 4,935 at post offices.

The number of POS terminals at commercial outlets grew by 24.4%. In 2005, the number of transactions made using OTP Bank's own POS network was 63 million, with a volume of HUF 527 billion, which represents a 21% rise in the number of transactions and in turnover. On the issuer side, the number of transactions and turnover increased by 17.2% and 18.3% respectively compared to 2004. Thus, the 50 million transactions carried out by OTP Bank's customers resulted in a turnover of HUF 375 billion.

Deposits, investments

At year-end 2005 the OTP Group managed more than one third of household deposits (34.7%). Based on the combined balance sheet total of financial institutions, at year-end 2005 the Bank had a market share of 34.5% in household forint deposits and 36.0% in foreign-currency deposits. Within the group, household deposit products are offered by OTP Bank, Merkantil Bank and OTP Building Society. In addition to OTP Bank, OTP Fund Management and the OTP Pension and Health Funds also retained their market leading positions in their own market segments, and OTP Garancia Insurance, which is one of the frontrunners among the domestic insurance companies, improved its position further.

Retail deposits

By year-end 2005, the volume of retail deposits managed by the Bank had reached HUF 1,870.2 billion, representing a 7.6% increase over the previous year's figure.

Within retail deposits, forint deposits increased by 7.0%, or HUF 106.1 billion, to HUF 1,612.1 billion in 2005. The proportion of retail current account deposits – a key product line – within forint deposits was 77.5% (in 2004: 75.1%). Following a 3.8% fall over the year, the total balance of passbook deposits amounted to HUF 326.9 billion as at December 31, 2005, representing a 20.3% share within forint deposits. The volume of foreign currency deposits grew by 11.4%, or HUF 26.3 billion, to HUF 258.0 billion, accounting for 13.8% of retail deposits as at year-end 2005 (in 2004: 13.3%). In 2005 the previous decline in the volume of foreign currency deposits came to an end, and the volume of such deposits began to grow markedly, partly due to exchange rate changes.

As the result of new contracts, contractual deposit taking and disbursements, OTP Building Society's deposit portfolio increased by 32.5%, to HUF 78.8 billion, close to 95% of which came from retail deposits. During the course of the year, the Building Society concluded over 106,000 contracts, with a total contract value of HUF 115.6 billion. By year-end 2005 OTP Building Society had attained a 54.7% market share based on the number of valid contracts, a 48.7% market share based on contract value, and an estimated 49.3% market share based on deposit volume in the two-player building society market.

Investment funds, securities

Through OTP Fund Management, the Bank Group is one of the leading service providers in the fund management market. At the end of the year, the Bank Group's market share of the securities fund market was 38.3%.

In 2005 the domestic investment market was characterised by a decline in bond yields, a soaring stock market, and a massive increase in mutual fund investments, especially in bond and real estate funds. The trend of declining yields at the beginning of the year was reversed in the last quarter of the year, which resulted in the flow of significant investment towards non-securities savings. OTP Bank, in line with the overall trend in the market – and despite the negative factors that came into play at year-end – closed a record year in securities trading.

The net asset value of the managed funds amounted to HUF 580.4 billion at the end of 2005, which is a considerable, 48.4% increase compared to the year-end 2004 figure. Within this total, the net asset value of the Optima Fund stood at HUF 411.9 billion at year-end, which represents a growth of 29.5%. The assets of the Maxima, Paletta, UBS Fund of Funds, Quality Equity Fund and Fantázia Derivative Share Fund also grew, while the assets of the Euró and Dollár Funds decreased over the course of 2005.

Net asset value of OTP investment funds

In 2005 the Bank further expanded its uniquely wide selection of products in the market. In addition to mortgage bonds with maturities of 1 and 3 years, the Bank launched a bullet payment bond with a 10-year maturity, and launched 3 new domestic (OTP) and 5 new foreign (UBS) investment funds for Private Banking customers.

The market value of the investment portfolio managed by the Bank exceeded HUF 1,846 billion as at year-end 2005, which represents an increase of more than 21%. Despite the negative tendencies at the end of the year, the retail securities portfolio managed by the Bank grew by 19%. As a result of this outstanding performance, the Bank managed to hold on to its market leading position in this segment of the market, with a market share of over 30%.

