2006
annual report

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Message from the Chairman and Chief Executive Officer

DEAR SHAREHOLDERS,

In the 2006 business year the, OTP Bank Group faced challenges considerably greater than those of previous years. The competitive environment forced the Company to make sustained efforts and to introduce continuous innovations. Beyond this, the deteriorating macroeconomic environment in Hungary and the temporarily increasing tendency of investors to avoid risk in the course of the year, coming in what was the most active acquisition period in the history of the Company, required the maximum mobilization of our resources.

In light of these events, the HUF 187.1 billion after-tax profit of the OTP Bank Group is an outstanding achievement, exceeding both the goals set by management and the consensus of analysts. We continued to record dynamic, double-digit growth.

The dynamism of growth remained significant.

In acknowledgment of its successful operation, OTP Bank has been frequently recognised by finance industry publications The Banker, Global Finance, and Euromoney as the best Hungarian bank, and won Finance New Europe's 'Achievement Award 2006.' MasterCard also ranked the Bank first in several categories, while Finance New Europe voted DSK, the Bank's Bulgarian subsidiary, as the best Bulgarian bank.

The Bank's international credit rating remained unchanged (A1); however, its financial strength rating was modified from 'B–' to 'C+' due to the challenges involved in the acquisition and integration of foreign banks, which represent a greater risk than Hungarian banks. At the same time, Moody's emphasized that OTP Bank's excellent network, dominant market positions and stable financial fundamentals make it one of the most profitable banks in Europe.
Although the Bank Group achieved record profits in the first three quarters of the year, for a long time this was not apparent in the share price. However, the last few months saw a considerable positive adjustment and the share closed the year at a record price of HUF 8,750. We welcome the fact that we

attained this result at a level of turnover significantly exceeding that of the other blue chips on the local bourse.

The year 2006 was also outstanding from the point of view of acquisitions. The Bank purchased six banks abroad, in Ukraine, Russia, Montenegro and Serbia (3 banks), for a total purchase price of EUR 1.3 billion. Partly to finance these acquisitions and partly to strengthen our market capitalization, we completed three significant capital market transactions in the autumn: a EUR 300 million subordinated loan capital issue (LT2), a EUR 500 million upper tier 2 (UT2) capital issue, and 14.5 million own shares sold in the form of convertible bonds in a value of EUR 514 million.

OTP share price closed the year at a record level of HUF 8,750.

As a result of the acquisitions, the Bank is now present in nine countries of the region. By taking into account the level of bank penetration in these markets and their potential for dynamic growth, we are confident that our investments represent the most effective form of value creation for our shareholders.

In 2006, the Bank Group realised a HUF 187.1 billion after-tax profit, an 18.2% increase on the consolidated performance compared to the previous year. Its annual balance sheet total grew by 36.1% to HUF 7,097 billion, while equity increased to approximately HUF 788 billion (close to EUR 3.1 billion). Although profitability and performance indicators continue to be outstanding in both domestic and international comparison, they have decreased somewhat: the consolidated return on average assets stood at 3.04% (a decrease of 34 basis points), while the return on equity was 28% (a fall of 4.3 percentage points). The expense-to-income ratio was 56.4%, a 1.7% increase over the previous year.

The results of subsidiaries acquired in 2006 have only been partially consolidated by the Bank in its financial statements; nevertheless, the contribution of foreign subsidiaries grew substantially: 36.9% of the consolidated loan portfolio (+13.1%), 34.4% of deposits (+9.8%), and 13.7% of after-tax profit (+2.2%) originated abroad.

Within the Bank Group, OTP Bank preserved its dominant position in terms of volume

The year of 2006 was outstanding in respect of acquisitions.

and profit: its annual loan portfolio grew by 19%, and its equity by 41.7%.
The Bank's HUF 170.1 billion after-tax profit represented a 28.1% growth compared to the previous year's figure, although this was in large part due to the volume of liquid assets handed over permanently by the subsidiaries, mostly in connection with own share transactions.
The Bank's profitability remains at a high level: ROA stood at 4.2% (+20 basis points), and ROE at 29.8% (–1 percentage point), while the cost-to-income ratio further improved, falling to 43.6% (–1.41%).

In terms of their contribution to consolidated profit, the following subsidiaries produced outstanding results: OTP Mortgage Bank, OTP Garancia, Merkantil Group, OTP Fund Management, and the DSK Group.
The latter two subsidiaries in particular produced impressively dynamic growth in profits, up 35.9% and 46.2%, respectively, compared to 2005.

Among the foreign subsidiaries, the HUF 24.2 billion after-tax profit posted by Bulgarian DSK Bank was outstanding.
Its profitability indicators after the third year following its acquisition approach those of the parent bank (ROE: 29.6%, ROA: 3.55%), while performance indicators are even better (cost-to-income ratio: 38.7%).
The performance of the Croatian and Slovakian subsidiaries also improved significantly: while retaining their market positions, their after-tax profit grew by 62.4% and 47.9%, respectively.
OBR was the most dynamically growing bank in the Romanian banking system, as its credit portfolio grew by over 300% in the past year.

By year's end in 2006 the OTP Bank Group, having gone through organic growth and the acquisitions of recent years, has become one of the most important financial services providers in the region. By means of its approximately 1,300 branches, 27,000 skilled employees, extensive network of agents and other sales channels, it provides a wide range of banking and financial services to more than 10 million retail, corporate and municipal customers.

Changes of the last period ensure shareholder value creation in long-term.

In the coming period the Company intends to dedicate its financial and human resources primarily to consolidating and integrating the newly acquired banks, and to rely fully on its own previous experience of reorganisation in this process. At the same time, the reorganisation of its existing foreign subsidiaries will continue, and new products and services will be introduced, while in Hungary, within the framework of the Subsidiary Value Creation Project, steps will be taken to rationalise processes and optimise costs.

In order to take maximum advantage of the opportunities offered by integration, corporate governance at the subsidiaries will be placed on new structural foundations. Simultaneously, in order to reflect the changed character of the Bank Group, the bank will undergo a significant change of image, focusing on strengthening the confidence of our existing customers and, consequently, further widening the circle of our clientele.

I believe that the specific decisions made in the recent period – be it steps taken in connection with acquisitions, reorganisation or governance – will prove in the long term to be the best possible decisions in respect of value creation for the owners. As a result, our shares remain – and will continue to remain – a desirable target for investors, due not to their relative undervaluation but to the growth potential and dynamism of the Bank Group.

Dr. Sándor Csányi
Chairman and Chief Executive Officer

Financial Highlights

Profit and Loss Account (in HUF million)	2005	2006	Change %
Net interest income	297,225	355,944	19.8
Net interest income after provisioning	269,183	327,385	21.6
Non-interest Income	216,497	242,718	12.1
Total income (with net fees)	493,792	566,546	14.7
Operating cost	273,673	319,385	16.7
Profit before tax	192,077	218,602	13.8
Profit after tax	158,274	187,096	18.2

Balance Sheet* (in HUF billion)	2005	2006	Change %
Total assets	5,215.9	7,097.4	36.1
Loans and advances to customers	3,297.2	4,474.7	35.7
Retail loans	1,965.8	2,646.4	34.6
Corporate loans	1,195.4	1,610.0	34.7
Municipal loans	136.0	218.3	60.5
Interbank loans and advances	438.8	602.6	37.3
Deposits from customers	3,428.2	4,232.2	23.5
Retail deposits	2,562.9	2,912.8	13.7
Corporate deposits	662.2	1,098.1	65.8
Municipal deposits	203.1	221.3	9.0
Issued securities	543.5	781.3	43.8
Total receivables	3,297.2	4,474.7	35.7
Performing loans	2,876.5	3,562.0	23.8
Qualified loans	420.7	912.7	117.0
Non-Performing loans (NPLs)	119.1	251.1	110.9
Provisions for possible loan losses	105.9	127.6	20.5
Shareholders' equity	547.5	788.2	44.0

Performance Ratios	2005	2006	Change %
Cost/income ratio %	55.4	56.4	1.8
Return on average equity (ROAE) %	32.3	28.0	(13.3)
Return on average assets (ROAA) %	3.38	3.04	(10.1)
Capital adequacy ratio (unconsolidated, HAR)* %	10.56	9.88	(6.4)
Undiluted EPS (HUF)	603	722	19.7
Diluted EPS (HUF)	599	714	19.2

Market share**	2005	2006
Households' deposits,%	34.7	32.4
Households' loans, %	37.7	34.4
Corporate deposits, %	11.4	9.9
Corporate loans, %	11.7	11.0
Municipal deposits, %	63.4	64.2
Municipal loans, %	52.7	55.1

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

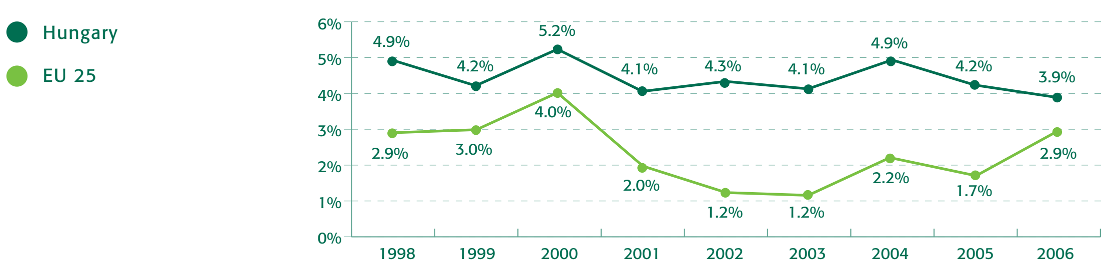
Macroeconomic and Financial Environment in 2006

MACROECONOMIC AND FINANCIAL TRENDS IN HUNGARY

In 2006 the key economic tendencies in Hungary were determined by the budgetary revitalisation efforts still discernible in the first half of the year and by the stabilisation measures launched in the last third of the year. Despite attempts at stabilisation, the budget deficit in 2006 reached 9.8% of GDP. The significant increase in the deficit was caused by a reduction in certain key tax revenues, an expansion of capital investments by the state and an increase in monetary contributions for social purposes.

