PROSPECTUS

The date of this Prospectus is 6 November 2006.

OTP Bank Nyrt.

(*incorporated with limited liability in the Republic of Hungary*)

EUR 500,000,000 Fixed to Floating Rate Perpetual Subordinated Notes

Issue price: 99.875 per cent.

The EUR 500,000,000 Fixed to Floating Rate Perpetual Subordinated Notes (the **Notes**) are issued by OTP Bank Nyrt. (the **Issuer**).

Interest on the Notes will be payable from and including 7 November 2006 to but excluding 7 November 2016 at the rate of 5.875 per cent. per annum, annually in arrear. From and including 7 November 2016 the Notes will bear interest at a rate reset quarterly of 3.00 per cent. per annum above the Euro-zone interbank offered rate for three month euro deposits payable quarterly in arrear on the Interest Payment Dates (as defined in "*Terms and Conditions of the Notes*") falling on 7 February, 7 May, 7 August and 7 November in each year, all as more particularly described in "*Terms and Conditions of the Notes – 3. Interest*". Interest payments may be deferred as described in "*Terms and Conditions of the Notes - .4 Interest Deferral*". Payments in respect of the Notes will be made without deduction for, or on account of, taxes of any Tax Jurisdiction (as defined in "*Terms and Conditions of the Notes*"), unless such deduction is required by law. In the event that any such deduction is made, the Notes will be subject to grossing up by the Issuer, subject to certain exceptions as are more fully described under "*Terms and Conditions of the Notes - 7. Taxation*".

For a discussion of certain factors which should be considered in connection with an investment in the Notes, see "*Risk Factors*" beginning on page 5 of this Prospectus.

The Notes will be rated A2 by Moody's Investors Service Limited (**Moody's**). A rating is not a recommendation to buy, sell or hold securities and may be subject to revision, suspension or withdrawal at any time by the assigning rating organisation.

Application will be made to the *Commission de Surveillance du Secteur Financier* (the **CSSF**) in its capacity as competent authority under the Luxembourg act dated 10 July 2005 on prospectuses for securities to approve this document as a prospectus. Application has also been made to the Luxembourg Stock Exchange for the Notes to be admitted to trading on the Luxembourg Stock Exchange's regulated market and to be listed on the Official List of the Luxembourg Stock Exchange. The Luxembourg Stock Exchange's regulated market is a regulated market for the purposes of the Market in Financial Instruments Directive (Directive 2004/39/EC).

The Notes will initially be represented by a temporary global note (the **Temporary Global Note**), without interest coupons, which will be deposited on or about 7 November 2006 (the **Issue Date**) with a common depositary for Euroclear Bank S.A./N.V., as operator of the Euroclear System, (**Euroclear**) and Clearstream Banking, société anonyme (**Clearstream, Luxembourg**). Interests in the Temporary Global Note will be exchangeable for interests in a permanent global note (the **Permanent Global Note** and, together with the Temporary Global Note, the **Global Notes**), without interest coupons, on or after 18 December 2006 (the **Exchange Date**), upon certification as to non-U.S. beneficial ownership. Interests in the Permanent Global Note will be exchangeable for definitive Notes only in certain limited circumstances – see "*Summary of Provisions relating to the Notes while in Global Form*".

Joint Lead Managers

BNP PARIBAS

UBS INVESTMENT BANK
Structuring Adviser

The Issuer (the Responsible Person) accepts responsibility for the information contained in this Prospectus. To the best of the knowledge and belief of the Issuer (having taken all reasonable care to ensure that such is the case) the information contained in this Prospectus is in accordance with the facts and does not omit anything likely to affect the import of such information.

The figures in the section entitled "*Financial Overview of The Hungarian Banking Sector*" have been extracted from the "*Flash Report on the Development of the Financial Sector in 2005*" published by the Hungarian Financial Supervisory Authority. The Issuer accepts responsibility that such information has been accurately reproduced and that, so far as it is aware, and is able to ascertain from information published by Hungarian Financial Supervisory Authority, no facts have been omitted which would render the reproduced information inaccurate or misleading.

This Prospectus is to be read in conjunction with all documents which are incorporated herein by reference (see "*Documents Incorporated by Reference*" below). This Prospectus shall be read and construed on the basis that such documents are incorporated and form part of this Prospectus. This Prospectus may only be used for the purposes for which it has been published.