Pension and health insurance fund services

Within the Bank Group, funds are managed by OTP Fund Management, while the administrative tasks and member recruitment in connection with the funds are performed by OTP Funds Servicing and Consulting.

OTP Funds play a leading role in the funds market both in terms of their assets and their membership count. By year-end 2005 the OTP Funds' assets stood at HUF 397.8 billion and their membership increased by 12.1% to 1,017,800. The group's market share of household deposits was over 20%.

In the course of 2005, the assets of OTP Voluntary Pension Fund grew by 19.6% from HUF 64.8 billion, to HUF 77.5 billion, and the number of its members stood at 226,000, a 21.7% increase over last year's figure. The assets of OTP Private Pension Fund grew extremely dynamically, by 41.8% to HUF 317.3 billion, and its membership numbers increased from 712,000 to 723,000. The assets of OTP Health Insurance Fund stood at HUF 3 billion, and its membership count was more than 68,000.

Life and non-life insurance

The OTP Group offers a wide selection of life and bank insurance as well as non-life insurance services to its customers via OTP Garancia Insurance Ltd., and through the branch and agency network of the insurance company and the Bank. OTP Garancia Insurance is the largest Hungarian bank insurance provider and the second largest market player in terms of its life insurance premium revenues.

OTP Garancia Insurance Ltd. achieved premium revenue of HUF 75.8 billion in 2005, which was 36.3%, or HUF 20 billion, more than in the previous year. Its market share of total insurance-premium revenue increased from 9.3% in the previous year to 11%. More than 40% of the premium revenue was generated by sales within the OTP Bank network.

Premium revenues from the life and bank insurance business were HUF 44.6 billion, which gave the Company a 14.8% share of the life-insurance market (compared to 11% in 2004). Of life-insurance revenues, premium revenue from one-off premium-payment life-insurance policies grew dynamically, by 124.3% or HUF 15.8 billion, while revenues from regular-premium life-insurance policies grew by 14.9%. By the end of the year the volume of household deposits in life insurance premium reserves was close to HUF 115 billion. Revenues of the non-life division were HUF 31.2 billion in 2005, which represents an increase of 7.8%.

Retail loans

At the end of December 2005, the volume of retail loans was HUF 460.1 billion, 23.9% higher than at year-end 2004, which can be attributed to a five-fold increase in the volume of foreign currency loans with preferable interest rates. In addition to the majority of disbursed forint-based housing loans, starting from March 2005, foreign currency-based housing and mortgage loans were also transferred to OTP Mortgage Bank. Close to half of the approximately 34,000 loans that were transferred to OTP Mortgage Bank were foreign currency-based. The OTP Group[2] had a market share of 37.7% in household loans at the end of 2005.

Housing loans

The decrease in demand for forint-based housing loans and a predominant demand for foreign currency-based housing loans that started in 2004 continued in 2005 both nationwide and in respect of the Bank.

By year-end 2005, the volume of housing loans in OTP Bank's balance sheet had increased by 23.3%, to HUF 210.1 billion. Close to half of all disbursed housing loans were foreign currency-based. In 2005 the portfolio of housing loans transferred to OTP Mortgage Bank exceeded HUF 146 billion as a result of which OTP Mortgage Bank's housing loan portfolio grew by 9.3% to HUF 842.2 billion by year-end 2005. The loan portfolio of OTP Building Society – due to the increasing popularity of foreign currency-based loans offered under favourable conditions – decreased by HUF 1.7 billion to HUF 6.2 billion. As of December 31, 2005, the total market share held by the OTP Group – including the loans provided by OTP Mortgage Bank and OTP Building Society – stood at 46.4%. The group's market share in foreign currency-based housing loans grew by close to 16%-point (from 6.9% to 22.6%) in one year.

In order to retain its competitive edge, the Bank further enhanced its product portfolio and sales system. In the course of the year the Bank eliminated low volume products and introduced several new products that meet market demands and utilise the opportunities created by changes in the system of subsidies (e.g. Fészekrakó, or First Home loan, low instalment facilities, debt repayment loan, preferential home loan package in connection with home sales by municipalities and ministries, foreign currency-based loan combined with life insurance or building society deposit). In 2005 the Bank increased the number of its branches offering housing loans from 186 to 273, and at the end of the year no fewer than 725 agents were selling the Bank's housing loans. The activities of agents and employees offering loan products are supported by the CRM sales support system and through training. At the end of 2005 the Bank, together with the SCD Group, established OTP-SCD Leasing Co. Ltd., which launched a no-downpayment home leasing facility, and Annuity Ltd., which introduced a real estate-based annuity product in the market in 2006.