As a result of the stabilisation measures inflation began to climb, and in the wake of efforts to dampen domestic demand, economic growth slowed. While in the first quarter the economy grew by 4.9%, growth fell to 3.2% in the last quarter of 2006. The primary engine of growth – thanks to the booming economies abroad – was net exports: while exports grew by 18%, imports grew by 12.5%. Investments were fairly sluggish: the value in real terms of accumulation in the economy fell overall by close to 2%, with some deviation in certain segments of the economy. During the year as a whole the volume of capital investments by the state grew, which was mainly reflected in the 19.5% increase posted in the first half of the year. The number of housing construction permits grew by 12.3%, to 44,800, while the number of completed homes fell by 18%, to 33,800. Despite the strength of economic activity abroad, investments were surprisingly weak in the manufacturing segment, and the sector's accumulation costs fell by 5% in 2006. The previously dynamic growth in household income slowed as a result of the stabilisation: in the past year net nominal wages increased by 7.5% and real wages by 3.5%. Consumer expenditure also grew at a more modest pace: household consumption increased by just 1.5%, while community consumption fell by 5.5%.

Changes in real GDP



Inflation trends were different in the first and the second half of the year. While due to a reduction in the top VAT rate in the first half of the year, inflation fell to 2.3% by the middle of the year, inflation in December – due to increases in taxes and contributions as well as in state-regulated prices – reached 6.5%. Of the key product categories, state-regulated prices and food prices grew at the highest rate, while inflation related to manufactured goods remained moderate throughout the year. The price of services increased at a slower rate than in 2005, although

this was due to the reduction in VAT at the start of the year; in the last months of the year inflation in relation to services was close to 8%.

As the outlook for inflation worsened in the second half of the year, so the forint grew considerably weaker, forcing the National Bank of Hungary to raise interest rates from June. The central-bank prime rate grew from 6% at the beginning of the year to 8% at the end of the year. Despite the interest hikes, yields on long-term government bonds fell by 20–30 basis points in the course of the year. In the meantime, the forint stabilised, reaching an exchange rate of HUF 251.2 against the euro by the end of the year.

Once again in 2006, the growth of the financial intermediation system was fuelled chiefly by the expansion in lending volumes: customer loans grew by 18%, while deposits increased by 13%. The aggregate balance sheet total of the Hungarian banking sector grew by 20% in 2006, compared to 18% in 2005.

Corporate demand for credit rose overall: due to the increasing vigour of economic activity abroad, borrowing from banks by non-financial enterprises grew as a proportion of GDP from 3% to 4%, while that of financial enterprises fell from 1% to 0.8%. Despite the strong demand for credit, and as a consequence of the revaluation due to the growing base and the strengthening of the forint, the growth in the volume of corporate loans fell to 13% from what had generally been around 15% in 2004 and 2005. Deposits by non-financial enterprises as a proportion of GDP increased to 3.4%, compared to 0.7% in 2004 and 1.4% in 2005, which means that the pace of growth of deposits almost doubled, approaching 30%. This is outstanding, even if we strip out the effect of a deposit that was placed by a single large company in an amount equal to 1% of GDP. Financial enterprises placed deposits with the banks at a rate that was similar to previous years, at an extent equal to 0.6% of GDP, which can be explained primarily by assets being invested in mutual funds, especially real estate and money market funds, and partly by assets being placed in bank deposits.

Demand for credit in the retail banking market, despite the announcement of austerity measures and a fall in consumer confidence, continued to grow steadily, as it had begun to do in 2005: in the last quarter of 2006 borrowing by households as a proportion of GDP, leaving seasonal changes out of account, was higher than the record 5.5% in the summer of 2003. Nevertheless, the rate of growth in the volume of household credit fell from 26.4% to 25%, due to the rapidly growing base. Credit expansion was primarily driven by demand for loan products with the lowest repayment instalments and foreign-currency

(FCY) mortgage loans; FCY housing loans accounted for 46%, and multi-purpose FCY mortgage loans for 39% of the net borrowing of the sector, while the volume of HUF denominated mortgage loans fell by approximately HUF 30 billion, or 1.3%.

Deposits by households lagged behind the sector's demand for credit, falling to 1.4% of GDP from 2.2% in 2005. Consequently, the rate of growth in deposits fell to 4% in 2006, from 10% in the previous year. One of the major reasons for the fall in deposits was that many households chose to re-arrange their portfolios prior to the introduction of the interest and capital-gains tax in September: approximately HUF 250 billion in assets was transferred from savings deposits and fixed-term deposits to financial instruments that would help them avoid the interest and capital-gains tax over the long term, such as investment funds and other securities. The volume of FCY deposits grew significantly faster than total deposits, by close to 30%, which is explained by the considerable fluctuation in the forint. Another interesting phenomenon that occurred as a result of the interest and capital-gains tax was the growth in the volume of long-term deposits of more than a year: in August more than HUF 300 billion in savings were placed in such facilities.

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

In 2006 the economy in each of the countries of our foreign subsidiaries grew faster than in Hungary. In Croatia and Montenegro GDP grew by 4–4.5%, in the other countries by 7%, and in Romania and Slovakia by around 8%.

In most of the countries inflation fell, especially in countries that had notably high inflation rates of more than 10%. At the same time, however, inflation grew in countries such as Bulgaria and Slovakia, where inflation had previously been moderate. Due to a rise in global interest rates and strong economic growth, the central-bank prime rate increased in most countries compared to 2005.

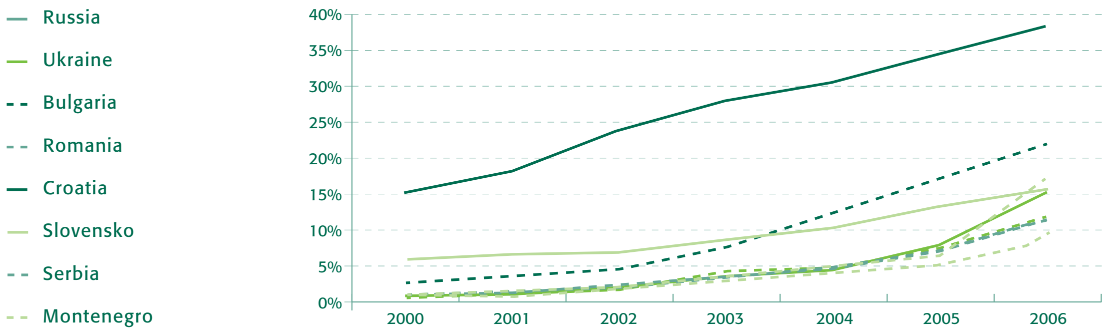
The increase in the rate of investment and consumption-driven economic growth – with the exception of Slovakia, which experienced moderate improvement – caused a worsening of the various countries' current-account balances relative to GDP, with the deficit in proportion to GDP typically increasing by 1.5–2 percentage points. The deterioration of the external balance was especially pronounced in Bulgaria and Montenegro, where the current-account deficit increased to 15% and 25% of GDP respectively.

In our view, the deterioration in the external balance does not represent a risk in terms of financial stability where fiscal policy is disciplined and the banking sector operates along prudent lines; rather, this phenomenon is associated with extremely dynamic corporate investment activity. In the two countries mentioned above, the state budget has enjoyed a surplus for several years now, while of the other countries, the budget deficit was highest in Slovakia and Croatia, at about 3% of GDP.

In the countries concerned, the degree of penetration of the bank system, notwithstanding some growth in recent years, still lags behind the EU average, even though the depth of the financial intermediation system calculated on the basis of the balance sheet total exceeds that of Hungary in Croatia, while in Bulgaria, Slovakia and Montenegro it is approaching it.

Primarily due to credit-side expansion, in 2006 the balance sheet total of the bank sector grew dynamically in each country, with the exception of Slovakia – at a rate exceeding the growth of nominal GDP. Growth was most dynamic in Ukraine and Montenegro, where it reached double digits, but with the exception of Slovakia and Russia, the 8–9% growth of the bank-sector balance sheet total in proportion to GDP exceeded that of the Hungarian bank system in

Bank sector retail loans as a percentage of GDP



each home country of our subsidiaries. In Slovakia the growth of the bank-sector balance sheet total was constrained by a significant drop in the volume of interbank deposits, while in Russia the decrease in deposits is related to the double-digit growth in consumption there. In each country the driving force behind the growth of the bank sector was lending. The growth in retail lending was outstanding; in each of the eight countries the retail portfolio expanded at a rate that exceeded that of GDP and was in excess of the growth in corporate lending. The most significant, double-digit, expansion in retail loans took place in Montenegro in 2006, but the more than 7% growth in retail lending relative to GDP in Ukraine, as well as the 4–5% growth of the Bulgarian, Romanian and Croatian retail lending markets, was also above average. FCY-based retail loans and multi-purpose mortgage loans are popular right across the region.