Neither the Joint Lead Managers nor BNP Paribas Trust Corporation UK Limited (the Trustee) have independently verified the information contained herein. Accordingly, no representation, warranty or undertaking, express or implied, is made and no responsibility or liability is accepted by the Joint Lead Managers or the Trustee or any of them as to the accuracy or completeness of the information contained or incorporated in this Prospectus or any other information provided by the Issuer in connection with the Notes or their distribution. Neither the Joint Lead Managers nor the Trustee accept any liability in relation to the information contained or incorporated by reference in this Prospectus or any other information provided by the Issuer in connection with the Issue of the Notes.

No person is or has been authorised by the Issuer to give any information or to make any representation not contained in or not consistent with this Prospectus or any other information supplied in connection with the Notes and, if given or made, such information or representation must not be relied upon as having been authorised by the Issuer, any of the Joint Lead Managers or the Trustee.

Neither this Prospectus nor any other information supplied in connection with the Notes (a) is intended to provide the basis of any credit or other evaluation or (b) should be considered as a recommendation by the Issuer, any of the Joint Lead Managers or the Trustee that any recipient of this Prospectus or any other information supplied in connection with the Notes should purchase any Notes. Each investor contemplating purchasing any Notes should make its own independent investigation of the financial condition and affairs, and its own appraisal of the creditworthiness, of the Issuer. Neither this Prospectus nor any other information supplied in connection with the Notes constitutes an offer or invitation by or on behalf of the Issuer, any of the Joint Lead Managers or the Trustee to any person to subscribe for or to purchase any Notes.

Neither the delivery of this Prospectus nor the offering, sale or delivery of the Notes shall in any circumstances imply that the information contained herein concerning the Issuer is correct at any time subsequent to the date hereof. The Joint Lead Managers and the Trustee expressly do not undertake to review the financial condition or affairs of the Issuer during the life of the Notes or to advise any investor in the Notes of any information coming to their attention. Investors should review, *inter alia*, the most recently published documents incorporated by reference into this Prospectus when deciding whether or not to purchase any Notes.

Save for any fees payable to the Joint Lead Managers, so far as the Issuer is aware, no person involved in the issue of the Notes has an interest material to the offer.

The Notes have not been and will not be registered under the United States Securities Act of 1933, as amended, (the Securities Act) and are subject to U.S. tax law requirements. Subject to certain exceptions, Notes may not be offered, sold or delivered within the United States or to U.S. persons (see "*Subscription and Sale*").

This Prospectus does not constitute an offer to sell or the solicitation of an offer to buy any Notes in any jurisdiction to any person to whom it is unlawful to make the offer or solicitation in such jurisdiction. The distribution of this Prospectus and the offer or sale of any Notes may be restricted by law in certain jurisdictions. The Issuer, the Joint Lead Managers and the Trustee do not represent that this Prospectus may be lawfully distributed, or that any Notes may be lawfully offered, in compliance with any applicable registration or other requirements in any such jurisdiction, or pursuant to an exemption available thereunder, or assume any responsibility for facilitating any such distribution or offering. In particular, no action has been taken by the Issuer, the Joint Lead Managers or the Trustee which would permit a public offering of any Notes outside the European Economic Area or distribution of this Prospectus in any jurisdiction where action for that purpose is required. Accordingly, no Notes may be offered or sold, directly or indirectly, and neither this Prospectus nor any advertisement or other offering material may be distributed or published in any jurisdiction, except under circumstances that will result in compliance with any applicable laws and regulations. Persons into whose possession this Prospectus or any Notes may come must inform themselves about, and observe, any such restrictions on the distribution of this Prospectus and the offering and sale of the Notes. In particular, there are restrictions on the distribution of this Prospectus and the offer or sale of the Notes in the United States, the European Economic Area (including the United Kingdom, the Republic of Hungary, Germany and France) and Japan, see "*Subscription and Sale*".

All references in this document to *U.S. dollars, U.S.$* and *$* refer to United States dollars, to *EUR*, *euro* and € refer to the currency introduced at the start of the third stage of European economic and monetary union pursuant to the Treaty establishing the European Community (signed in Rome on 25 March 1957), as amended, all references to *HUF* and *Forint* are to Hungarian Forint, all references to *BGN* are to Bulgarian leva, all references to *SKK* are to Slovakian koruny and all references to *Sterling* and £ refer to pounds sterling.

As at 3 November 2006:

the exchange rate for HUF to EUR was HUF 260.35 to EUR 1;

the exchange rate for BGN to EUR was BGN 1.9559 to EUR 1; and

the exchange rate for SKK to EUR was SKK 36.388 to EUR 1.

