

# OTP Bank Press Conference

*February 14, 2007*



# OTP Bank

## 2006 preliminary results

*OTP Bank Press Conference – February 14, 2007*

*Presented by: Dr. Sándor Csányi, Chairman & CEO*

*Dr. László Urbán, CFO*



## Major factors influencing the Group's activity and results in 2006

### Deteriorating macroeconomic conditions in Hungary

- Highest-ever budget deficit
- Weakening of HUF in the first half of 2006; significant correction in 4Q, exchange rate of 252.3 HUF/EUR at the end of the year, increasing volatility
- Raising interest rates
- Deteriorating credit rating of the sovereign

### Changes of the monetary conditions

- Central bank base rate increased by 300 bps
- Base rate: 8.00% since October 2006

### Negative effects from the government's austerity package

- Additional expenses because of increasing tax-burden, but
- Positive perception of the austerity package, strengthening HUF and decreasing interest levels

### Growing competition. changing saving structure

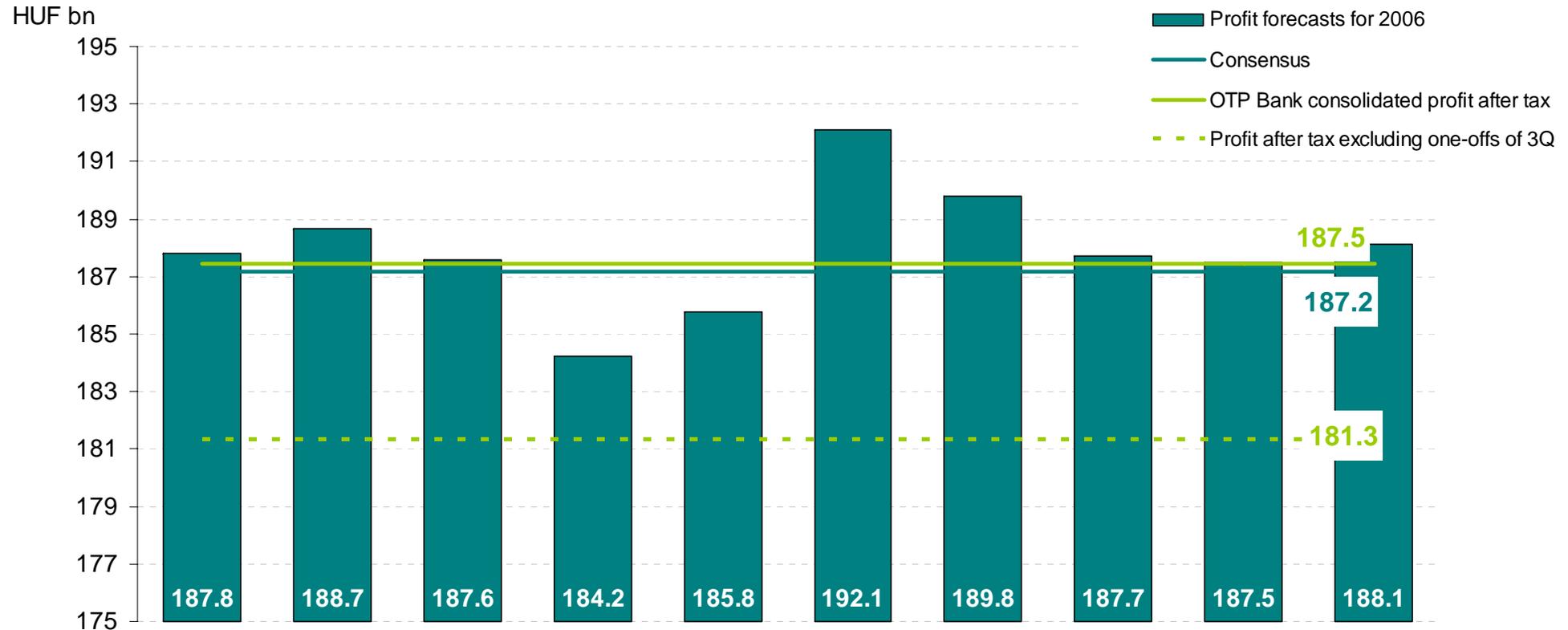
- Continuous campaigns for deposit and loan products
- Change of retail saving structure because of introduction of tax on interest incomes from September 1, 2006 (decreasing deposit volume, increase of assets in investment funds), with some correction in the last quarter

### The most active acquisition period in OTP's history

- New acquisitions in Ukraine (RBUA). Russia (Investsberbank), Serbia (Zepter banka, Kulska banka) and in Montenegro (CKB)
- Issuance of subordinated and upper tier 2 capital, and of ICES in order to finance acquisitions

## 2006 profit after tax of OTP Group meets the average of analysts expectation

### Analysts expectations for consolidated IFRS profit after tax for 2006



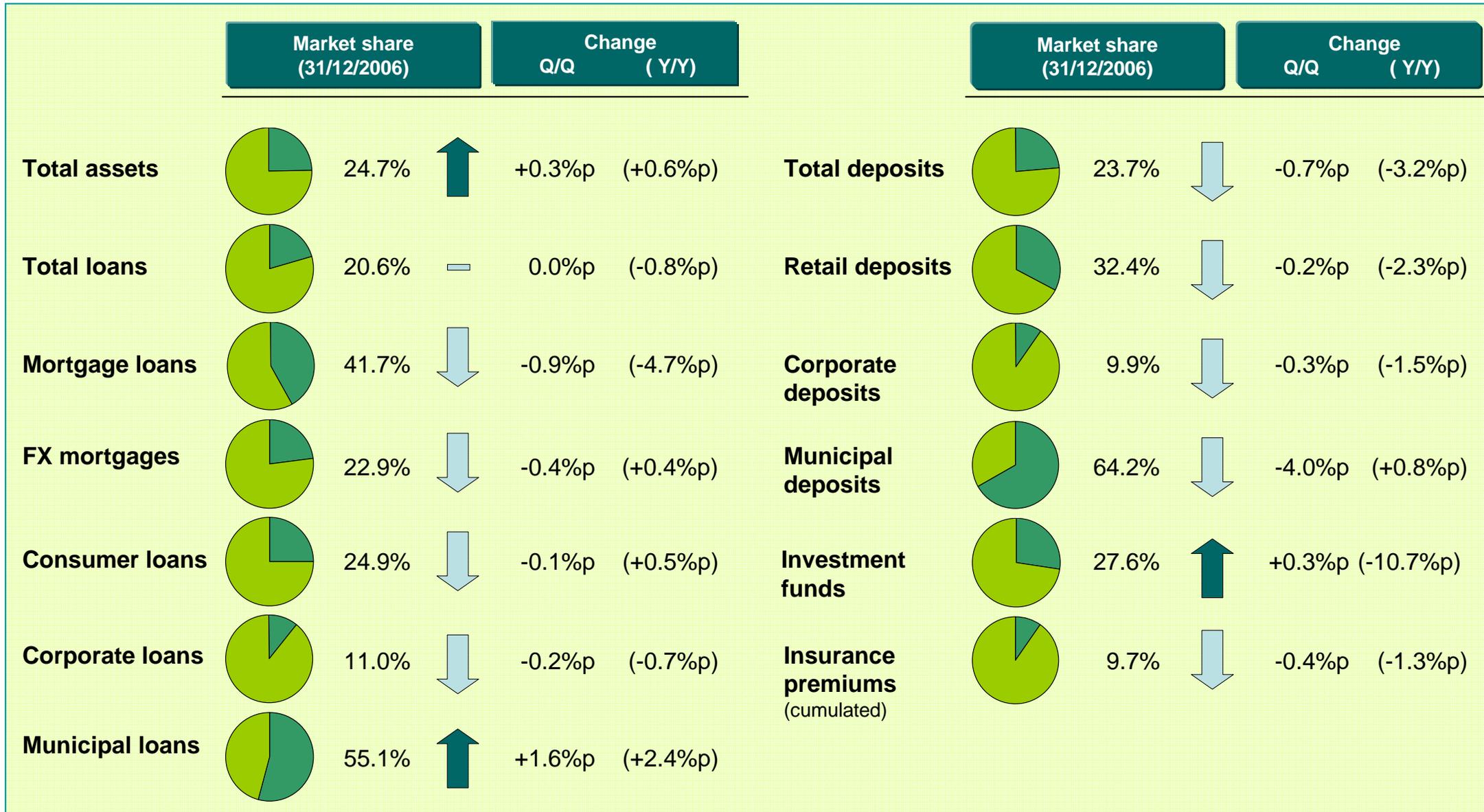
Source: analysis published since November 14, 2006