In recent years, in Bulgaria, Romania and Croatia, restrictions have been introduced to slow the growth in household foreign-currency debt. The most stringent regulations aimed at curbing the expansion in retail lending were introduced by the central bank of Croatia, where, in addition to increasing the compulsory reserve, the maximum extent by which banks are permitted to increase their retail loan portfolios has been capped at 12% per year. In Bulgaria and Romania, the regulatory restrictions have been relaxed considerably since the start of 2007. In Bulgaria, the rule restricting the rate of expansion of the loan portfolio through an interest-free minimum reserve requirement set by the central bank has been discontinued. In Romania, the rate of household debt is restricted to a certain proportion of disposable income; however, in 2007 the restriction on banks and other financial intermediaries, which had previously limited the FCY loan portfolios of corporate and retail customers that lacked natural coverage to 300% of equity, was lifted.

While credit expansion was the main source of growth in all countries, deposits also grew in the bank sector: retail bank deposits, with the exception of Russian and Serbia, grew at a 2–3% higher rate than national income in 2006. As the number of alternative savings methods grew, household savings were invested in non-banking products to an increasing extent. In Russia and Slovakia, the share of insurance-linked schemes within overall savings grew, while in Serbia the proportion of savings that were held in investment funds grew, and in Croatia both investment funds and insurance-linked schemes gained in popularity.

Business Reports

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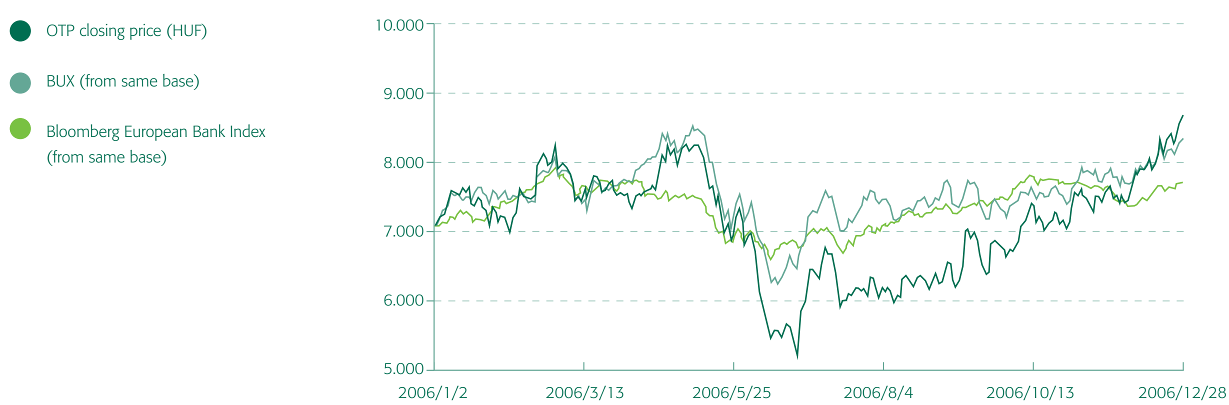
The Group's Activities and Results in 2006

2006 was a notable year for acquisitions in the history of the OTP Group, with the Bank completing five successful takeovers during the course of the year, thus securing itself a presence in no less than 9 countries of the region to date. OTP Bank purchased Russian bank Investsberbank (purchase price: USD 477.5 million) and Raiffeisenbank Ukraine (purchase price: EUR 650 million), with the latter being renamed CJSC OTP following the change in ownership. Further acquisitions included two Serbian banks, Kulska and Zepter banka (purchase price: EUR 118.6 and EUR 34.2 million) and Montenegrin bank Crnogorska komercijalna banka (purchase price: EUR 104 million). In order to finance these acquisitions, the Bank sold 14.5 million of its own shares, held by the Bank Group, through an exchangeable bond transaction (ICES – Income Certificate Exchangeable for Shares). It also issued EUR 300 million in subordinated loan capital (with a 10-year maturity, at a fixed 5.27% interest rate) and completed an upper-tier 2 (UT2) bond issue at a nominal value of EUR 500 million – at a fixed interest rate of 5.875% for the first 10 years and from then on at a floating rate with indefinite maturity. With the acquisitions completed, OTP Bank Group is now one of the leading banking groups in Central Eastern Europe, serving over 10 million customers through nearly 1,300 branches.

The performance of OTP shares in 2006

The rise in the price of OTP shares over the past years has significantly outstripped the typical share-price gains of most east and west European banks. Although due to unfavourable macroeconomic conditions, the price of OTP Bank's shares was unusually volatile in 2006, the Bank closed the year with its share price at an all-time high. Over the course of the year – amid a backdrop of exceptional trading volumes – the price of OTP Bank's shares rose by 25.6%, from HUF 6,967 at the end of December 2005 to HUF 8,750 by the end of 2006. Over the past years, the price of OTP Bank's shares has risen at a significantly higher rate than that of other shares on the Budapest Stock Exchange. The price of OTP shares grew by a factor of almost 93-fold from the end of 1995 to the end of December 2006 (representing an average annual growth of 45.8%). By comparison, the BUX index rose over 16-fold (representing an average annual growth of 26.2%) during the same period due in no small part to the performance of OTP Bank. As at the end of December 2006, the market value of the Bank's shares had risen to HUF 2,450 billion, or EUR 9.7 billion, which was 3.1 times the Bank's book value (P/BV).

The price of OTP shares in 2006



Number of clients, sales network and headcount at the Banking Group

As a result of the acquisitions carried out in 2006, the OTP Group now maintains an active presence in nine countries of the region. At international level, the number of customers served by group members that are currently included in the consolidated balance sheet – OTP Bank, DSK Bank, OTP Banka Slovensko, OTP banka Hrvatska, OTP Bank Romania, Niška Banka, CJSC OTP Bank, Investsberbank, and Zepter banka – exceeded 10 million on December 31, 2006. At the end of the year, the parent bank had a clientele numbering almost 4.8 million, of whom 4.6 million were retail banking customers. In addition, the Bank had close to 192,000 micro and small enterprise customers, almost 18,000 medium-sized and large corporate customers, and over 2,300 municipality clients. The total customer headcount of the OTP Group's foreign subsidiaries approached 5.3 million, the majority of whom – 64% – were clients of DSK Bank, with Investsberbank boasting the second-largest clientele among the foreign group members.

At regional level, close to 1,300 bank branches, almost 2,900 ATMs[1] and approximately 31,000 POS[1] terminals, as well as call-centre, mobile and internet banking services, customer terminals and a network of sales agents, ensure that this large base of customers receives a consistently high standard of service, tailored to meet their individual requirements. Around a third of the regional branch network – 408 units – consists of OTP Bank branches, which are supplemented in Hungary by the extensive network of OTP Garancia Insurance, comprising an additional 170 units.

A highly qualified team of dedicated and sales-oriented customer service operatives is the key to ensuring a high standard of service, which is why OTP Bank treats as a priority the continuous training of its staff, and the retention of talented professionals.

On December 31, 2006, the OTP Group's headcount approached 27,000, of whom 12,000 were employed by OTP Bank and its subsidiaries in Hungary, while approximately 15,000 worked at foreign group members. Mainly as a result of the acquisitions, but also partly due to the increase in staff numbers that took place with the launch of the new divisions at OTP Bank Romania, the number of employees at the foreign subsidiaries rose considerably, by more than 8,700. The headcount of OTP Bank was almost 8,200 at the end of 2006.

Key developments at OTP Bank in 2006

The Bank expanded its product offering in 2006 through the development and launch of several new products (e.g. FX-based personal loans, fixed-instalment housing loans, exchange rate-guaranteed housing loans, and housing loans combined with mortgage-loan and repayment insurance cover), and two new insurance schemes (repayment insurance and mortgage-loan insurance) were introduced to complement the existing range of corporate and home loan products.

The level of assistance provided to sales staff was further improved through an expansion of the data assets and related functionality of the

[1]Without the networks of Investsberbank, Kulska banka and Crnogorska komercijalna banka

Transaction Data Warehouse, and the first phase of the REFTAM system was completed, which provides sales support for representatives dealing with key customer groups (mid-sized and large corporates, municipalities, PB, EU).

In 2006 the OTPdirekt Home Banking service was modernised to reflect the style of the Bank's new internet portal. The re-design has made the service more convenient, easier to use and more transparent for customers, while broadening the scope of its functionality.

In response to new business requirements, in the course of 2006 additional enhancements were made to the Base24 authorisation system, which, as a result, is now also capable of supporting the acceptance and issue of chip cards, and implementation of the 3DES encryption that is required by international card companies.

In 2006 a monitoring system was introduced to assist in identifying signs of money laundering, the financing of international terrorism and bank fraud. Since it came into use, this system has considerably improved the detection rate.

The Bank achieved substantial cost savings as the result of developments carried out within the framework of the 'Statement Factory' project, under which the vast quantities of bank statements printed out for retail customers are now manufactured using a newly introduced technology. This same project also resulted in modernisation of the content and layout of bank statements.

The year 2006 saw a continuation of the Basel II project at the Bank, to bring reporting and data provision procedures into line with the new international accounting and settlement requirements. In the 2005–2006 period the Basel II Project has led to completion of the tasks necessary for the introduction and supervisory-authority approval of the new framework. In 2006 development of the Capital Calculation Module was completed at OTP Bank and its Hungarian subsidiaries, while the application for generating the data required by the Consolidated Capital Calculation Module was installed at the foreign group members.