Consumer loans

The OTP Group offers consumer loans via OTP Bank, Merkantil Bank and Merkantil Car.
OTP Bank offers primarily current account-type, credit card, durable-goods loans, and personal and mortgage-backed loans, while the above-mentioned two companies in the Merkantil Group offer vehicle financing loans.

In 2005 the volume of consumer loans extended by the Bank increased by 24.4%, to HUF 249.9 billion. Together with the foreign currency-based mortgage loans that were transferred to OTP Mortgage Bank, the volume stood at HUF 257.0 billion as of December 31, 2005. The Bank Group's market share of household consumer and other loans grew from 23.2% to 24.4%.

[2]OTP Bank+Merkantil Bank+OTP Mortgage Bank+OTP Building Society

The portfolio of personal loans continued to grow dynamically in 2005, by 67.2%, to reach HUF 123.3 billion by the end of 2005, gradually replacing the "B-" and "C-Hitel" overdraft facilities, the volume of which fell by 51.8% to HUF 24.5 billion.

The volume of the re-launched "A-Hitel" overdraft facilities on retail current accounts continued to grow, and by December 31, 2005 had increased by 44.4%, to HUF 45.6 billion. Owing to high forint interest rates, the volume of forint-based mortgage-backed loans decreased by 45.2% against the previous year, to HUF 11.5 billion at year-end 2005. However, the volume of foreign currency-based mortgage loans increased five-fold in the course of the year, to reach HUF 16.1 billion by year-end.

AMEX Blue, which was launched by the Bank in 2005 and which has proved very popular among customers, was a major reason that the volume of loan placements in connection with credit cards grew more than two and a half times compared to the previous year, to reach HUF 12.3 billion by December 31, 2005. The volume of durable-goods loans (consumer credit) increased by 23.3%, to HUF 8.8 billion.

In 2005 the Merkantil Group strengthened its position in the vehicle-financing market despite fierce competition and decreasing vehicle sales. Its estimated market share on the basis of financed new cars is 20%. At the end of 2005 Merkantil Bank's retail consumer loan portfolio stood at HUF 95.4 billion, and Merkantil Car's retail loan placement portfolio was HUF 94.0 billion.

PRIVATE BANKING SERVICES

The OTP Group's private banking value proposition to affluent customers was supplemented further in terms of its content in 2005. The Bank offers advisory services – investment advice, tax advice, travel arrangements, art and real estate advice – as well as 'prestige' benefits, such as a gold bank card and VIP lounge at Ferihegy airport, to its private banking customers.

In addition to the wide variety of domestic investment products available, the number of investment opportunities abroad also increased considerably in 2005, partly through the launch in Hungary of 5 foreign investment funds offered by UBS Asset Management, and through the offering of foreign equities and index-tracking funds (ETF) available via the Xetra stock exchange system. Since the middle of last year, OTP Private Banking customers – as an opportunity available to them alone – have also been able to apply for an American Express exclusive Gold debit card.

Advisors assess customers' investment behaviour on the basis of individually compiled model portfolios, which they update with monthly tactical and quarterly portfolio reviews in order to be able to make their investment decisions on the basis of customised, up-to-date and detailed investment advice.

Our customers can find information on the products and services available to them on our private banking website (www.otpprivatebanking.hu), from the comfort of their own homes, and can also access the latest capital market information, which is prepared by the Bank's Analysis Centre.

The number of private banking contracts was close to 11,000 by year-end 2005, and the managed assets grew even more dynamically, by HUF 84.5 billion, to reach HUF 326.3 billion on December 31, 2005, which represents a 35% gain in a year. Within the Private Banking portfolio, the portfolio managed in the context of the 'VIP' private banking service increased by 63%, to reach HUF 46.4 billion in 2005.