# OTP Bank realised HUF 187.5 bn consolidated profit after tax in 2006

## Financial highlights of OTP Group (consolidated, IFRS)

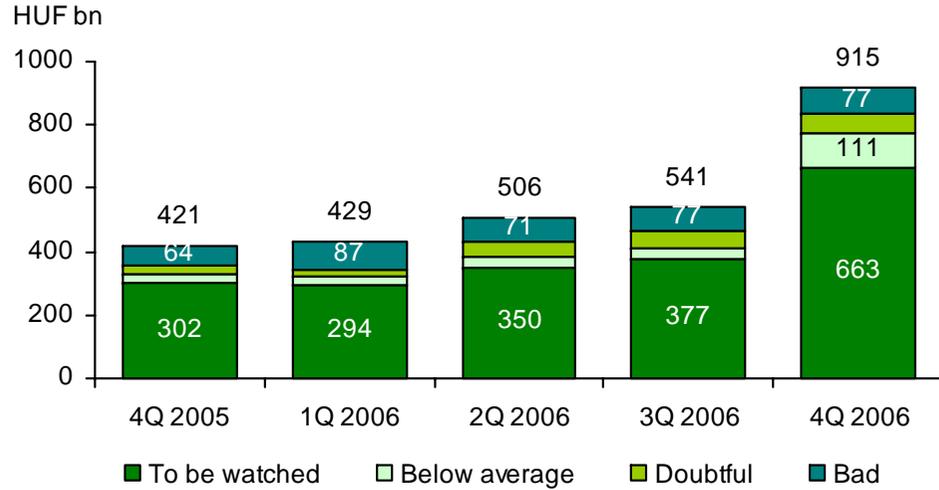
	2005 4Q	2006 3Q	2006 4Q	Q-o-Q	Y-o-Y	2005	2006P	Y-o-Y
<b>Total assets (HUF bn)</b>	<b>5,215.9</b>	<b>6,174.7</b>	<b>7,101.5</b>	<b>15.0%</b>	<b>36.2%</b>	<b>5,215.9</b>	<b>7,101.5</b>	<b>36.2%</b>
Total loans and advances (HUF bn)	3,297.2	3,847.1	4,477.4	16.4%	35.8%	3,297.2	4,477.4	35.8%
Total deposits (HUF bn)	3,428.2	3,743.3	4,231.3	13.0%	23.4%	3,428.2	4,231.3	23.4%
Gross loan/deposit ratio	96.2%	102.8%	105.8%	3.0%	9.6%	96.2%	105.8%	9.6%
Shareholders' equity (HUF bn)	547.5	650.9	787.8	21.0%	43.9%	547.5	787.8	43.9%
Net interest income (HUF bn)	80.0	106.9	103.0	-3.7%	28.7%	297.2	354.4	19.2%
Net interest income w/o swaps (HUF bn)	76.4	81.9	81.9	0.0%	7.2%	290.6	320.8	10.4%
Net interest margin before provision	6.32%	7.18%	6.21%	-0.97%	-0.12%	6.34%	5.75%	-0.58%
Net interest margin w/o swaps	6.03%	5.50%	4.93%	-0.57%	-1.10%	6.20%	5.21%	-0.99%
Pre-tax profits (HUF bn)	50.5	62.9	45.8	-27.3%	-9.4%	192.1	219.9	14.5%
<b>After tax profits (HUF bn)</b>	<b>40.9</b>	<b>53.6</b>	<b>40.9</b>	<b>-23.6%</b>	<b>0.2%</b>	<b>158.3</b>	<b>187.5</b>	<b>18.4%</b>
Total income (HUF bn)	130.2	155.6	145.9	-6.3%	12.1%	493.8	567.6	15.0%
Operating expenses (HUF bn)	73.2	83.5	88.7	6.2%	21.2%	273.7	317.9	16.2%
Cost to income ratio	56.2%	53.7%	60.8%	7.1%	4.6%	55.4%	56.0%	0.6%
Return on Assets	3.23%	3.60%	2.47%	-1.13%	-0.76%	3.38%	3.04%	-0.33%
Return on Equity	30.5%	34.3%	22.8%	-11.6%	-7.7%	32.3%	28.1%	-4.2%
EPS base (HUF)	156	208	156	-24.7%	0.3%	603	723	19.8%
EPS fully diluted (HUF)	155	207	156	-24.6%	0.9%	599	715	19.5%