At DSK Bank, owing to a broadening and refinement of the range of recently launched investment products – offering higher potential returns than straightforward deposits on bank accounts – it became necessary to introduce CLAVIS, an up-to-date IT system capable of fulfilling the requirements of both OTP Bank and DSK Bank. As a result of phase 1 of the project, the distribution of OTP Fund Management's euro-denominated investment fund has now commenced in Bulgaria. The development work will continue in 2007.

A key development at OTP Treasury in 2006 was the introduction of the ORC Automatic Stock-Exchange Trading System. By using this system, the Bank has secured itself a leading role in the securities markets of the Budapest Stock Exchange.

Activities of the Hungarian Group Members[2]

BASIC RETAIL SERVICES

In a public survey held at the end of 2006, OTP Bank not only won the title of 'Bank of the Year', but was also named 'Most Likeable Bank of the Year.' Recent market research studies have also confirmed that OTP Bank enjoys outstanding brand recognition and value, and continues to be regarded by its customers as the most well-known bank in Hungary, as well as the safest.

Over the past years OTP Bank has greatly improved the quality of its customer service – for example, through the reduction of waiting times at branches – and is constantly expanding the range of products on offer. There are numerous products and services that were first launched in the Hungarian market by OTP Bank, since one of our main objectives is to continuously adapt to the needs of customers and the demands of our times, by constantly developing and modernising the services we offer.

The time is also right for the OTP Group to undergo an external transformation. The change of image is symbolised by the new, friendlier logo unveiled at the beginning of 2007, which reflects the core value of the OTP brand: 'trust.'

Account management, sales network, bank transactions

On December 31, 2006, OTP Bank had close to 4.6 million retail banking customers, almost 2.9 million of whom held a forint current account, a figure that had risen by around 14,000 over the year. In order to provide a modern, quick and convenient banking service, OTP Bank is accessible to its customers through several, mutually reinforcing channels.

The Bank has succeeded in maintaining its dominant market position with respect to electronic channels. With regard to customers who use telephone-based customer services, the Bank commands one-third of the market; in the case of those that bank over the internet, its market share was an average of around 45% for the year, while it serves more than half of all customers that use mobile phone-based services.

The number of customers with contracts for the use of the Bank's electronic channels continued to rise in 2006 – as it had in previous years.

[2] Data based on Hungarian Accounting Standards

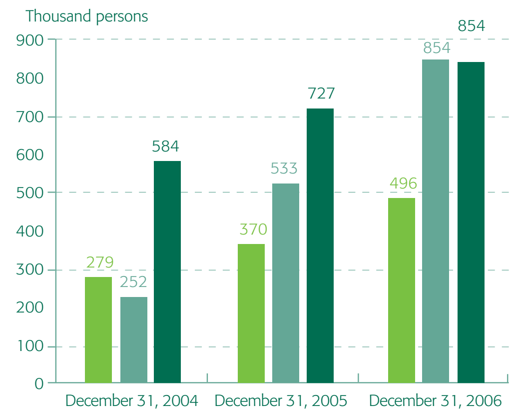
The number of OTPdirekt customers increased by one third from the year-end 2005 figure, to approach 1.3 million in December 2006. At the end of the year the number of customers using the telephone help-desk service was nearly 886,000, within which the number of retail customers grew by a particularly notable 17.4%. Some 892,000 customers were using the mobile phone-based services at the end of 2006, which represented a dynamic increase of 58.9% over the previous year. The internet service was being used by some 552,000 customers at the end of 2006, with the number of retail customers using the service having grown by 34.1% during the course of the year. The total number of text messages sent to mobile telephones had grown by 46.7% by the end of 2006, approaching some 127.3 million, while the number of internet transactions increased by 37.4% in 2006, reaching a total for the year of 19.3 million by December.

Number of retail OTPdirekt customers

Call Center

Mobile Banking

Internet



OTP Bank regards the maintenance of its market-defining role in the area of electronic channels as being of the highest priority, and therefore places a particular emphasis on the ongoing development of its e-channels and the provision of what is now a customary high level of security. The Bank developed its services accordingly in 2006, as a new e-channel, the Active Mobile Bank service, was launched, and together with the general upgrading of the internet banking interface, the securities-related functions were extended, while an online application facility for mobile-phone and WAP services was added to the internet banking functions, and the 'Bill Payment' screen is now linked to an electronic bill payment system that enables customers to receive and settle e-invoices from a growing number of service providers. Another convenient new feature enables customers to manage their account groups online, while corporate clients can now also manage accounts with multiple signatories over the internet. To accompany the overall redesign of the OTP portal, a new function was introduced in 2006 that allows customers to apply for credit cards and mortgage loans via the website. At the same time, the Bank pressed ahead with its Information Call Centre Project, and as a part of this OTP Bank's new call centre in Zalaegerszeg has begun operating. By relieving the branch operatives of some of their workload, this development has significantly increased the time available for selling activity at the branches, while ensuring continuous availability and a high level of service to customers over the telephone.

The rapid expansion of the agent network continued in 2006, with the result that by the end of the year the number of enterprises contracted as agents by the Bank had risen to 1,216. As in the previous year, housing and mortgage-type loans were once again the most popular products sold via the agent network. OTP Bank aims to continuously expand the range of products available through its network of agents. Accordingly, from 2006 onwards the agent network also offers real-estate leasing products to retail customers, besides the existing portfolio of housing and mortgage-type loans, retail current accounts, savings accounts, personal loans and credit card products. Also from 2006, in order to reach the micro, small and medium-sized enterprise segment more effectively, OTP Bank has also made some of its existing and new MSE products available through the agent network. These include the small-business mortgage and quick loans, Lombard credit, fixed interest margin Lombard credit, loans for condominiums, ‘Panel Plus’ subsidised condominium refurbishment loans, Business Credit Cards and the ‘Trust’ current account overdraft facility, as well as the small-business e-account package, and the Small-Business Comfort account package. In order to ensure the appropriate level of support for the agent network, the conditions of operation and the range of support services provided to agents continued to be developed in 2006.

A total of 45 branches were refurbished and modernised in 2006. Besides these, two new branches opened for business, one in Budapest and one in Balatonlelle, with an additional new opening scheduled for January, in the Industrial Park at Budaörs. Over the past years – owing to the success of OTP Bank’s key projects – waiting times at OTP branches have been reduced considerably, while the sales focus and quality of branch services has also improved.

Bank card services

As at December 31, 2006, the number of cards issued by the Bank was nearly 4,046,000, a 5.7% increase over the previous year’s figure. At the end of the year the number of debit and credit cards issued in the retail division was close to 3,870,000, representing a rise of 4.2% compared to the number at year-end 2005. Of this, the number of conventional retail debit cards in circulation as of December 31, 2006 was 2.8% higher than in the previous year, at almost 3,521,000. The number of the highly popular Multipoint cards was 448,000 at the end of 2006. The number of foreign-currency cards issued by the Bank was approaching the 10,000 mark by December 2006.

OTP Bank’s credit cards continue to be extremely popular: on December 31, 2006, their number exceeded 241,000, representing an 81.4% increase over the previous year. A significant portion of this increase was attributable to the Amex Blue cards, as the number of this type of card rose by nearly 98,000, during the course of 2006. OTP Bank’s credit card portfolio expanded further in 2006: every time a purchase is made using an OTP-BOM credit card issued jointly by the Budapest Olympic Movement (BOM) and OTP Bank, HUF 5 is donated to support the work of BOM, which lobbies for the Olympic Games to be hosted in Hungary. The Vodafone Credit Card continued to be issued in 2006.

The number of these cards in circulation rose by 9.7%, to exceed 126,000 on 31 December 2006. While at the end of 2005 domestic corporate and business cards accounted for some three quarters of all issued business cards, the replacement of the ‘Bankpoint’ card – with a new type of MasterCard, which can also be used abroad – caused this ratio to decline to around 14%. In December 2006 the number of Széchenyi cards exceeded 8,000. As part of its efforts to expand its product offering to micro-businesses and small enterprises, in 2006 OTP Bank launched a business credit card, with over 800 of these new cards having been issued by the end of December.

Due in large part to the purchase of the Euronet network, OTP Bank’s ATM network grew dynamically in 2006, or an additional 387 machines, and thus, at the end of

December, the Bank was operating a total of 1,887 ATMs for the convenience of its customers. In 2006, a total of 78 million transactions were performed using the Bank's own ATM network, in a total value of HUF 2,403.6 billion. This latter figure represents a growth of 9.9% compared to 2005. In the course of 2006, the Bank's customers carried out more than 71 million ATM transactions using cards issued by OTP Bank, in a total value of HUF 2,099.8 billion. On the acceptor side, the Bank's revenues increased by 19.7% compared to the previous year, to HUF 13.9 billion, while the average value of the transactions rose from HUF 29,000 to HUF 31,000.

By 31 December the number of POS terminals operated by OTP Bank had risen by 8.7%, to reach a total of 27,295. Of these, the Bank operated 3,457 in its own branches, 18,902 at commercial outlets and 4,936 at post offices. Some 83.3 million transactions were made on the Bank's own commercial POS terminals in 2006, in a total value of HUF 703.7 billion, which represents a growth of 32.4% and 33.7% respectively compared to the year-end figures for 2005. The number of POS transactions performed with cards issued by OTP Bank increased by 23.7%, to reach 61.9 million, while the total transaction volume rose by 25.4% compared to 2005, reaching a value of HUF 470.4 billion in 2006.