COMMERCIAL BANKING SERVICES

Corporate services

Corporate account management, banking transactions

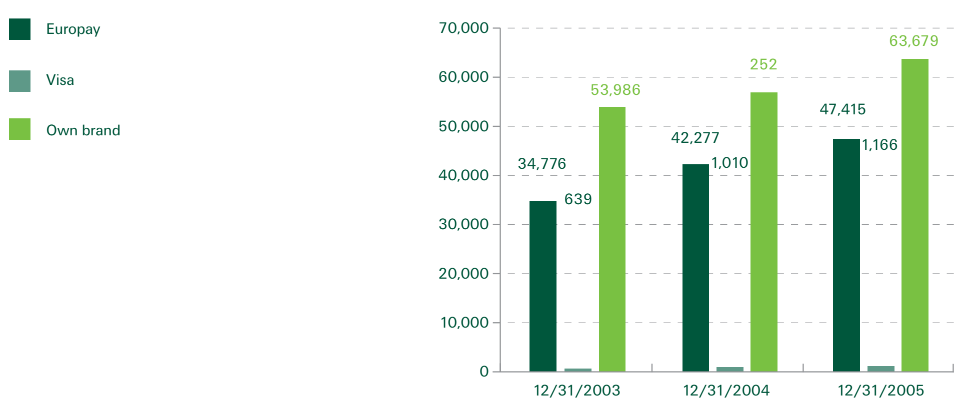
The OTP Group was again one of the key players in the market in 2005 in terms of corporate products and services. Besides OTP Bank, Merkantil Bank also offers corporate account management, and OTP Building Society and OTP Fund Management also offer deposit taking and investment fund sales to corporate customers. The total share of the Bank Group – that is, OTP Bank, Merkantil Bank and OTP Building Society – of the deposit portfolio of the credit institution sector was 11.4% at year-end 2005.

As of December 31, 2005, the corporate deposit portfolio stood at HUF 459.5 billion, a 9.1% increase over the previous year. Of the deposit total, 60% was made up of the deposits of incorporated business entities, which represented an increase of 10.4% over the course of one year. The forint deposits of incorporated business entities grew by 9.8% to reach HUF 246.9 billion, while their foreign-currency deposits in 2005 grew by 15.6% to HUF 29.5 billion. The volume of deposits held by small enterprises and individual entrepreneurs grew by 5.3% to HUF 64.7 billion, of which the share of forint deposits was 97%. In 2005 the handling of the corporate segment was transformed. As a result, the corporate-customer segment, which used to be treated in a uniform manner, is now divided into two large groups, micro and small businesses on the one hand, and medium-sized and large businesses on the other hand. Dividing the segment in this manner will enable us to provide an even more precise and tailored response to customer needs. As a part of this, the Bank created an MSE (micro and small enterprises) department within the retail division of the Bank. Starting from September 2005, OTP Bank renewed the services extended to micro and small businesses and increased their availability. The deposit portfolio of MSE customers stood at HUF 215.3 billion as of December 31, 2005, and the total number of MSE customers was close to 200,000.

Bank cards, electronic services

At year-end 2005, the number of business cards issued by OTP Bank was close to 115,000, representing an increase of 11.9%. The great majority of these (nearly 87,000) were domestic corporate and business cards. The number of Széchenyi Cards exceeded 8,000 by year-end 2005.

Number of business cards



Of the various electronic services available to customers that have bank cards, the OTPdirekt telephone and mobile phone service continues to be the most popular, with 31,000 and 28,000 corporate users respectively at the end of 2005. The number of corporate customers that use internet banking services also grew considerably and was close to 48,000 by the end of 2005.

Corporate loans

OTP Bank and its subsidiaries – the Merkantil Group and OTP Building Society in the case of domestic financing – offer a wide selection of loan products to their corporate customers. The Bank Group is one of the market leaders in this segment and had a share of 11.7% of the credit institution sector's corporate loan portfolio at the end of 2005.

The corporate loan portfolio grew by HUF 69.7 billion, to HUF 876.0 billion, by December 31, 2005.

The loan portfolio of incorporated business entities grew by 12.4%, to HUF 678.0 billion, while the foreign-currency loans of this customer group rose by 22.5%, to HUF 328.0 billion. The portfolio of small-enterprise loans increased by 11.2%, to HUF 27.2 billion. Loans taken up by individual entrepreneurs grew by 6.0%, to HUF 14.8 billion.