## Despite losing market share in some segments, OTP Group maintains its leading position on the Hungarian market

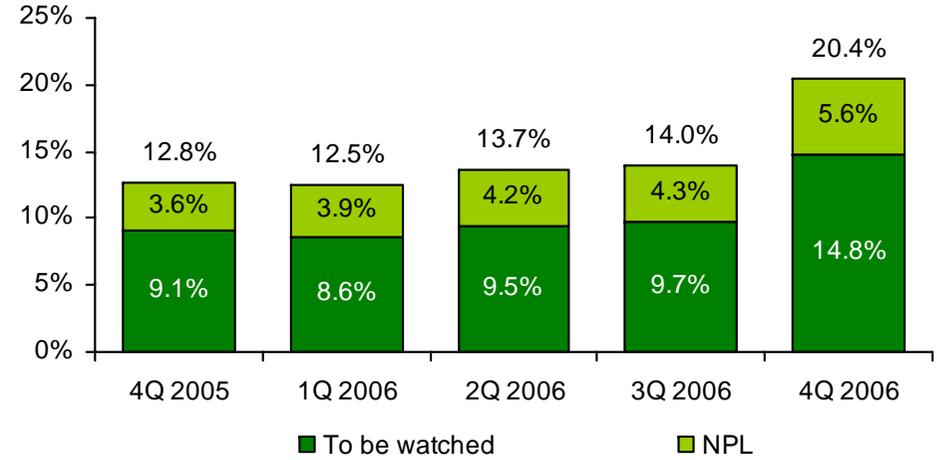


# NPL ratio stood at 5.6% on December 31, 2006

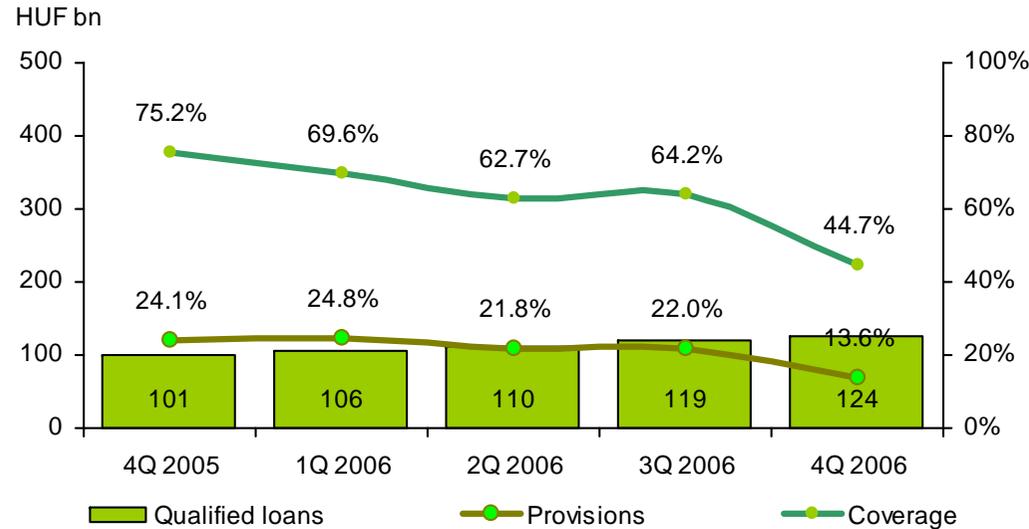
## Volume of qualified loans



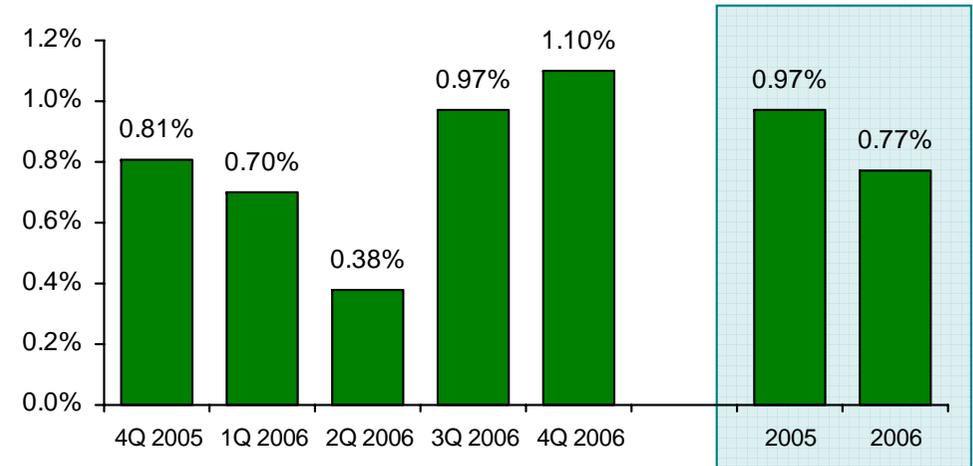
## Share of qualified loans



## Coverage

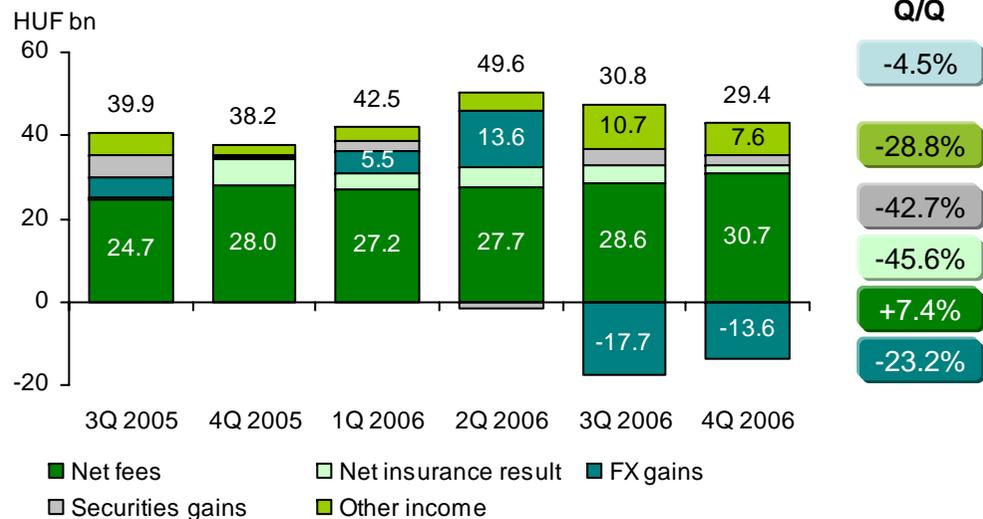


## Cost of risk to the average loans

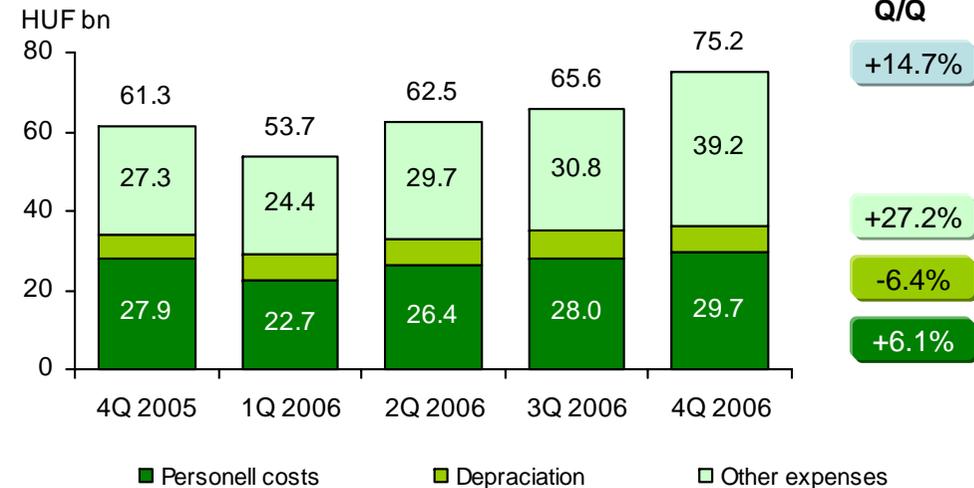