Savings and investments

OTP Bank continues to be the largest player in Hungary's retail banking market. At the end of 2006 the OTP Bank Group had a market share – based on the combined balance sheet total of financial institutions – of 32.4% in household forint deposits (OTP Bank: 30.3%). Within the group, besides OTP Bank, both Merkantil Bank and OTP Building Society offer deposit products to households. The product offering in this segment is complemented by the investment and savings products of OTP Fund Management, OTP Garancia Insurance and OTP Funds, as well as the mortgage bonds issued by OTP Mortgage Bank, and various other savings products offered by OTP Bank itself.

Bank deposits

By year-end 2006, the volume of retail deposits placed with the Bank had reached HUF 1,812.7 billion, which represents a 3.1% decrease over the previous year's figure.

Within retail deposits, forint deposits amounted to HUF 1,493.3 billion in December of 2006, which is 7.4% lower than at year-end 2005. The difference in the days on which salaries were paid, in comparison to 2005, was an important factor influencing the change in forint deposit volumes. OTP Bank's share of household forint deposits reached 29.5% at the end of 2006 (OTP Group: 32.0%). Within retail deposits, the share of current account deposits, which are treated as a key product line and which amounted to HUF 1,186.1 billion in December 2006, was 79.4%, which represents a 5.0 percentage point decrease compared to December 2005. The Bank's share of demand deposits in the banking sector remained outstandingly high, at 43.2% in December 2006. The total value of passbook deposits was HUF 273.7 billion as at December 31, 2006, accounting for 18.3% of forint deposits.

Foreign currency deposits rose dynamically, by 23.7% or HUF 61.3 billion, in the course of 2006, thus reaching HUF 319.3 billion by the end of the year. As a result, the share of FX deposits within the total portfolio of retail deposits was 17.6% in December 2006, compared to 13.8% a year earlier. The rise in the portfolio was also attributable to changes in foreign exchange rates. The share of the OTP Bank Group in household FX deposits had reached 35.0% by December 31, 2006.

OTP Building Society has the most extensive product offering in its segment of the market. October 2005 saw the introduction of the 'Home' product range, offering lower deposit and loan interest rates, while the 'Credit' product family was launched on July 1, 2006, accompanied by an increase in the number of products available to condominium-type apartment blocks. As the net result of the new contract signings, contractual deposit taking and disbursements, the Building Society's deposit portfolio increased by 27.1% to HUF 100.2 billion, some 94% of which consisted of deposits by household customers. OTP Building Society concluded nearly 123,000 contracts over the course of the year, in a combined value of HUF 146.5 billion. OTP Building Society's estimated market share based on deposit volumes was some 50%, and in terms of contracted amount, 45%.

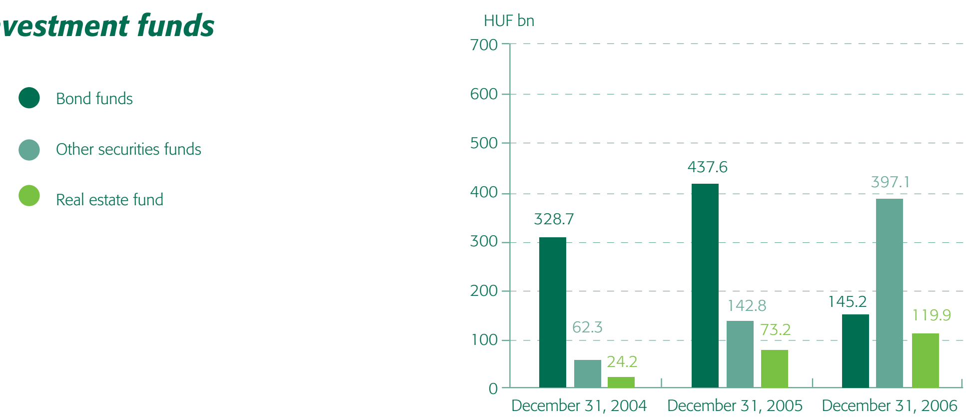
Investment funds, securities

Through OTP Fund Management, the OTP Bank Group is a major operator in the managed funds market, with a 29.9% share of the market for securities funds at year-end 2006.

The introduction of tax on interest and stock-exchange gains in 2006 had a significant impact on the structure of household savings. During the summer months a substantial volume of savings was transferred from bank deposits to other savings instruments, particularly into investment funds. At the same time, raises in interest rates had a detrimental impact on the performance of bond funds.

In 2006 OTP Fund Management launched ten new funds: two capital-guaranteed funds in the first quarter of the year, the Absolute Yield Fund in the third quarter and, in addition to two capital-guaranteed funds and four premium funds, the BUX ETF stock exchange index-linked fund in the fourth quarter.

Net asset value of investment funds



The net asset value of the funds managed by the Fund Manager amounted to HUF 542.3 billion at the end of 2006, down by 6.4% on a year earlier. Within this total, the net asset value of the Optima Fund stood at HUF 136.5 billion at year-end, which accounted for 25.2% of the assets managed in the Fund. During 2006 the total value of the assets managed in the Money Market Fund rose to HUF 187.3 billion, up by HUF 151.9 billion on a year earlier. Of the OTP funds, money market and equity funds rose the most dynamically thanks to an outstanding rise in the assets managed in the Euro Fund, the Closed-end Institutional Equity Fund and the Central European Equity Fund. In contrast, the volume of assets managed in the Optima Fund fell by 67%.

With respect to the pension fund market, no major change occurred. The Fund Manager increased its share of total assets under management to 30.9% in 2006, with OTP and other fund assets of HUF 518.6 billion under its management, which was 27.8% more than in the previous year. It also managed assets of HUF 134.3 billion within the framework of other portfolio management activities, which exceeded the previous year's figure by 21.3%.

By issuing mortgage-bond series (with 2, 3, 5 and 10-year maturities and a balloon payment) designed specifically for the retail segment, OTP Bank was the first among the players in the market to respond to the challenges created by the new tax regulations. The value of securities held by OTP's retail customers rose by 11% to HUF 950 billion at the end of 2006, representing 31.6% of the overall retail securities market, excluding Treasury Savings Bonds, which are distributed exclusively by the Post Office.

One of the most important new products to be launched in 2006 was the pension 'pre-savings' account (NYESZ). In January 2007, the Bank had a 35% share of the market for this type of savings product in terms of the number of accounts, and a 38% share based on the volume of deposits held in them.

Pension and health care fund services

The OTP Funds are major participants in the pension and health care fund markets, in terms of both their asset volumes and the size of their membership. At the end of 2006 the OTP Funds had total assets of HUF 509.8 billion, while the number of their members had risen by 12.1%, to total 1,123. Thus the OTP Group's share of households' pension and health care fund savings reached 21.1%.

The assets managed by OTP Private Pension Fund grew at the extremely dynamic rate of 30.6%, reaching HUF 414.4 billion, while its membership increased from 723,000 to 771,000. In 2006 the assets of the OTP Voluntary Pension Fund grew by 17.9%, from HUF 77.5 billion to HUF 91.4 billion, with the number of its members reaching 260,000, which represents a 15.0% increase relative to the previous year. The assets of the OTP Health Care Fund totalled HUF 4.1 billion, and its membership exceeded 93,000.

Life and non-life insurance services

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

OTP Garancia Insurance achieved insurance premium revenue of HUF 80.7 billion in 2006. Its market share of total insurance premium revenue was 9.7%. More than 40% of its insurance premium revenues resulted from insurance policies sold within the Bank's network.

Premium revenues from the life and bank assurance businesses were HUF 45.9 billion, which gave the company a 10.9% share of the life insurance market. Within the life insurance premiums, the revenues from one-off premium-payment life insurance policies remained broadly flat, reaching HUF 29.0 billion, while those from continuous premium payment insurance policies grew by 5.6%. By the end of the year, the volume of household savings accumulated in life insurance premium

reserves exceeded HUF 143 billion.
The premium revenues of the non-life division increased by 11.4%, to HUF 34.7 billion.

Retail lending

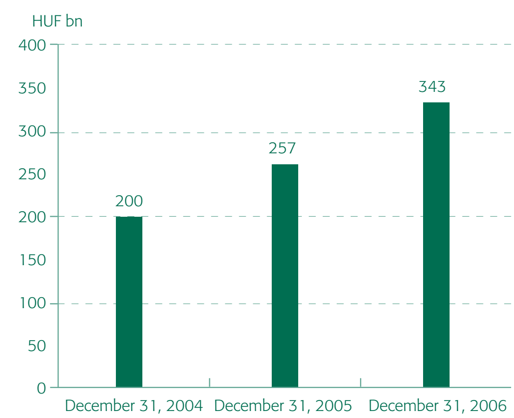
The Bank's retail loan portfolio at the end of December 2006 stood at HUF 567.9 billion, 22.4% higher than at year-end 2005, which was essentially due to a doubling in the volume of foreign currency-based loans. Of this, HUF 6 billion consisted of loans taken over from the foreign subsidiaries. The majority of disbursed mortgage-based loans continued to be transferred to OTP Mortgage Bank.
The OTP Group's share of household loans was 34.4% as of 31 December 2006.

Housing loans and home leasing

After a temporary halt experienced in the previous year, the growth in demand for housing loans picked up again in 2006, with the already predominant demand for foreign currency-based home loans increasing further.