At the end of 2005 the largest single portion of the loan portfolio, 26.0%, consisted of loans extended to the real estate and business services sector. A further 15% went to electricity, gas, heat and water supply companies, 15% to enterprises engaged in trade, 13% to manufacturing entities, and 11% to transport, warehousing, postal and telecommunications companies. The agricultural sector accounted for 4% of the total loan portfolio.

Over the year, there were loans to enterprises in the real estate and business services sector that grew by the greatest extent, by HUF 68.9 billion, although there was also a substantial, HUF 14.1 billion, growth in the volume of loans to the trading sector, and a HUF 13.4 billion increase in loans to the transport, warehousing, postal and telecommunications sector. However, the loan portfolio of sectors offering other services decreased by 33.1%.

In 2005 the Bank continued to steadily develop and enhance its commercial banking services: the Bank made the pre-financing conditions for EU tenders more flexible, and made cross-border cash-pool services available to multinational companies. In the course of the year the Bank introduced several loan products to aid in business development and to assist agricultural businesses.

The loan portfolio of the MSE segment, which was created as a result of the division in corporate customer management, was close to HUF 33 billion as of December 31, 2005.

Leasing

The Bank Group provides its leasing services through the Merkantil Group. The aggregate portfolio of capital-goods leasing stood at HUF 7.7 billion, while the ratio of the long-term capital-goods leasing portfolio was HUF 350 million at the end of 2005.

The closing portfolio of dealer financing at the end of 2005 stood at HUF 18.0 billion, and 4.6% of the loan portfolio was foreign currency-based.

The Bank Group is represented on the property leasing market by Merkantil Property Leasing Co. Ltd. As of December 31, 2005, the balance sheet total of Merkantil Property Leasing was HUF 9.5 billion, and its property leasing portfolio grew by HUF 3.4 billion compared to 2004. Over half of the property leasing contract portfolio is listed in the books of project companies, and if this is taken into account, a further HUF 10.6 billion is added to the portfolio.

Project finance

The division's total portfolio stood at HUF 193.8 billion on December 31, 2005, which represents a 10% increase compared to 2004. A major portion of the loans went to finance real estate projects (22.5%), the power generation sector (22.5%), and company acquisitions (19.4%).

The Bank concluded several transactions of outstanding significance in the course of 2005, such as the Palace of Arts (a PPP project), Kerepesi Plaza, and the Graboplast (company acquisition) project. In addition to domestic transactions, the Bank also participated in financing foreign projects, especially in Bulgaria (e.g. Sunny Beach – a hotel) and in Slovakia (e.g. Enviral – a bio-ethanol plant).

MUNICIPALITY SERVICES

The Bank again succeeded in retaining its leading role in municipality banking in 2005. By the end of 2005 more than 74% of the client base, 2,359 municipalities and their institutions, had OTP Bank managing their cash-flow accounts, which represents a 4% decrease compared to year-end 2004. This is due to the fact that, as a result of recent changes in statutory regulations, municipalities can change their account managing bank in any month of the year, and, if they wish to do so, they must – once a specified value threshold is reached – issue a competitive tender among the financial institutions as part of a public procurement process.

At the end of 2005, the volume of deposits held by municipalities was HUF 151 billion, which was 5.4% lower than at the end of 2004. With regard to the deposit total, as a result of strenuous efforts on the part of competitors to acquire market share, the Bank's share of the market dropped slightly, from 66.2% to 63.4%. At the same time, the Bank's portfolio of municipality loans grew in the course of the year, by 34.3% to HUF 127 billion, bringing its share of this segment of the loans market to 52.7%.

The division introduced a quality assurance system in 2005 and acquired ISO 9001: 2000 certification.

The number of those among the municipalities and their institutions using the Bank's customer terminals rose continuously over the year (from 4,581 in 2004 to 5,700 at the end of 2005), while the number of municipality customers using the Mini Treasury system also grew.

TREASURY AND STRUCTURED FINANCING

The role of the Treasury within the Bank is twofold: firstly, to ensure operative and long-term liquidity and manage exchange rate and interest risks, and secondly, to operate as an independent profit centre in its own right.