Statement regarding forward-looking disclosure

This Prospectus contains forward-looking statements. Such statements, which are indicated by words or phrases such as "intend", "anticipate", "plan", "estimate", "project", "expects", "believes" or "currently envisions" and similar phrases are based on current expectations only, and are subject to certain risks, uncertainties and assumptions. Should one or more of these risks or uncertainties materialise, or should underlying assumptions prove incorrect, actual results may vary materially from those anticipated, estimated or projected. Included among the factors that could cause actual results to materially differ are those risks listed under the heading "*Risk Factors*" below. The Issuer undertakes no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

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RISK FACTORS

The Issuer believes that the following factors may affect its ability to fulfil its obligations under the Notes. Most of these factors are contingencies which may or may not occur and the Issuer is not in a position to express a view on the likelihood of any such contingency occurring.

In addition, factors which are material for the purpose of assessing the market risks associated with the Notes are also described below.

The Issuer believes that the factors described below represent the principal risks inherent in investing in the Notes, but the inability of the Issuer to pay interest, principal or other amounts on or in connection with the Notes may occur for other reasons which may not be considered significant risks by the Issuer based on information currently available to it or which it may not currently be able to anticipate. Prospective investors should also read the detailed information set out elsewhere in this Prospectus and reach their own views prior to making any investment decision.

Factors that may affect the Issuer's ability to fulfil its obligations under the Notes

Like all other banks the Issuer is mainly exposed to credit risk and market risk (e.g. interest rate movements and currency movements).

These risk factors are addressed by the Issuer's own risk management procedures and exposures are constantly measured and supervised.

Expansion of the Group's business into Central and Eastern Europe

Recent acquisitions by the Issuer in the Central and Eastern European (**CEE**) markets, and the expansion and integration of the acquired businesses may impact upon the consolidated financial results of the Issuer's Group. The ongoing integration can also expose the Issuer to monitoring risk of these operations and will require continued capital expenditure that can carry execution risk in the implementation. The Issuer can give no assurances as to future profitability of its CEE acquisitions and their continued strategic viability as part of the Issuer's Group.

In addition, the CEE acquisitions will in some markets such as Russia not operate to give the Issuer's Group a market share comparable to its Hungarian business model and might require more aggressive lending terms to gain market presence.

Increase in proportion of mortgage loans denominated in non-HUF currencies

The proportion of mortgage loans made by OTP Group in non-HUF currencies has increased. In case of non-HUF denominated loans, the Issuer is currently the only bank that offers an FX protection scheme for its clients as at the date of this Prospectus. Movements in exchange rates could lead to borrowers being unable to meet repayments on mortgage loans and ultimately to default under such loans as there is no obligation on the borrowers to hedge. Such defaults could have an impact on the financial results of the Issuer's Group.

With the exception of the risk factors in this section entitled "Factors that may affect the Issuer's ability to fulfil its obligations under the Notes", the Issuer does not consider there to be any other risk factors relevant to its business.

Factors which are material for the purpose of assessing the market risks associated with the Notes

The Notes may not be a suitable investment for all investors

Each potential investor in the Notes must determine the suitability of that investment in light of its own circumstances. In particular, each potential investor should:

(i) have sufficient knowledge and experience to make a meaningful evaluation of the Notes, the merits and risks of investing in the Notes and the information contained or incorporated by reference in this Prospectus;

(ii) have access to, and knowledge of, appropriate analytical tools to evaluate, in the context of its particular financial situation, an investment in the Notes and the impact the Notes will have on its overall investment portfolio;

(iii) have sufficient financial resources and liquidity to bear all of the risks of an investment in the Notes, including Notes with principal or interest payable in one or more currencies, or where the currency for principal or interest payments is different from the potential investor's currency;

(iv) understand thoroughly the terms of the Notes and be familiar with the behaviour of any relevant indices and financial markets; and

(v) be able to evaluate (either alone or with the help of a financial adviser) possible scenarios for economic, interest rate and other factors that may affect its investment and its ability to bear the applicable risks.