The Bank's housing loan portfolio had grown by 18.4% by the end of the year, to HUF 259.6 billion. FX-based and subsidised HUF home loans in a total value of more than HUF 124 billion were transferred to OTP Mortgage Bank in 2006, with the result that the Mortgage Bank's year-end housing loan portfolio grew to HUF 870.7 billion.
Owing to a lower-than-expected demand for credit resulting from the more attractive terms offered on bank loans, the housing loan portfolio of OTP Building Society fell by HUF 2 billion, to around HUF 4 billion.

Retail consumer loan portfolio



The OTP Group's share of the housing loans market – if we include the loans issued by OTP Mortgage Bank and OTP Building Society – was 41.7% on December 31, 2006.
The Group's market share in FX lending increased moderately, to 22.9%.

In 2006 OTP Bank expanded its offering, in response to changing market conditions and customer requirements, through a number of product developments and promotional campaigns. The exchange-rate guarantee service for its CHF-based loans, a unique product in the market for reducing the risks of unfavourable changes to the exchange rate, was especially popular. Another new product, comprising a foreign currency-based loan with fixed instalments in HUF, packaged with a repayment insurance policy, offers predictability and security. Customers of OTP Bank whose salaries are transferred directly to their current account are rewarded with preferential housing loans. Applications for quick housing loans of under HUF 3 million are now appraised in just three days. At the end of the year the Bank also launched a mortgage loan insurance product, which makes it possible to borrow up to 100% of the collateral value of a property, with no downpayment required in the case of certain borrowing purposes.

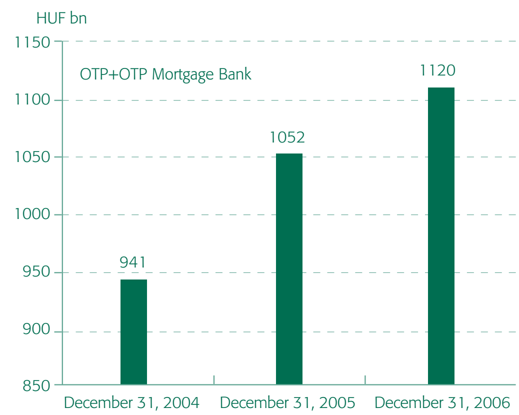
Since 2006, the range of banking products on offer has been complemented by the offerings of OTP Home Leasing Ltd. (formerly OTP-SCD Leasing Ltd.) and OTP Life Annuity Ltd. In the market of new homes built for sale, capitalising on the regulatory benefits available, OTP Home Leasing Ltd. offers home leasing products under favourable terms, while on the used homes market, it ensures itself of a competitive edge through a multi-purpose 'lease-back' product. Over the course of the year OTP Life Annuity Ltd., which entered the market in 2006, offered life annuity services secured on residential properties in 604 towns and villages around the country.

Consumer loans

The OTP Group offers consumer loans to its customers through OTP Bank, Merkantil Bank and Merkantil Car. OTP Bank mainly provides households with current account overdraft facilities, credit cards, consumer durable loans, personal loans and mortgages, while the two Merkantil companies offer vehicle financing loans.

The Bank's consumer loan portfolio increased by 23.5%, to HUF 308.3 billion, by the end of 2006. Including the FX-based mortgage-type loans transferred to the Mortgage Bank, as well as the vehicle financing loans of Merkantil Bank, the OTP Group's portfolio of consumer loans totalled HUF 504.4 billion on December 31, 2006. Thus the OTP Bank Group had increased its market share of household consumer and other loans from 24.4% to 24.8% by the end of the year.

Retail housing loan portfolio



By the end of 2006 the Bank had issued almost 240,000 credit cards, were linked to a placement volume of more than HUF 28 billion, which is 2.25 times higher than at the end of 2005. The loan portfolio related to consumer durable lending (including consumer-durable credit cards) grew by 41.2%, to HUF 14.9 billion.

The volume of 'A-credit' overdraft facilities related to current accounts rose by 21.8%, to HUF 55.5 billion, as at December 31, 2006. Due to high HUF interest rates, HUF mortgage-type loans fell by a further 48.1%, amounting to HUF 6 billion at year-end 2006. By contrast, the volume of FX mortgage loans rose nearly four-fold during the year, reaching HUF 61.2 billion by the end of 2006. The volume of personal loans (including 'B-credit' and 'C-credit' overdraft facilities, which are being phased out) decreased by 6.6% in 2006, and amounted to HUF 137.2 billion at the end of the year.

In the course of the year OTP Bank continued to expand its product range, primarily in the area of mortgage lending. It introduced, among other products, an OTP Mortgage-type Loan, recorded in foreign currency and combined with a life insurance policy, a mortgage-backed OTP Quick Loan, and a multi-purpose FX loan, with fixed monthly installment in HUF, which is unique in the Hungarian market. From July 2006 the Bank began offering personal loans with shorter maturities (6–11 months for forint loans, 6–14 months for FX loans).

The Merkantil Group achieved growth in its portfolio of vehicle financing loans in 2006, despite fierce competition and declining vehicle sales. Merkantil Bank's retail consumer loan portfolio amounted to HUF 147.8 billion at the end of the year, while retail placements by Merkantil Car totalled HUF 60.6 billion.

PRIVATE BANKING SERVICES

The OTP Bank Group pays special attention to enhancing the value of the private banking services it provides to its high-net-worth customers. The Bank's private banking division offers a range of advisory services – investment and tax consulting, travel arrangements, art and real-estate market advice – as well as prestige elements, such as gold bank cards, exclusive AMEX gold charge card and use of the VIP lounge at Budapest's Ferihegy International Airport. The year 2006 also saw the successful launch of a joint private banking/corporate division value proposition (the MSE Gold account product) and the related service model, which provides an opportunity, unique in the market, for a high standard, one-stop solution for private and corporate banking transactions.

As well as the Hungarian investment products on offer, customers of OTP Private Banking can choose from a wide range of international investment opportunities, including some that are only available through the OTP Bank Group (five foreign investment funds of Swiss-based UBS Asset Management, foreign equity and index-linked Exchange-Traded Funds (ETFs), which are accessible via the Xetra trading system, etc.).

Our advisors help customers to achieve their individual investment goals by compiling a model portfolio tailored to the given customer's risk profile, and which is constantly updated in monthly tactical and quarterly portfolio reviews, to ensure the provision of personalised, up-to-date and detailed investment advice.

Customers can browse, at their convenience, the private banking website (www.otpprivatebanking.hu) for information regarding the products and services that are available, as well as up-to-date capital market research prepared for them by the Bank's Research Centre.

In 2006 the number of private banking contracts grew to 12,405, which represents a 13% growth, and, together with co-accountholders, means the division now has close to 19,000 customers. The value of liquid assets under management grew at the even higher rate of 20%, to HUF 391 billion, partly as a result of the asset growth achieved through the portfolio restructuring carried out prior to the September introduction of the tax on interest and stock-exchange gains.
The engine that drove the growth in private banking portfolios was the VIP private banking line, as during 2006 the value of assets under its management rose by 44%, to reach HUF 67 billion, and the number of its customers grew by 51%.

COMMERCIAL BANKING SERVICES

Corporate banking services

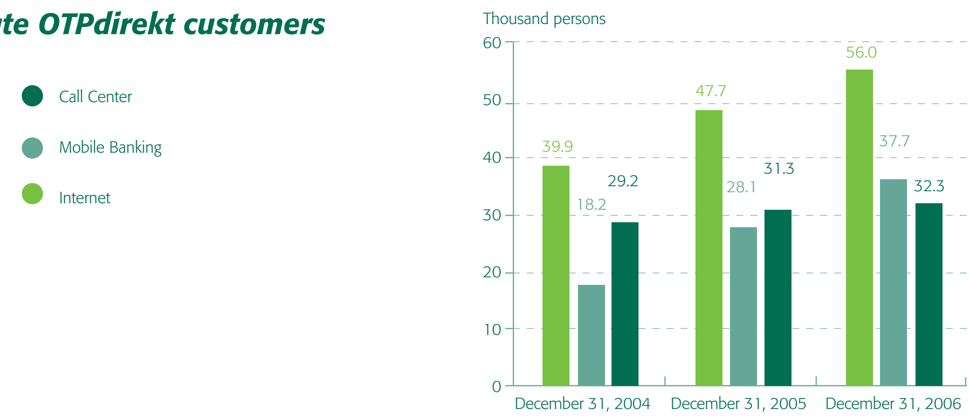
The volume of OTP Bank's deposits from corporate clients accounted for 9.7% of the national total as of December 31, 2006, and its corporate loan portfolio for 10.5%, which means that the Bank continues to be one of the leading players in the market.

At HUF 665.4 billion, the corporate deposit portfolio exceeded the December 2005 level by 44.8%, while the corporate loan portfolio grew by 13.5%, to reach HUF 994.3 billion.

The Bank continued to steadily develop and enhance its commercial banking services, and as a part of this, it developed its cash management service, which now includes interest pooling, multicurrency cash pooling and pooled coverage checking. In the course of the year the Bank introduced several loan products to aid in business development and to assist agricultural enterprises.

In 2006 the development and upgrading of the processes and the material conditions required for servicing micro- and small enterprises continued, and several products capable of meeting the needs of micro- and small businesses more rapidly and at a higher overall standard were introduced, among them account-keeping services and loan products.