With regard to liquidity management, in 2005 the tendency of previous years continued. Similarly to previous years, the Bank had surplus forint liquidity and a lack of foreign currency sources. The Treasury supplied approximately 51% of foreign currency sources available to the Bank by raising foreign funds (syndicated and bilateral loans, foreign currency bond issues, forint/foreign currency swap transactions).

In February 2005 a subordinated bond of EUR 125 million was issued and in June an EMTN bond program with a total of EUR 1 billion was set up, which provides flexible conditions for the Bank with respect to the rapid international issuance of a wide variety of bond structures. In 2005 two bond structures were issued in the framework of the program. In July 2005, OTP Bank issued bonds with a variable interest rate at a face value of EUR 500 million, and in the fourth quarter bonds at a face value of EUR 300 million.

In order to ensure an optimal supply of short and long-term foreign currency sources, in 2005 a set of unified regulations on group-level foreign currency funding management and group-member financing was introduced. The new regulations are of key importance in terms of the liquidity management of the Bank and the Bank Group. The Bank, as a central body that acquires funds, serves and finances the group members under uniform conditions, which means savings for the group as a whole.

Treasury trading activities were outstandingly successful in 2005. Among primary traders, OTP Bank, according to the State Debt Management Agency's assessment based on trading figures, came in second after ING Bank in the overall evaluation.
The Bank came first in the most important category (government bond sales), which is more impressive if we consider that the Bank came out on top even without the turnover of OTP Fund Management being included. In 2005 the Bank's foreign currency trading was sufficient for it to take over the no. 1 spot on the turnover list among Hungarian banks according to statistics provided by the National Bank

of Hungary (MNB), an achievement that is without precedent in the Bank's history.

In 2005 the average value of the Bank's portfolio of securities held for investment was HUF 267 billion. The portfolio of securities held for trading amounted to an average of HUF 30 billion. The average portfolio of two-week forint deposits placed with the MNB was HUF 265 billion.

In 2005 the Bank maintained its market leading position in the area of structured financing in Hungary, and strengthened its position as financer in the central and eastern European region. As a result, cooperation with the group's international members has expanded. The 25 new transactions executed in the course of the year represented a total volume of HUF 175 billion.

In 2005 the Treasury installed a new internet-based price quoting and transaction system. Through the system customers have direct access to prices quoted by foreign currency traders, and can also conclude transactions.

Activities of Foreign Subsidiaries[3]

DSK Group

The DSK Group achieved major successes in the 2005 business year. The group's after-tax profit in 2005 was HUF 16.6 billion, which represents an increase of 38.2% compared to its result of 2004. Its ROAA as of the end of the year was 3.33% and its ROAE was 26.3%.

The DSK Group's balance sheet total on December 31, 2005 stood at more than HUF 583.4 billion, or 42.1% higher than the year-end 2004 figure, and its equity at the end of 2005 was HUF 71.2 billion (a growth of 30.6%). The bank's loans and deposits grew by 40.6% and 30.5% respectively in 2005, with the loan portfolio totalling HUF 384.4 billion by the end of the year, and deposits HUF 432.4 billion.

In 2005 DSK Bank further increased its share of the loans market (16.2%), and retained its market-leading position in the deposit market (14.8%). Based on its balance sheet total, DSK Bank's market share was 13.6%, making it the largest bank in the Bulgarian banking market ahead of UniCredit-owned Bulbank.

One of the key ingredients of DSK Bank's success is its rapid response to the demands of the competitive marketplace. Responding to increasing customer expectations and launching innovative products are the keys to the bank's further development and growth in the Bulgarian market. The bank has significantly broadened its range of retail banking products. In 2005 these included housing loans for non-residents, housing loans on semi-completed homes, and freely usable mortgage loans. "DSK-Direkt," which was developed for retail customers, was further improved, and, as a result, services based on the call centre, the internet, and text messages improved. A service package was developed for MSE customers, and, in addition, the electronic banking services offered to corporate customers and call-centre services were expanded.