## In 2006, non-interest income increased by 13.4%, operating costs by 16.2%

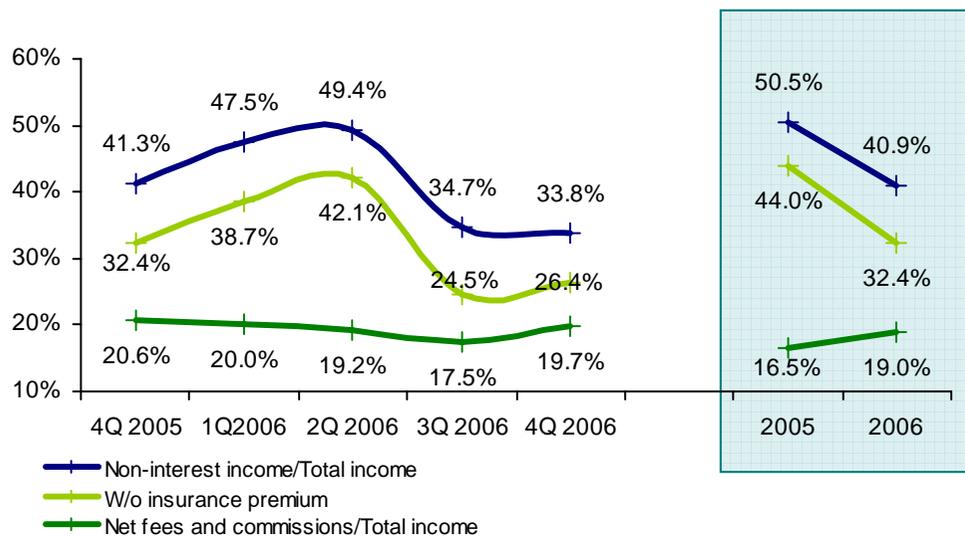
### Non-interest income



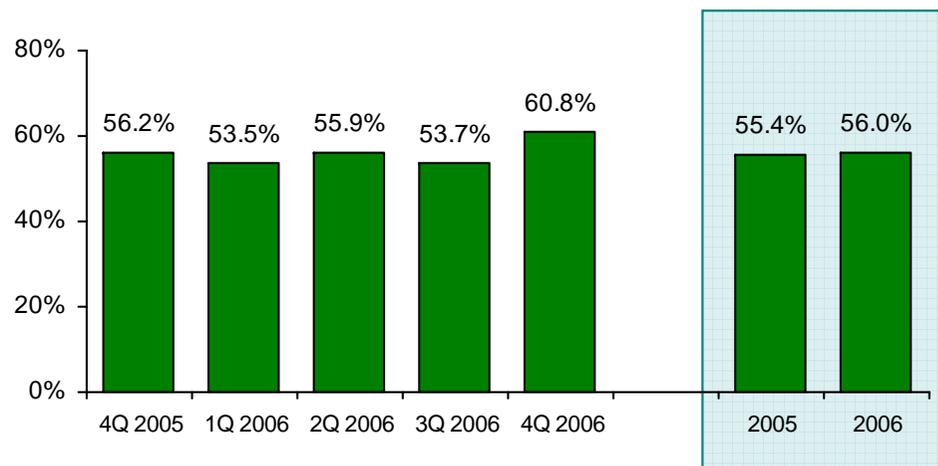
### Operating costs



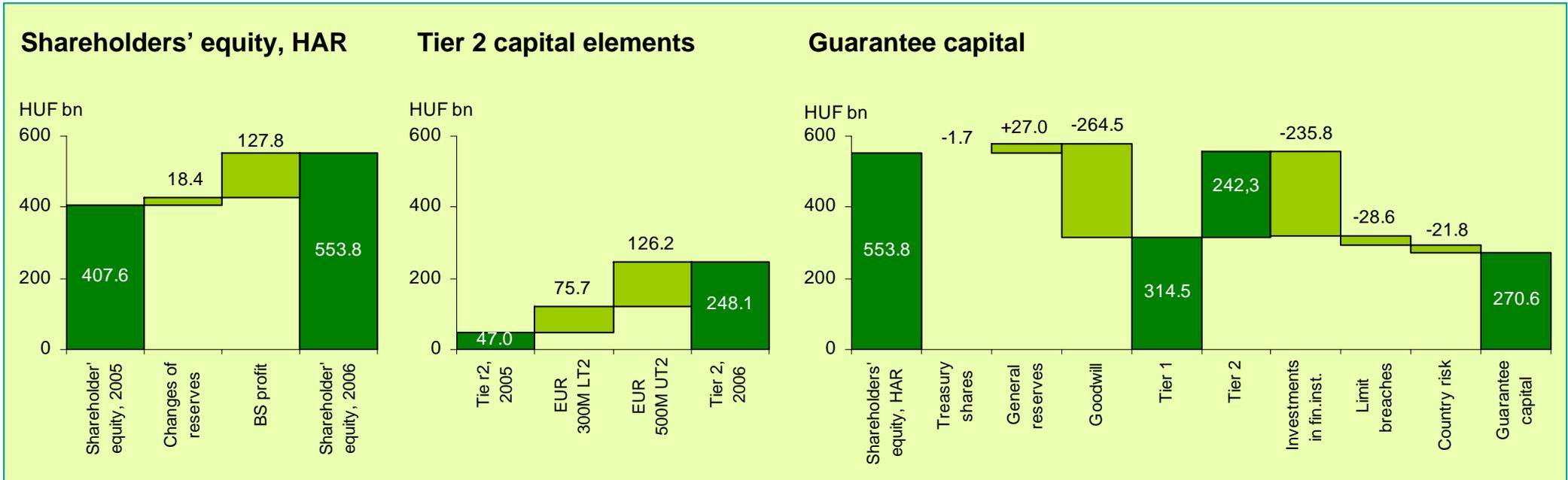
### Share of non-interest expenses



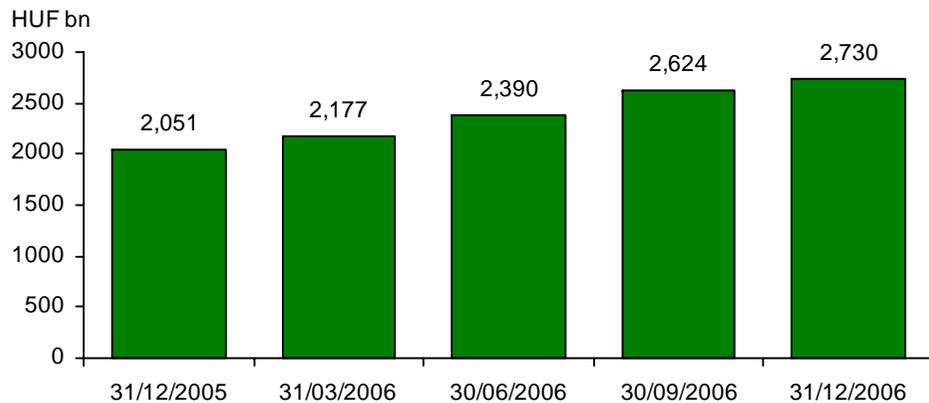
### Cost/income ratio



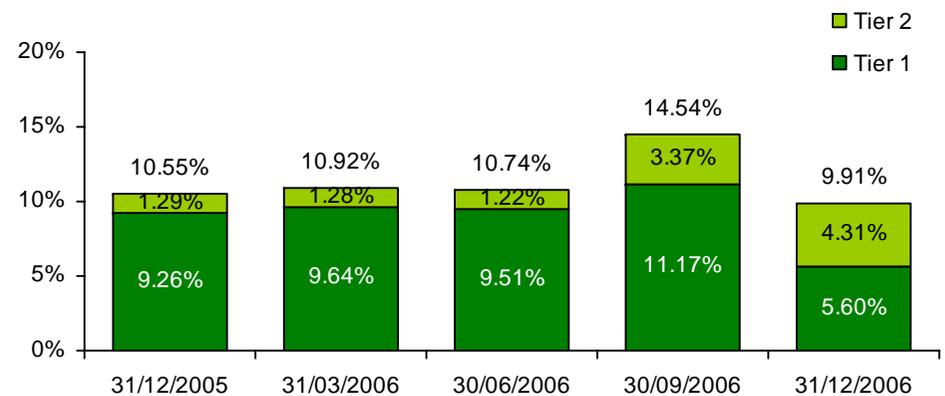
# Capital adequacy ratio, according to Hungarian regulation, stood at 9.91%