Members of corporate OTPdirekt customers



The most popular of the electronic services available to customers who hold bank cards continues to be the internet banking service, which was being used by nearly 56,000 corporate customers as of the end of 2006. Also popular were the OTPdirekt telephone and mobile telephone-based services, with the former used by 32,000, and the latter by 38,000 corporate customers at the end of the year.

Leasing

The OTP Bank Group provides its leasing services through the Merkantil Group. The combined vehicle and production-tools leasing portfolio of Merkantil Car amounted to HUF 17.1 billion at the end of 2006.

The Bank Group maintains its presence in the real estate leasing market through Merkantil Real Estate Leasing Zrt. Receivables from real estate leasing totalled HUF 8.3 billion at the end of the year. More than half of the real estate leasing portfolio is recorded in the books of project companies, and if this is included, we can count on an additional HUF 4.4 billion in receivables.

Project financing

On December 31, 2006 the combined value of project financing loans stood at HUF 218.1 billion.

In the course of the year the Bank concluded several key transactions, with the Millennium Office Tower, the refinancing of the West End shopping mall and the SCD Group projects being among the most notable. In addition to domestic transactions, the Bank also participated in projects abroad, primarily in Slovakia (e.g. Enviral – a bioethanol plant, Meroco – a biodiesel plant, Hervex – real estate financing), Romania (e.g. Hargita Gaz – the establishment of piped gas infrastructure, Pólus Cluj – shopping mall) and Bulgaria (e.g. Maritza East – power station, Plovdiv Mall – shopping mall).

MUNICIPALITY BANKING

The Bank again succeeded in retaining its leading role in municipality banking in 2006. By the end of the year, almost 73% of the client base, 2,321 municipalities and their institutions, were having their current accounts managed at OTP Bank, a figure that fell by just 1.3% compared to year-end 2005, despite fierce competition.

At the end of 2006, the total volume of municipality deposits was HUF 155 billion, which was 2.6% higher than at the end of 2005. In terms of deposit volumes, notwithstanding strenuous efforts on the part of competitors to acquire market share, the Bank's share of the market increased from 63.4% to 64.2%. At the same time, the Bank's portfolio of municipality loans grew in the course of 2006, by 51% to HUF 193.2 billion, bringing its share of this segment of the loans market to 55% (in 2005: 52.7%). In local election years such as that under review, municipal borrowing generally increases, and due to the favourable conditions offered by the 'For a Successful Hungary' loan program, the related product (an MFB loan) proved extremely popular among this segment of customers.

The quality management system in the municipality and public service business line complies with the ISO 9001:2000 standard. Accordingly, we have applied to be included in the Official Register of Qualified Bidders. In addition to the prestige that such registration carries, participation as a qualified bidder in public procurement procedures is now simpler and more cost efficient.

TREASURY AND STRUCTURED FINANCE

Similarly to previous years, the Bank had surplus forint liquidity and a shortfall of foreign currency funds. The Treasury supplied approximately 70% of foreign currency sources available to the Bank by raising foreign funds (bilateral loans, foreign currency bond issues, forint/foreign currency swap transactions).

The Bank raised the framework amount of the EMTN programme established in July 2005 to EUR 3 billion. As a part of the EMTN programme, as already mentioned, a subordinated loan capital issue of EUR 300 million and an Upper Tier 2 bond issue of EUR 500 million were completed. In collaboration with the Merrill Lynch investment house, OTP Bank also implemented a treasury-stock utilisation project involving the issuance of convertible bonds (ICES, 'Income Certificate Exchangeable for Shares'). As part of the project the OTP Group sold 14.5 million of its own shares, to Opus Securities S.A. which issued convertible bonds for that at a total nominal value of EUR 514 million. The Bank used the over EUR 1.3 billion raised through these three capital-market transactions to finance its acquisitions in 2006.

Similarly to the previous year, Treasury Trading again closed an outstandingly successful year in 2006. Among primary traders, OTP Bank, based on trading figures published by the State Debt Management Agency, was first in the most important category, government bond sales. It came in second after ING Bank in the sale of discount Treasury bills. In 2006 the Bank's foreign currency trading – though not quite of the magnitude of the previous year – was sufficiently large for the Bank to be among the first five players in the market, according to statistics published by the National Bank of Hungary (MNB).

The Bank successfully implemented the tasks associated with a dramatic increase in the borrowing requirement of its subsidiaries. A uniform system of criteria for lending to subsidiaries was established, and various technical solutions were elaborated for managing the financing challenges of the subsidiaries.

In 2006, there was a significant increase in fundraising through bond issuance on the part of both local and county municipalities. Responding to the increase in demand, the Bank submitted a proposal for the arrangement of several bond issues, and conducted three such issues in all.

Activities of the Foreign Subsidiaries[4]

The DSK Group

Both in the retail market and in terms of total assets, DSK Bank retained its market-leading position in Bulgaria. The DSK Group's balance sheet total based on IFRS on December 31, 2006 stood at HUF 779.4 billion, of which deposits from customers accounted for 67.2%, or HUF 523.8 billion. The gross value of the customer loan portfolio was HUF 454.4 billion, accounting for 58.3% of its total assets.

At the end of December 2006, the Bank's market share, based on its total assets, was 14.4%, up by 0.8% from a year earlier. Its share of retail deposits was 21.8%, within which its share of BGN deposits was 35.2% and that of FX deposits 11.3%. The Bank's share of the home loans market fell to 28.6% and its share of retail consumer loans decreased to 35.7%.

During 2006 DSK Group earned HUF 27.8 billion in consolidated pre-tax profits, up by 41.6% on a year earlier.

In 2006 DSK's average interest margin relative to its balance sheet total was 5.66%, down by 124 basis points on a year earlier.

After-tax profits amounted to HUF 24.2 billion. The Group's cost-to-income ratio was 38.7% (–6.5 percentage points). The DSK Group achieved ROAA of 3.55% and ROAE of 29.6% in 2006.

By the end of the year, the Bank had a total of 640 ATMs, 1,727 POS terminals and 366 branches. As at December 31, 2006 the number of employees at DKS Group was 4,103, or 55 persons more than on December 31, 2005.

In 2006 the DSK Group launched several new products, primarily in the area of savings. The Bank was the first in the Bulgarian market to introduce two new fixed-term deposit products combined with investment funds, one of which is also packaged with pension-fund insurance. DSK also began distributing OTP Fund Management's euro-denominated investment fund units (UBS investment funds, Central European Equity Fund).
From September the Bank began offering a new savings account under the name 'Future Children', which enables the money set aside by parents for their children to earn interest at favourable rates from birth to adulthood.

OTP Banka Slovensko, a. s.

The balance sheet total of OTP Banka Slovensko, a.s. (OBS) was HUF 325.2 billion as at year-end 2006, which represents a 23.7% rise compared to year-end 2005, and which secured it a 3.0% share of the banking market in Slovakia.

At year-end 2006 OBS's loan portfolio remained essentially unchanged at annual level, due to the repayment of a sizeable corporate loan during the year. Its loan portfolio of HUF 189.9 billion represented a market share of 4.0% at the end of the year. Its deposit portfolio rose by 25.3%, to HUF 190.3 billion, in 2006, giving it a market share in deposits of 2.8% as at December 31, 2006.

During the course of 2006 the number of the Bank's customers increased by over 1,000,

[4] IFRS data

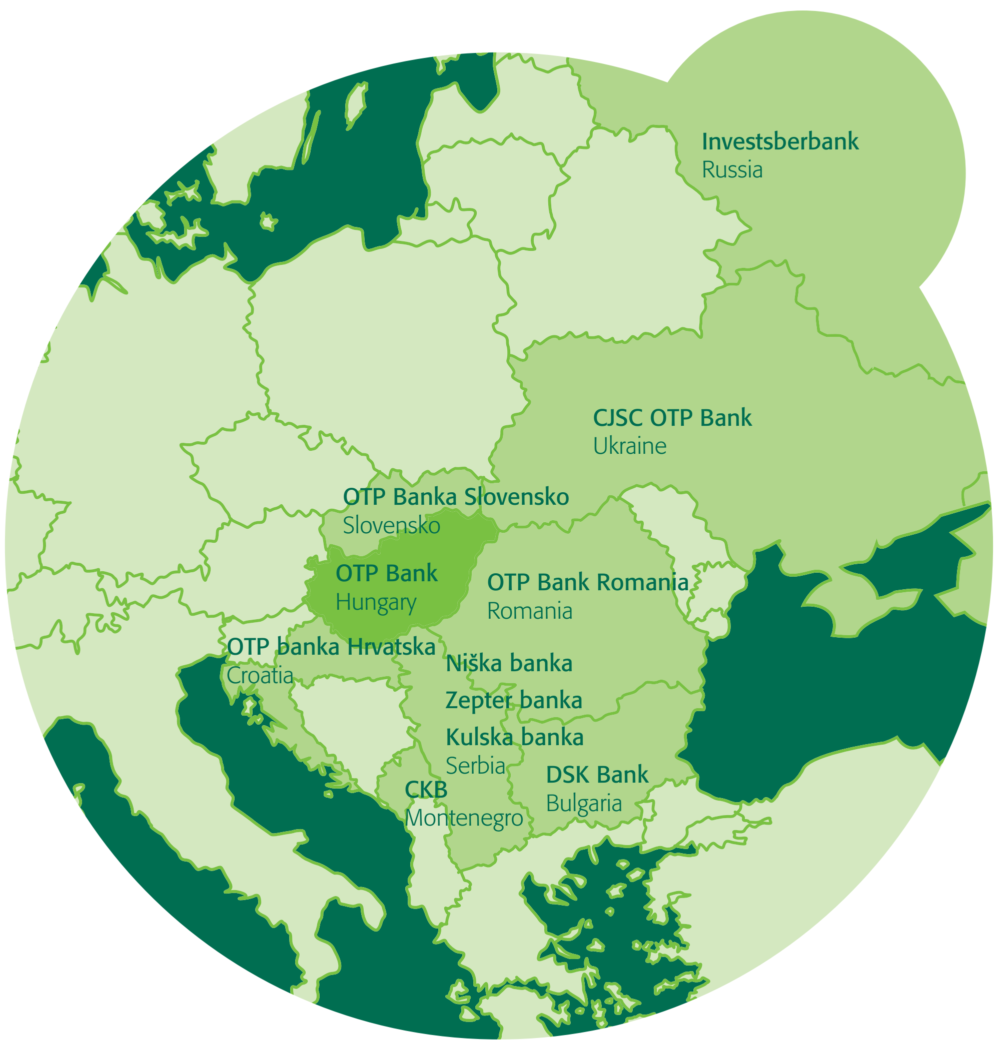
to almost 160,000, with retail customers accounting for more than 142,000 of this total.