In addition to classic banking services, in 2005 DSK Bank began offering additional financial services through its subsidiaries. Besides its already existing subsidiaries (POK DSK-Rodina, which manages two mandatory and one voluntary supplementary pension fund, DSK Tours, which offers recreational and tourism services, DSK Trans Security, which offers security services and valuables transportation, and DSK Garancia Life Insurance, which provides life insurance), additional subsidiaries such as DSK Asset Management, DSK Garancia General, a general insurance services company, and DSK Leasing (offering vehicle financing) began their operations.

DSK Asset Management received authorisation in August 2005 to establish investment funds, and in December it began offering the first two of its funds (DSK Standard Bond Fund and DSK Balance Investment Fund) through its branch network.

In the course of 2005, the number of DSK Bank branches increased from 327 to 357. The number of retail bank cards issued by the bank exceeded 915,000 at the end of the year, which equates to an increase of close to 32.4% compared to the end of 2004. The number of ATMs grew by 49%, to 523, and the number of POS terminals by more than two and a half times, to 1,208. The headcount at the DSK Group at the end of 2005 was 4,048, 480 fewer than at year-end 2004.

[3] According to IFRS

OTP banka Hrvatska d.d.

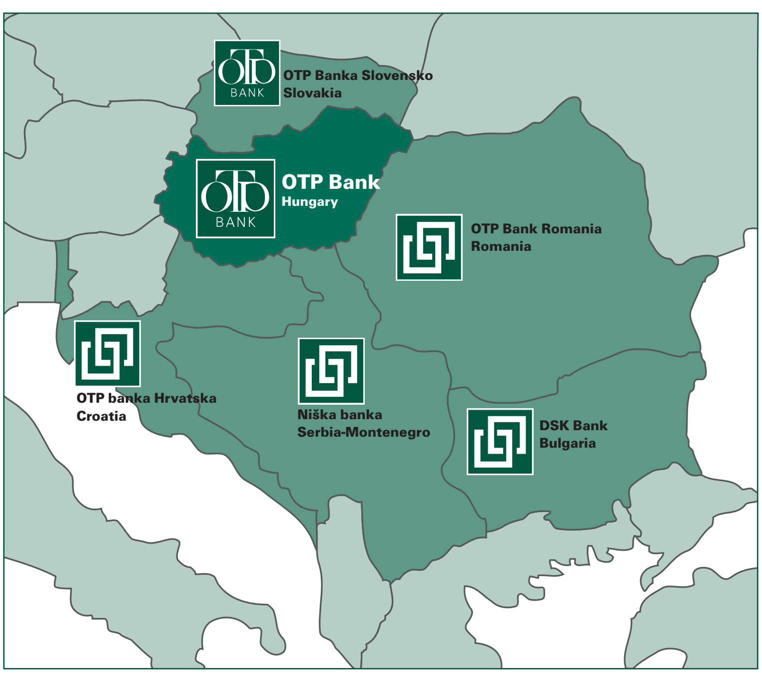
On March 10, 2005, the OTP Group acquired the Croatian Nova banka, which was renamed OTP banka Hrvatska (OBH) in September 2005.

On December 31, 2005 the consolidated balance sheet total of OBH was HUF 298.2 billion, representing a share of 3.4% of the Croatian market. By year-end 2005 the gross loan portfolio had increased to HUF 150.5 billion, representing a market share of 3.1%. The volume of customer deposits at year-end was HUF 232.5 billion, corresponding to a market share of 4.1%.

By the end of 2005 OTP banka Hrvatska had more than 503,000 customers, and was managing 331,000 retail accounts and close to 22,000 corporate accounts on their behalf. The number of bank cards issued in 2005 grew by 10.7% to 339,000. Within this, the number of credit cards grew by close to 60% during the year to some 22,000.

In 2005 the bank launched several new products in the Croatian market, such as internet banking services for retail customers and the VISA classic credit card.

In 2005 the bank also expanded its sales network. By year-end the bank had 89 branches, 88 ATMs and 748 POS terminals. The headcount of the group as of year-end 2005 was 1,005.



OTP Banka Slovensko, a. s.