## Risk weighted assets



## Capital adequacy ratio, HAR

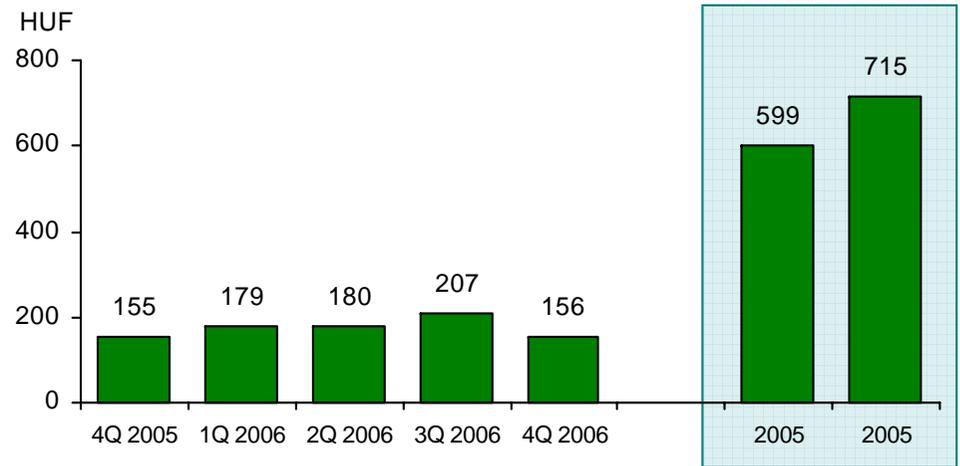


# Consolidated ROA declined to 3.04%, ROE to 28.1% in 2006

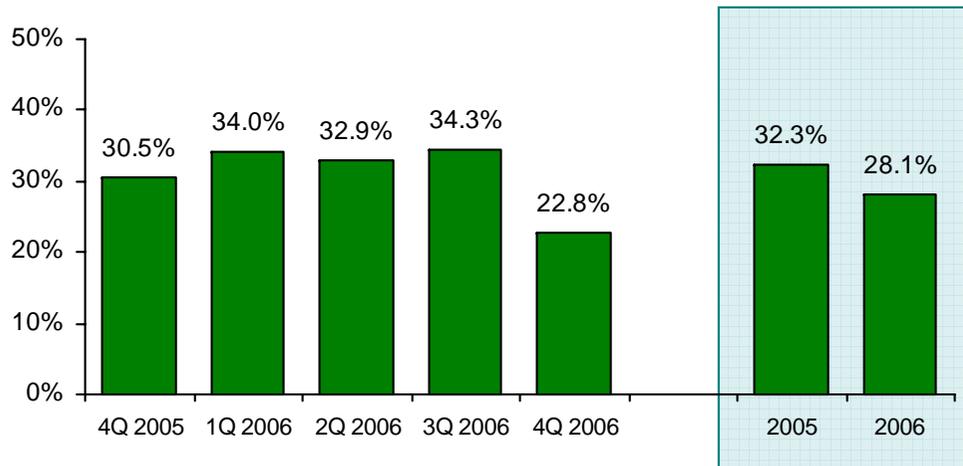
## After-tax profit



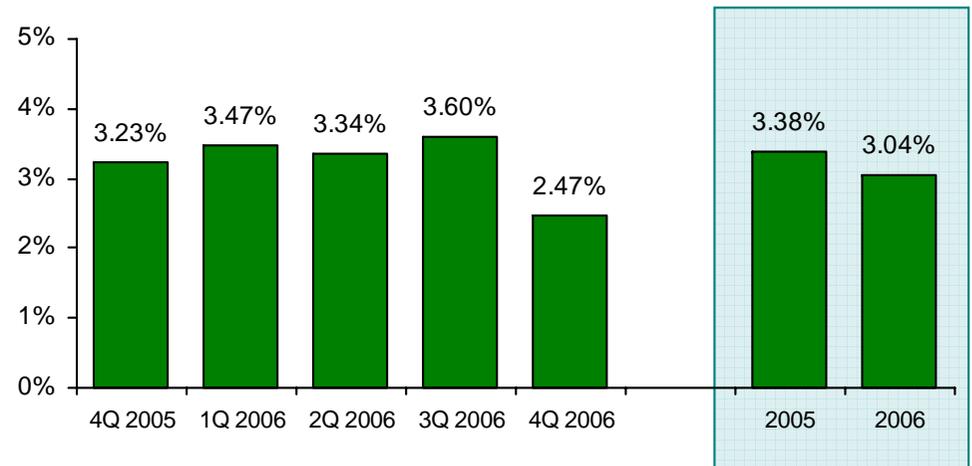
## EPS, diluted



## Return on equity (ROE)

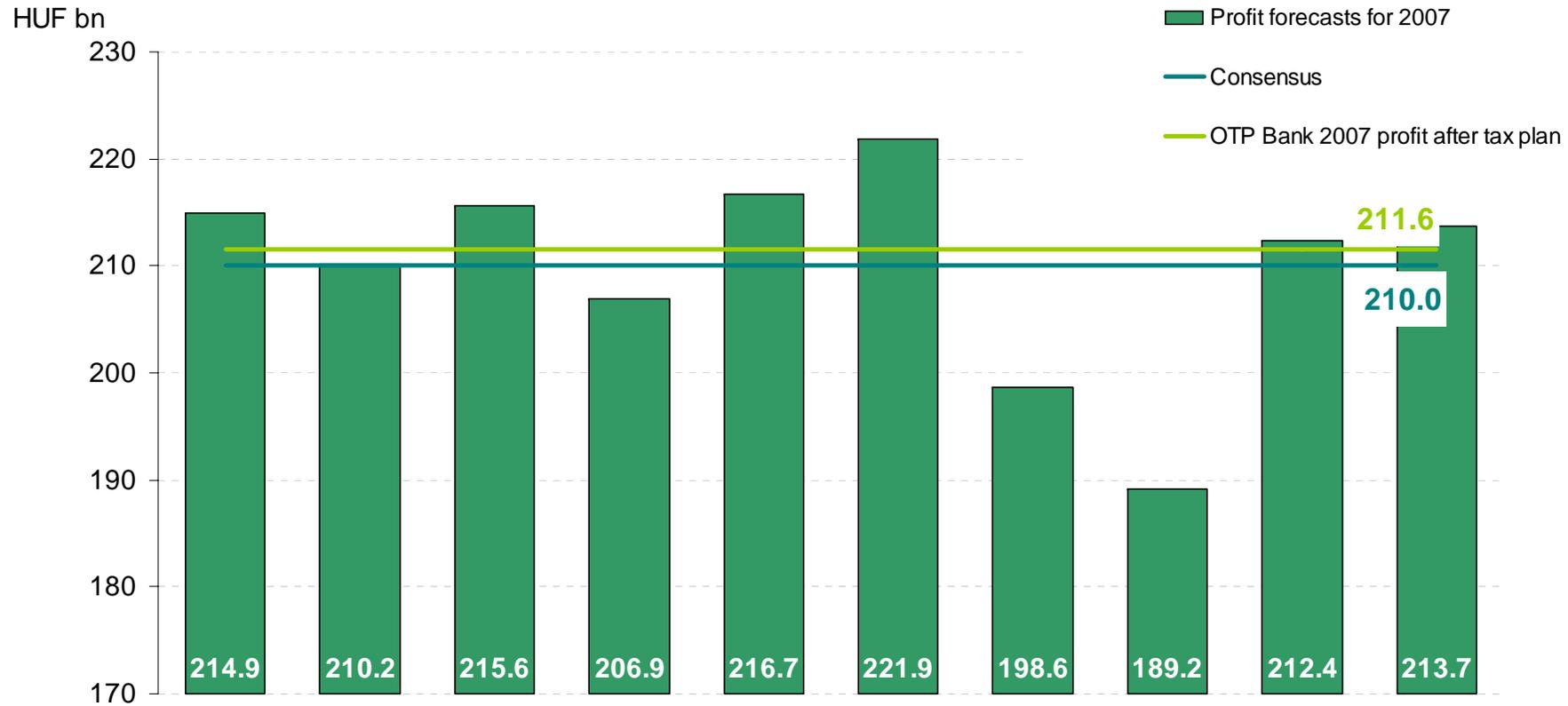


## Return on assets (ROA)



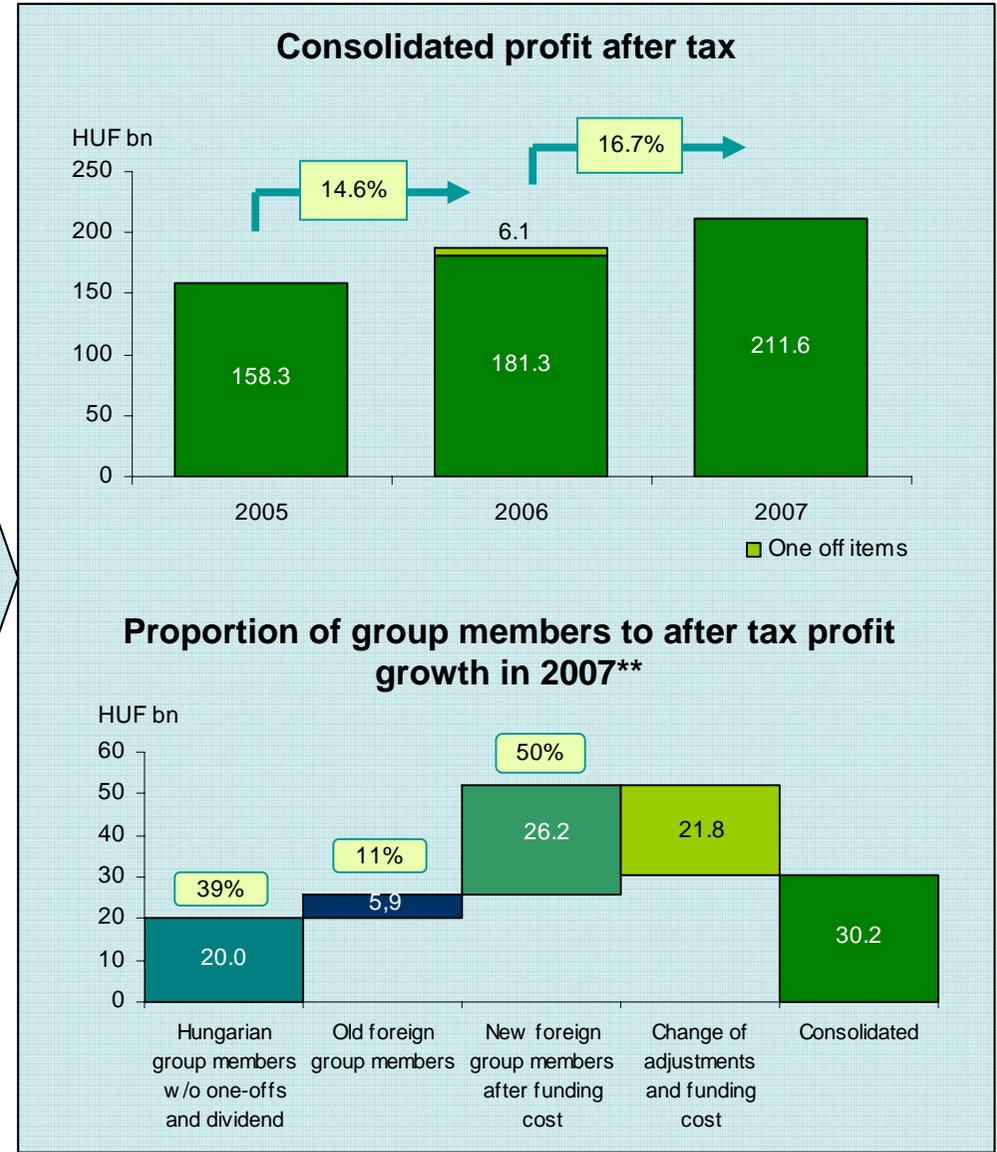
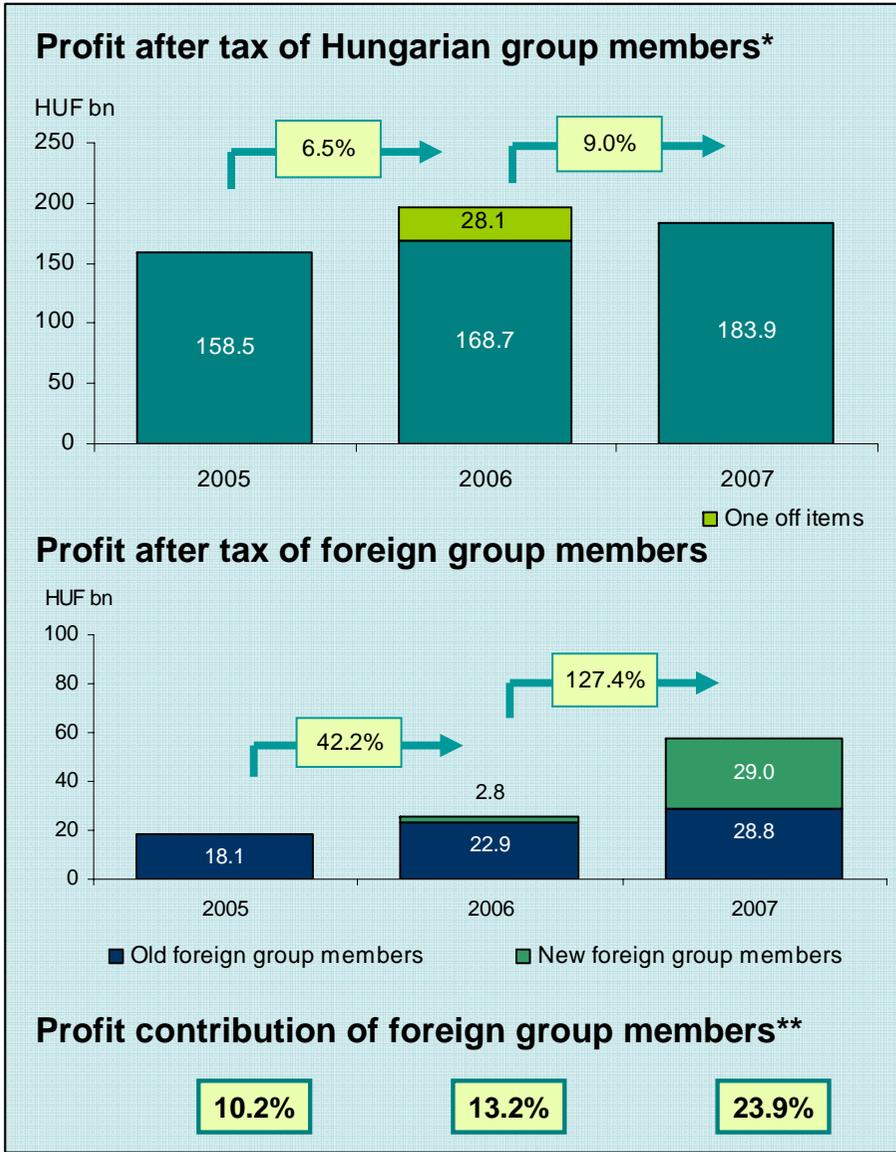
# The planned HUF 212 billion consolidated profit after tax for 2007 slightly exceeds the expectations