Risks related to the Notes

Set out below is a brief description of certain risks relating to the Notes generally:

Regulatory risk – Payment Condition

All payments of interest or any other payment (excluding principal) in respect of or arising under the Notes, Coupons and/or the Trust Deed in respect of the Notes are, in addition to the right of the Issuer to defer payment of interest in accordance with Condition 4, conditional upon the Issuer being able to make such payment, in accordance with Section 7.A (f) of Schedule 5 to the Hungarian Banking Act (as defined in "*Terms and Conditions of the Notes*"), from the Issuer's post-tax profits, as specified in the Issuer's annual report for the relevant fiscal year and, adjusted with the Issuer's retained earnings, subsequent to the Issuer's recording of its general reserves, but preceding the payment of any dividends (the **Payment Condition**) and no payment (excluding principal) in respect of or arising from the Notes, Coupons and/or the Trust Deed in respect thereof shall be due and payable except to the extent that the Issuer could make such payment in accordance with the Payment Condition.

The Notes and the related Coupons are conditional upon the Issuer being able to comply with the Payment Condition for the purpose of Condition 2.3 immediately before payment by the Issuer. If the Payment Condition is not satisfied, any amounts which might otherwise have been allocated in or towards payment of interest or any other payment (excluding principal) in respect of the Notes may be used to absorb losses.

Perpetual Notes and interest deferral

The Issuer is under no obligation to redeem the Notes at any time and the Noteholders have no right to call for their redemption. The Issuer may elect not to pay interest on any given interest payment date.

The Issuer's obligations under the Notes are subordinated

The Notes and Coupons are subordinated and unsecured obligations of the Issuer (*járulékos kölcsöntőke*, as defined in Point 9.A of Annex 5 to Act CXII of 1996 on Credit Institutions and Financial Enterprises, as amended from time to time) and will rank junior in priority to the claims of Senior Creditors (as defined in "*Terms and Conditions of the Notes*" herein) of the Issuer, and subject to the provisions of the following paragraph, rank *pari passu* without any preference among themselves. The Notes will be treated equally and all amounts paid by the Issuer in respect of principal and interest thereon will be paid *pro rata* on all the Notes.

In the event of the liquidation (*felszámolás*) of the Issuer in accordance with Act XLIX of 1991 on Bankruptcy and Liquidation Proceedings, the payment obligations of the Issuer under the Notes and

Coupons will rank in right of payment after Senior Creditors of the Issuer but at least *pari passu* with all other subordinated obligations of the Issuer which do not rank or are not expressed by their terms to rank junior to the Notes and in priority to the claims of all shareholders of the Issuer, ordinary or preferred.

Although the Notes may pay a higher rate of interest than comparable notes which are not subordinated, there is a real risk that an investor in the Notes will lose all or some of his investment should the Issuer become insolvent.

Each holder of a Note unconditionally and irrevocably waives any right of set-off, counterclaim, abatement or other similar remedy which it might otherwise have, under the laws of any jurisdiction, in respect of such Note.

Early Redemption of the Notes

The early redemption of the Notes is subject to the prior consent of the Regulator (as defined in "*Terms and Condition of the Notes*").

Optional redemption by the Issuer

The Conditions contain provisions for optional redemption by the Issuer. This feature is likely to limit the market value of the Notes. During any period when the Issuer may elect to redeem Notes, the market value of the Notes generally will not rise substantially above the price at which they can be redeemed. This also may be true prior to any redemption period.

The Issuer may be expected to redeem Notes when its cost of borrowing is lower than the interest rate on the Notes. At those times, an investor generally would not be able to reinvest the redemption proceeds at an effective interest rate as high as the interest rate on the Notes being redeemed and may only be able to do so at a significantly lower rate. Potential investors should consider reinvestment risk in light of other investments available at that time.

Modification, waivers and substitution

The Conditions contain provisions for calling meetings of Noteholders to consider matters affecting their interests generally. These provisions permit defined majorities to bind all Noteholders including Noteholders who did not attend and vote at the relevant meeting and Noteholders who voted in a manner contrary to the majority.

The Conditions also provide that the Trustee may, without the consent of the Noteholders, (i) agree to any modification of, or waiver or authorisation of any breach or proposed breach of, any of the Conditions or (ii) agree to the substitution of another entity as principal debtor under the Notes in place of the Issuer, in the circumstances described in Condition 11.

Change of law

The Conditions are based on English law in effect as at the date of issue of the relevant Notes. No assurance can be given as to the impact of any possible judicial decision or change to English law or administrative practice after the date of issue of the Notes.

Integral multiples of less than EUR 50,000

It is possible that the Notes may be traded in the clearing systems in amounts in excess of EUR 50,000 that are not integral multiples of EUR 50,000. Should definitive Notes be required to be issued, Noteholders who hold Notes in the relevant clearing system in amounts that are not integral multiples of EUR 50,000 may need to purchase or sell, on or before the relevant Exchange Date, a principal amount of Notes such that their holding is an integral multiple of EUR 50,000.