The Slovak bank's balance sheet total stood at HUF 262.9 billion at the end of 2005, which represents an increase of 22.3% compared to the end of 2004, and this growth gave the bank a share of 2.8% of the Slovak banking market. The bank's equity rose over the same period by 14.5%, to HUF 17.1 billion. OBS's after-tax result for 2005, based on IFRS, was HUF 1,373 million, compared to the previous year's profit of HUF 512 million. The bank's ROAA at the end of 2005 was 0.57%, and its ROAE was 8.6%, and its cost-to-income ratio, having dropped by more than 19%, improved to 78.7%.

In 2005 OBS's loan portfolio experienced dynamic growth both in terms of mortgage loans and consumer loans. By the end of the year retail loans, owing to an annual growth of 74.1%, increased to HUF 43.9 billion. As a result of considerable growth in corporate and municipal loans, in the course of 2005 the volume of banking loans grew by 41.1% to HUF 189.9 billion, which equated to a market share of 5.3% at the end of the year. The bank's deposit portfolio increased by 8.5% to HUF 151.9 billion in 2005, and accounted for 3.2% of the deposit market as at December 31, 2004.

During the course of 2005 the number of the bank's customers increased by over 2,500, to close to 159,000, with retail customers accounting for more than 140,000 of this total.

The number of bank cards issued by OBS was close to 105,000 at the end of 2005, which represents a growth of 4.2% compared to the end of 2004. This total was made up of more than 93,000 retail and 11,500 corporate bank cards. The bank's ATMs numbered 110 at the end of the year, with the number of transactions effected via these ATMs totalling some 1.8 million – 15% more than in 2004. The number of proprietary POS terminals at the end of 2005 was 487, and the volume of POS transactions increased by 23% over the course of the year.

The Slovak bank opened 5 new branches during the year, bringing the total number of branches in its network to 78 at the end of 2005. As of December 31, 2005 the Bank's headcount was 764, one person fewer than on December 31, 2004.

OTP Bank Romania S.A.

OTP Bank Romania's balance sheet total was more than HUF 55.2 billion at the end of 2005, 23.9% more than the figure at year-end 2004. At the end of 2005 the bank's market share based on its balance sheet total was 0.64%, while its equity – owing mainly to a capital increase of EUR 30 million in September – was HUF 13.7 billion as at December 31, 2005 (a growth of 78.5%).

In 2005 the bank's loan portfolio grew by 50.3% and its deposit total decreased by 11.8%, amounting to HUF 24.6 billion and HUF 25.3 billion respectively by year-end.

OTP Bank Romania closed the 2005 business year with a loss of HUF 2.1 billion.

In the fourth quarter of 2005 the bank launched its retail division. The bank's branches now offer personal loans, current account overdraft facilities, mortgage-backed consumer loans and housing loans.

The number of retail current accounts managed by the bank in 2005 grew from 36,500 to some 44,000; the number of corporate accounts grew from 7,000 to close to 8,000. In the fourth quarter of 2005 the bank opened 13 new branches and was operating a total of 27 branches by year-end. The headcount at the end of 2005 was 475, which is 175 more than a year earlier.

OTP Group

Parent company	Banks	Other financial services						Non-financial services	
OTP Bank	OTP Mortgage Bank	OTP Garancia Insurance						OTP Real Estate	Other subsidiaries
	Merkantil Bank	Merkantil Car	Merkantil Real Estate Leasing	Merkantil Lease				OTP Card Manufacturing	
	OTP Building Society	OTP Fund Management	OTP Real Estate Fund Management	OTP Life Annuity and Real Estate Investment				OTP Travel	
		OTP Factoring	OTP Factoring Asset Management					OTP Fund Services	
	DSK Bank (BG)	DSK Asset Manage-ment (BG)	POK-DSK Rodina (BG)	DSK Garancia Insurance (BG)	DSK Garancia Life Insurance (BG)	DSK Leasing (BG)		DSK Tours (BG)	DSK Trans Security (BG)
	OTP Banka Slovensko (SK)	OTP Faktoring Slovensko (SK)	OTP Real Slovensko (SK)	OTP Garancia poištovna (SK)	OTP Garancia životná poištovna (SK)	OTP Leasing (SK)	OTP Asset Management (SK)		
	OTP Bank Romania (RO)	Asigurarea Ceccar-Romas (RO)							
	OTP banka Hrvatska (HR)	OTP invest (HR)						OTP nekretnine (HR)	
	Niška banka (SE)	HIF (GB)							