## Profit forecasts for OTP Bank consolidated profit after tax in 2007



Source: Analysis published after November 14, 2006

# The new foreign subsidiaries profit contribution is significant in 2007, even considering the funding cost



\* With dividend, adjusted with funding cost

\*\* Aggregated after tax profit, w/o one offs, funding cost and dividend

# OTP Banking Group International Strategic Vision 2007-2010

*OTP Bank Press Conference – February 14, 2007*

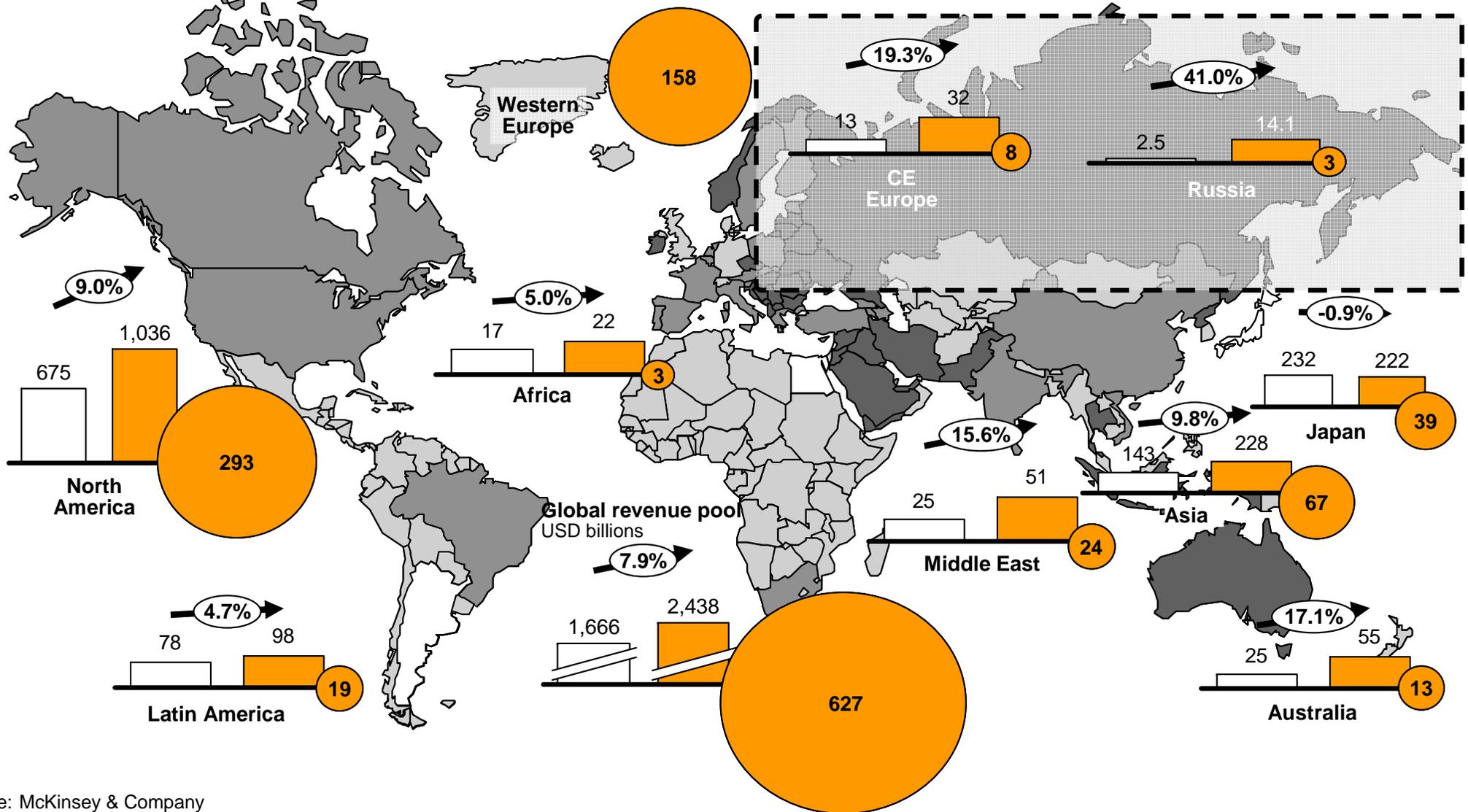
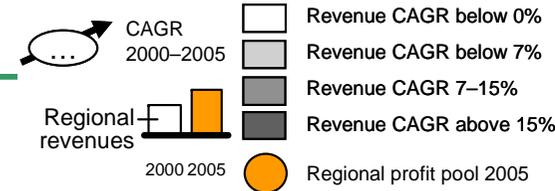
*Presented by: Dr. Sándor Csányi, Chairman & CEO*



# OTP Group is present in the fastest growing banking market worldwide

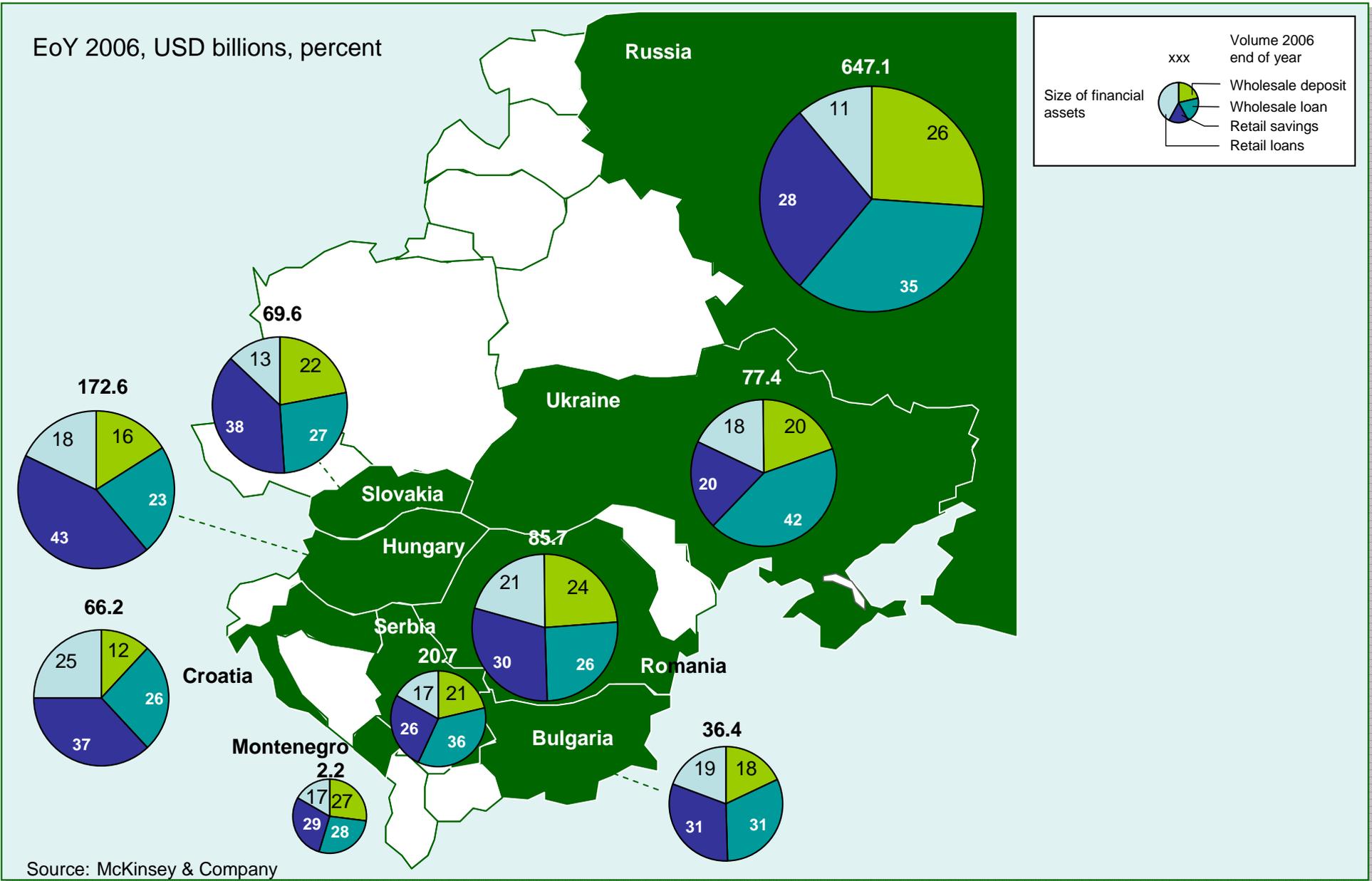
HEAT MAPS: 2000–2005 REVENUES AFTER RISK COST; 2005 AFTER-TAX PROFITS; REVENUE CAGR 2000–2005