Restricted remedy for non-payment

Pursuant to the Hungarian Banking Act (as defined in "*Terms and Conditions of the Notes*"), the Trustee or the Holders may not initiate winding up proceedings against the Issuer as a result of the Issuer's failure to make any payment in respect of the Notes. The sole remedy against the Issuer available to the Trustee or any Holder for recovery of amounts owing in respect of any interest or principal in respect of the Notes will be proving in the winding-up or the administration of the Issuer.

Absence of prior public markets

The Notes constitute a new issue of securities by the Issuer. Prior to this issue, there will have been no public market for the Notes. Although application has been made for the Notes to be admitted to listing and to trading on the Luxembourg Stock Exchange, there can be no assurance that an active public market for the Notes will develop and, if such a market were to develop, the Joint Lead Managers are under no obligation to maintain such a market. The liquidity and the market prices for the Notes can be expected to vary with changes in market and economic conditions, the financial condition and prospects of the Issuer and the OTP Group (as defined herein) and other factors that generally influence the market prices of securities.

EU Savings Directive

If, following implementation of this Directive, a payment were to be made or collected through a Member State which has opted for a withholding system and an amount of, or in respect of tax were to be withheld from that payment, neither the Issuer nor any Paying Agent nor any other person would be obliged to pay additional amounts with respect to the Notes as a result of the imposition of such withholding tax. If a withholding tax is imposed on payment made by a Paying Agent following implementation of this Directive, the Issuer will be required to maintain a Paying Agent in a Member State that will not be obliged to withhold or deduct tax pursuant to the Directive.

Risks related to the market generally

Set out below is a brief description of the principal market risks, including liquidity risk, exchange rate risk, interest rate risk and credit risk:

Exchange rate risks and exchange controls

The Issuer will pay principal and interest on the Notes in euros. This presents certain risks relating to currency conversions if an investor's financial activities are denominated principally in a currency or currency unit (the **Investor's Currency**) other than the euro. These include the risk that exchange rates may significantly change (including changes due to devaluation of the euro or revaluation of the Investor's Currency) and the risk that authorities with jurisdiction over the Investor's Currency may impose or modify exchange controls. An appreciation in the value of the Investor's Currency relative to the euro would decrease (1) the Investor's Currency-equivalent yield on the Notes, (2) the Investor's Currency equivalent value of the principal payable on the Notes and (3) the Investor's Currency equivalent market value of the Notes.

Government and monetary authorities may impose (as some have done in the past) exchange controls that could adversely affect an applicable exchange rate. As a result, investors may receive less interest or principal than expected, or no interest or principal.

Credit ratings may not reflect all risks

One or more independent credit rating agencies may assign credit ratings to the Notes. The ratings may not reflect the potential impact of all risks related to structure, market, additional factors discussed above, and other factors that may affect the value of the Notes. A credit rating is not a recommendation to buy, sell or hold securities and may be revised or withdrawn by the rating agency at any time.

Legal investment considerations may restrict certain investments

The investment activities of certain investors are subject to legal investment laws and regulations, or review or regulation by certain authorities. Each potential investor should consult its legal advisers to determine whether and to what extent (1) the Notes are legal investments for it, (2) the Notes can be used as collateral for various types of borrowing and (3) other restrictions apply to its purchase or pledge of the Notes. Financial institutions should consult their legal advisers or the appropriate regulators to determine the appropriate treatment of the Notes under any applicable risk-based capital or similar rules.

Hungarian government policy

The Issuer can give no assurances that the ongoing austerity measures being applied by the Hungarian government will not negatively impact upon the business of the Issuer or its Group. Although the implementation of Act LIX of 2006 on special tax and contribution aiming to enhance the balance of the state budget has introduced a special banking tax and the recent introduction of capital gains and withholding taxes on interest income and capital gains on the disposal of securities have as yet had no absolute impact on the Issuer's business, there can be no guarantee that this position will not change in the future. The continuing uncertainty and delay in the introduction of the Euro in Hungary may have a negative impact on the economic climate within Hungary which may in turn have an impact on the Issuer's business operations.