The number of bank cards issued by OBS was more than 102,000 at the end of 2006, of which over 90,000 were retail and 12,000 corporate cards. The Bank's ATMs numbered 112 at the end of the year, with the number of transactions effected at these ATMs totalling nearly 1.9 million – 2.0% more than in 2005. The number of proprietary POS terminals at the end of 2006 was 441, and the volume of POS transactions increased by 17.8% over the course of the year. The Slovak bank opened 8 new branches during the year, bringing the total number of branches in its network to 86 at the end of 2006.

In 2006 the Bank launched what it has named the Artemis project, which is aimed primarily at developing its retail services. Through an extension of the sales channels, the project will achieve major improvements in sales performance while ensuring a successful expansion of the product portfolio. In addition to implementing infrastructural developments in the existing branch network, the objective is to expand the external sales network, as well as to offer electronic banking services. The project is expected to be completed at the end of 2007.

OTP Bank Romania S.A.

OTP Bank Romania (OBR) was the most dynamically growing credit institution in Romania in 2006. Its balance sheet total on December 31, 2006 exceeded HUF 193.4 billion, which surpassed the year-end figure for 2005 by 250.2%. The Bank's market share at the end of 2006 based on balance sheet total was 1.5%.



The Bank's gross loans grew by 312.3% in 2006, while customer deposits rose by a more modest 61.9%, with the two portfolios thus amounting to HUF 101.3 billion and HUF 41.0 billion at year-end. The Bank increased its market share in retail loans from 0.6% at the end of 2005 to 1.6%, while in the area of corporate loans its market share stood at 1.2% at the end of 2006 (2005: 0.8%). Market acquisition was especially notable in mortgage lending, where the Bank improved its share among the competitor banks to 3.8%. With regard to retail deposits, its market share did not rise significantly, standing at 0.6% at year-end 2006.

The strengthening of the Bank's market position was largely the result of intensive product development, with OBR launching several new products and services in 2006. In the retail lending market it introduced mortgage-based construction loans, mortgage loans offered in combination with life insurance, as well as vehicle financing and debt rescheduling loans. Another new development in 2006 was the launch of the MC Standard credit card. With the introduction of the Junior account and Visa Electron Junior card, the Bank made its services available in the youth segment. In 2006 the Bank also launched a new rapid cash transfer service (Moneygram). For its micro- and small enterprise customers OBS began to offer OTPdirekt services, while customers with mobile telephones could benefit from a non-interactive text messaging service. For its corporate customers, the Bank issued a Visa Business Electron card in 2006.

The number of the Bank's customers doubled in 2006, while the number of its retail customers grew by more than two-and-a-half times.

The number of retail current accounts managed by the Bank in 2006 grew from 44,000 to over 85,000, and the number of corporate accounts stabilised at close to 8,000. The Bank opened 39 new branches in 2006 and was operating a total of 66 branches at year-end. The number of employees was 795 persons at the end of 2006, which was 320 more than a year earlier.

OTP banka Hrvatska d.d.

As at December 31, 2006 the consolidated balance sheet total of OTP banka Hrvatska (OBH) was HUF 364.1 billion, giving the Bank a share of 3.5% in the Croatian market. Gross loans had risen by 31.1% to HUF 195.9 billion by year-end 2006, and thus the Bank's market share was 3.2% at the end of the year. Deposits from customers at year-end were HUF 275.7 billion, representing a market share of 4.5%.

By year-end 2006 OTP banka Hrvatska had more than 413,000 customers, on behalf of whom it was managing close to 389,000 retail accounts and more than 22,000 corporate accounts. The number of bank cards issued in 2006 grew by 10.1%, to 373,000. Within this total, the number of credit cards grew by close to 35.3% over the year, to exceed 29,000.

In 2006 the Bank launched new products on both the loan and the deposit side. In order to facilitate the sale of retail loans, it launched a development project aimed at improving the product offering and enhancing service levels, which also meant revising the organisational structure.

The program to expand and develop the sales network also continued in 2006. As a result of this work, two branches were fully refurbished and plans were drawn up for the refurbishing of a further four branches. By year-end, OBH had 90 branches, 99 ATMs and 998 POS terminals, which were complemented by the Internet Banking services launched in the first quarter, and the call centre which began operating at the end of the year.

Investsberbank

The acquisition of the Russian Investsberbank (ISB) was concluded on October 30, 2006. OTP Bank purchased a 96.4% stake in the Bank for EUR 373 million.

As at December 31, 2006 ISB's balance sheet total was HUF 329.3 billion, of which the gross loan portfolio accounted for 65.4%. Within the gross loan portfolio of HUF 215.2 billion, corporate loans represented 54.2% (HUF 116.6 billion) of the total, and retail – overwhelmingly (99%) consumer – loans represented 45.1% (HUF 97.1 billion). Customer deposits accounted for 77.0% of total liabilities, and within this total retail deposits, amounting to HUF 168.3 billion, represented 66.3% and corporate deposits, amounting to HUF 85.4 billion, accounted for 33.7%. At year-end Investsberbank's equity was HUF 38.3 billion.

At the end of 2006, ISB was ranked 38th among Russian banks in terms of its total assets, and 37th based on its gross loan portfolio, while it came a respectable 21st with regard to the size of its retail loan portfolio, according to a study by Ros Business Consulting (RBC).

CJSC OTP Bank

OTP Bank closed the acquisition of RBUA (Raiffeisenbank Ukraine) on November 20, 2006. Under the sale and purchase agreement signed on June 1, 2006 OTP Bank purchased a 100% stake in the credit institution for EUR 650 million. With effect from November 7, 2006 its name was changed to (Closed Joint Stock Company) CJSC OTP Bank.

As at December 31, 2006 the Bank's balance sheet total was HUF 432.6 billion, which represented a 3.5% share of the market. Receivables from customers and banks accounted for 84.4% and 10.1% of this total respectively. The Bank's share of the home loans market was a sizeable 11.9%.
The volume of customer deposits remained significantly below that of disbursed loans, as the previous owner had not accorded much priority to collecting funds in the Ukrainian market. As a result, customer deposits only accounted for 29.4% of the balance sheet total, which gave the Bank a 2.2% share of the Ukraine market. Within this, its share of total retail deposits was 1.8%, and its share of FX deposits was 2.8%.

At the end of 2006 the Bank had 65 branches, and operated 49 ATMs and 83 POS terminals. The Bank's more than 120,000 customers held 88,000 bank cards at the end of the year, of which 16.5% were credit cards.

Serbian subsidiary banks

OTP Bank Group acquired three Serbian subsidiaries in 2006. The acquisition of Niška banka a.d., Niš was completed, and then in October 2006 the OTP Bank Group purchased 75.1% of the shares in Zepter banka a.d., Beograd. Finally, in December 2006 it acquired 83.19% of the shares in Kulska banka a.d., Novi Sad.

The balance sheet total of the smallest of the Serbian acquisitions, Niška banka, was HUF 11.3 billion as at December 31, 2006; its loan portfolio amounted to HUF 2.8 billion, 54.7% of which consisted of retail loans.

At year-end 2006 the number of the Bank's customers exceeded 96,000, of whom 92,000 were retail customers. The Bank had 26 branch offices and operated 8 ATMs at the end of the year, while the number of its POS terminals had risen to 334. Niška banka's headcount was 403 persons as of December 31, 2006.

The balance sheet total of Zepter banka on December 31, 2006 was HUF 23.4 billion, with its gross loan portfolio amounting to HUF 12.8 billion. Over half of the loans were corporate (mostly small business) loans, while retail consumer loans accounted for 40%. The HUF 17.8 billion in customer deposits made up over 76% of the balance sheet total.

On December 31, 2006 the Bank had 21 branches, and operated 19 ATMs and 329 POS terminals. The number of employees on Zepter banka's payroll was 252 at the end of the period.

Crnogorska komercijalna banka a.d. Podgorica

OTP Bank completed the acquisition of its 100% stake in Montenegrin bank Crnogorska komercijalna banka (CKB) in December 2006. CKB is Montenegro's market-leading bank, with a market share of 35.7% by total assets. By the end of 2006 the CKB had achieved a market share of over 41% in terms of its overall loan portfolio, and 43.5% in respect of customer deposits.
The Bank has an impressive, 50% market share of corporate lending.