USD billions, percent



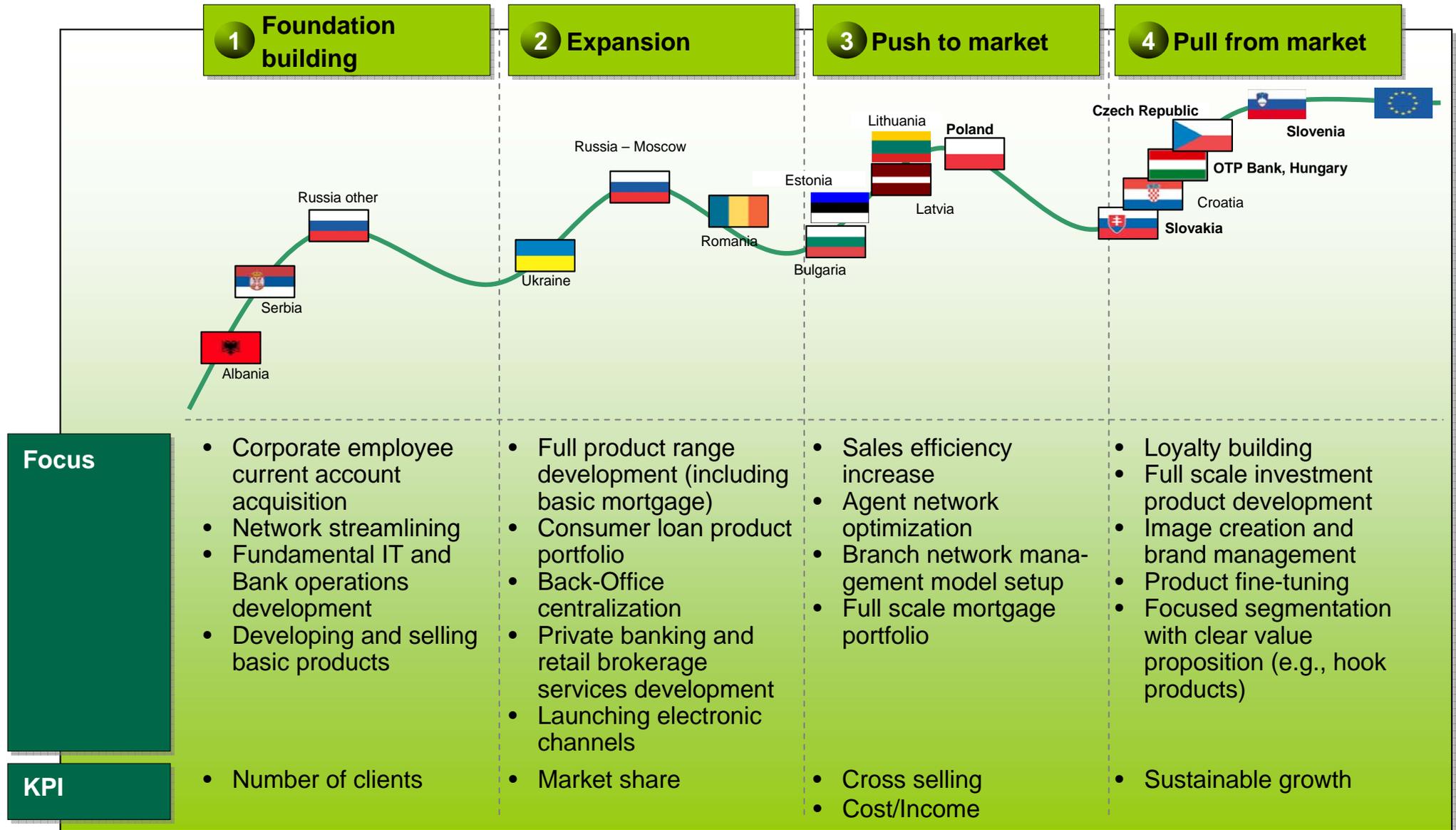
Source: McKinsey & Company

# Russia is the largest banking market in Central and Eastern Europe



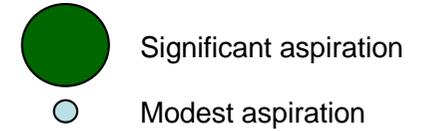
# As a Central-East European player, OTP Bank can leverage its knowledge/understanding of the typical development path of emerging banking sectors in the region

## Typical banking development path in East Europe



# OTP Banking Group as a whole to focus on segments with the largest potential

Potential scale of each OTP banks' aspiration by main products



	Consumer finance	Mortgage	Transaction and Deposits	Investment and Insurance	Corporate banking	Other wholesale
Russia	Significant aspiration	Modest aspiration	Modest aspiration	Modest aspiration	Modest aspiration	Modest aspiration
Ukraine	Significant aspiration	Modest aspiration	Modest aspiration	Modest aspiration	Significant aspiration	Modest aspiration
Romania	Significant aspiration	Modest aspiration	Modest aspiration	Modest aspiration	Modest aspiration	n/a
Bulgaria	Significant aspiration	Significant aspiration	Modest aspiration	Modest aspiration	Significant aspiration	Modest aspiration
Croatia	Modest aspiration	Modest aspiration	Modest aspiration	Modest aspiration	Modest aspiration	Modest aspiration
Slovakia	Modest aspiration	Modest aspiration	Modest aspiration	Modest aspiration	Modest aspiration	Modest aspiration
Serbia	Modest aspiration	Modest aspiration	Modest aspiration	Modest aspiration	Modest aspiration	n/a
Montenegro	Modest aspiration	Modest aspiration	Modest aspiration		Modest aspiration	n/a

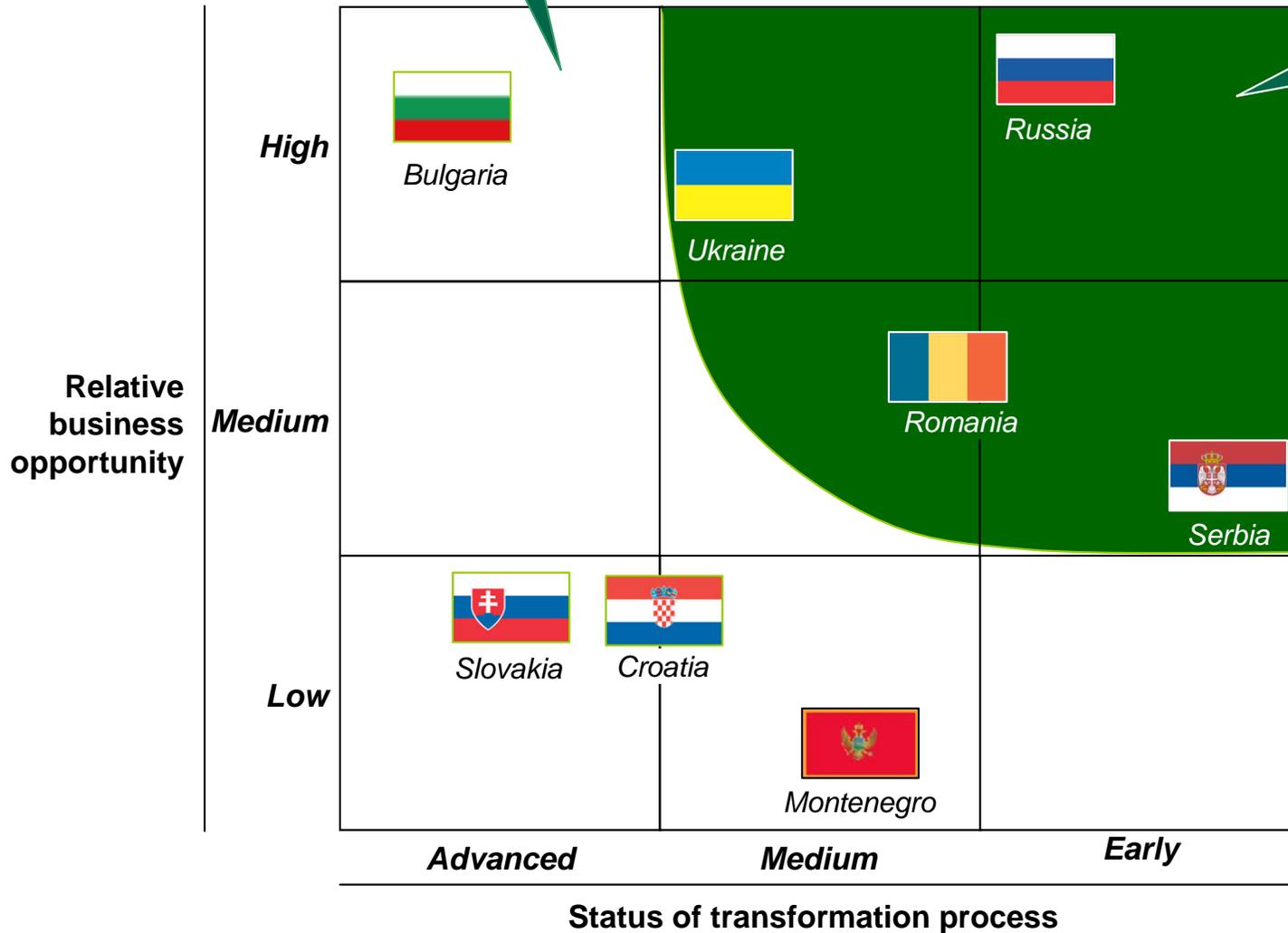
# OTP Bank Hungary will mostly support subsidiaries with largest potential and earliest in transformation process

### Business as usual support

- OTP Bank Hungary support in critical areas only
- Strong local management to drive business

### Primary focus of efforts

- Significant dedicated support for transformation from OTP Bank Hungary
- Focus of OTP Bank senior management attention to facilitate support while very dedicated and smart local management to drive business



# OTP Banking Group International Management Model

*OTP Bank Press Conference – February 14, 2007*

*Presented by: László Bencsik, Managing Director*

*Planning and Controlling, LIIB Secretary*



# Overview of fundamental principles of OTP Group international governance

## Fundamental principles

### Local leadership controlled by governing bodies

- The primary responsibility, accountability and authority lies with local top management familiar with local circumstances, with formal control through ownership structure and functional control (risk management, controlling, compliance, internal audit)

### Group-wide experience sharing in business areas

- In business areas, key task of OTP retail/corporate experts is to facilitate sharing of best practices and ensure quality of operations based primarily on informal cooperation and on working together on selected key issues

### Coordination at Group Committee

- Issue resolution through LIIB (Subsidiary Integration and Management Committee) for subsidiaries related topics supported by ALCO, IT and CAPEX committees
- Chairman of boards translate decisions directly to subsidiaries

### Direct incentives

- OTP business management, experts and functional management directly responsible for subsidiary impact
- Subsidiary top management involved in profit-sharing program

# Dual-logic organizational structure needed to reach maximum value-creation from Group-level synergies

Focus of following pages

## Relevant areas

## Core model

### 1 Business management model

- Retail
- Corporate
- Sales and Marketing
- In core businesses, subsidiary management is in charge and responsible for performance\*
- At HQs, strategic direction, targets and major elements of the business model are set as a result of intense discussions with subsidiaries' management
- In order to support the agreed strategy
  - Selected larger initiatives – "action tasks" – are supported and managed (if needed) from HQ
  - Intra-group knowledge/experience sharing/ transfer is assured through knowledge forums at business expert level

### 2 Functional management model

- Risk management
- Strategy, controlling and planning
- Internal audit
- Compliance
- Bank security
- HR
- IT
- Functional OTP Bank leaders have clearly defined organizational authority, direct (decision-making) and indirect (prescribing policies and procedures) power
- Development and operations of existing IT systems done locally except if the application is provided from a central unit. New implementation typically supported from HQs

**Dedicated project organizations with clearly defined authorities and responsibilities possible in due diligence and short-term transformational phases (e.g., directly after taking control)**

#### Fundamental principles

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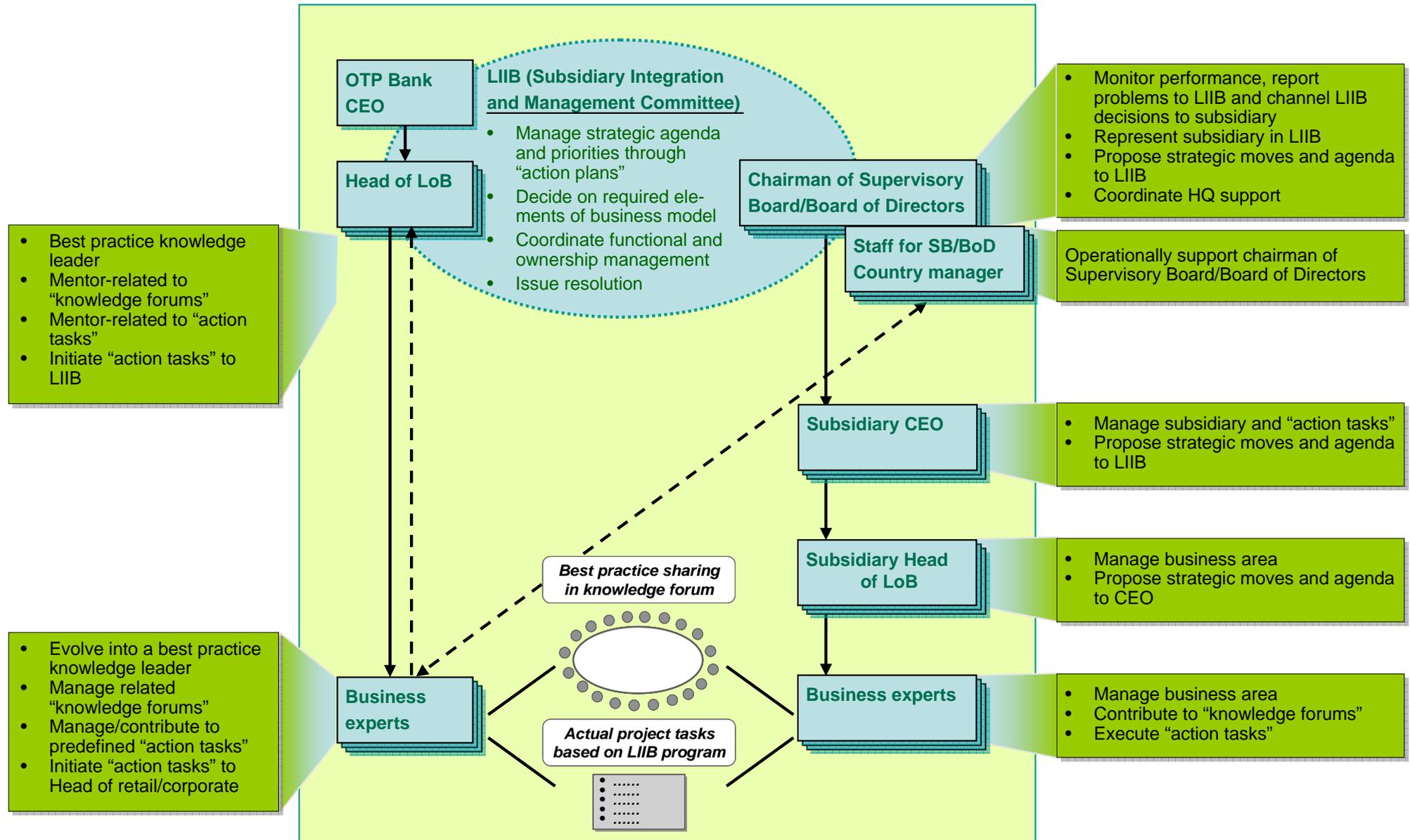
##### Direct incentives

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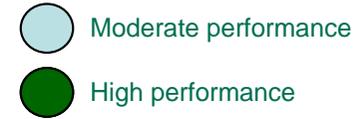
\* Exceptions: project finance, I-Banking; cross-border sales opportunities where the HQ units are more involved operationally and treasury which is functionally centralized

# Strong local leadership, LIIB as a decision-making/prioritization forum and continuous group-wide experience sharing

← Direct authority  
 ← - - - Informal cooperation



# New subsidiary management structure scores well along typical evaluation dimensions



Typical dimensions for evaluating Banking Group management structures	Evaluation of OTP Group management structure		Rationale
	Before January, 2007	After January, 2007	
Dedicated top management attention to subsidiary issues			<ul style="list-style-type: none"> <li>In addition to Board of Directors/Supervisory Board Chairmen, whole OTP Bank top management involved in strategy setting/critical issues through LIIB*</li> </ul>
Ability to retain top talent at subsidiaries			<ul style="list-style-type: none"> <li>Profit-sharing program with significant upside</li> </ul>
Fast, efficient decision-making process			<ul style="list-style-type: none"> <li>Business decision typically in local hands</li> <li>Only strategic questions reaching LIIB</li> </ul>
Facilitation of best practice transfer			<ul style="list-style-type: none"> <li>Product/channel/segment-specific Knowledge Forums</li> <li>Top-priority projects supported by cross-Group teams</li> </ul>
Efficient use of HQ resources			<ul style="list-style-type: none"> <li>HQ involvement limited to                             <ul style="list-style-type: none"> <li>Strategy setting/control</li> <li>Support for top-priority projects</li> <li>Facilitating knowledge sharing</li> <li>Guiding "centralized" functional areas</li> </ul> </li> </ul>

\* Subsidiary Integration and Management Committee

## OTP Bank Investor Relations

Tel: + 36 1 473 5460; + 36 1 473 5457

Fax: + 36 1 473 5951

E-mail: [investor.relations@otpbank.hu](mailto:investor.relations@otpbank.hu)

[www.otpbank.hu](http://www.otpbank.hu)