DOCUMENTS INCORPORATED BY REFERENCE

The following documents which have previously been published or are published simultaneously with this Prospectus and have been filed with the CSSF shall be incorporated in, and form part of, this Prospectus:

(a) the audited consolidated and non-consolidated annual financial statements for the financial year ended 31 December 2004 and the audit reports thereon including the information set out at the following pages in particular:

Document	Section incorporated
Consolidated IFRS Financial Statements for the financial years ended 31 December 2004 and 2003	Pages 75 to 106
– Independent Auditors' Opinion	Page 75
– Financial Statements:	
– Balance Sheet	Page 76
– Profit and Loss Account	Page 77
– Statement of Cash Flow	Pages 78 to 79
– Statement of changes in Shareholders' Equity	Page 80
– Notes to Financial Statements	Pages 80 to 106
Unconsolidated IFRS Financial Statements for the financial years ended 31 December 2004 and 2003	Pages 107 to 112
– Independent Auditors' Opinion	Page 107
– Financial Statements:	
– Balance Sheet	Page 108
– Profit and Loss Account	Page 109
– Statement of Cash Flow	Pages 110 to 111
– Statement of changes in Shareholders' Equity	Page 112
Notes to Financial Statements	Pages 112 to 134

Any other information not listed above but contained in such document is incorporated by reference for information purposes only;

(b) the audited consolidated and non-consolidated annual financial statements for the financial year ended 31 December 2005 and the audit reports thereon including the information set out at the following pages in particular:

Document	Section incorporated
Consolidated IFRS Financial Statements for the financial year ended 31 December 2005	Pages 64 to 109
– Independent Auditors' Opinion	Page 64
– Financial Statements:	
– Balance Sheet	Page 65
– Profit and Loss Account	Page 66

– Statement of Cash Flow	Page 67
– Statement of changes in Shareholders' Equity	Page 68
– Notes to the Consolidated IFRS Financial Statements as at 31 December 2005	Pages 69 to 109
Unconsolidated IFRS Financial Statements for the financial year ended 31 December 2005	Pages 110 to 151
– Independent Auditors' Opinion	Page 110
– Financial Statements:	
– Balance Sheet	Page 111
– Profit and Loss Account	Page 112
– Statement of Cash Flows	Page 113
– Statement of changes in Shareholders' Equity	Page 114
– Notes to the unconsolidated IFRS Financial Statements as at 31 December 2005	Pages 115 to 151

Any other information not listed above but contained in such document is incorporated by reference for information purposes only;

(c) the Articles of Association of the Issuer, which are incorporated by reference for information purposes only; and

(d) Stock Exchange Report for the second quarter of 2006 including the information set out at the following pages in particular:

Second quarter 2006 stock exchange report*	Pages 2 to 45
– balance sheet	Page 5
– profit and loss statement	Page 8

Any other information not listed above but contained in such document is incorporated by reference for information purposes only.

* – references in this document to 31/06 should be construed to be 30/06.

Copies of documents incorporated by reference in this Prospectus can be obtained from the registered office of the Issuer, from the website of the Issuer, www.otpbank.hu and from the principal office of the Paying Agent for the time being in Luxembourg.

TERMS AND CONDITIONS OF THE NOTES

The following, subject to alteration and except for paragraphs in italics, are the terms and conditions of the Notes which will be endorsed on each Note in definitive form (if issued).

The EUR 500,000,000 Fixed to Floating Rate Perpetual Subordinated Notes (the **Notes**, which expression shall in these Conditions, unless the context otherwise requires, include any further instruments issued pursuant to Condition 13 and forming a single series with the Notes) of OTP Bank Nyrt. (the **Issuer**) are constituted by a trust deed (the **Trust Deed**) dated 6 November 2006 between the Issuer and BNP Paribas Trust Corporation UK Limited (the **Trustee**), which expression shall include all persons for the time being the trustee or trustees under the Trust Deed as trustee for the holders of the Notes (the **Noteholders**). The issue of the Notes by the Issuer has been duly authorised by resolution No. 129/2006 of the Board of Directors of the Issuer dated 28 August. The statements in these terms and conditions (the **Conditions**) include summaries of, and are subject to, the detailed provisions of the Trust Deed. Copies of (a) the Trust Deed and (b) the agency agreement (the **Agency Agreement**) dated 6 November 2006 made between the Issuer, BNP Paribas Securities Services, Luxembourg Branch as principal paying agent (the **Principal Paying Agent**, which expression shall include any successor thereto), the other paying agents named therein and any successors thereto (together with the Principal Paying Agent, the **Paying Agents**), BNP Paribas Securities Services, Luxembourg Branch as agent bank (the **Agent Bank**, which expression shall include any successor thereto) and the Trustee are available for inspection on reasonable notice during normal business hours by the holders of the Notes and the interest coupons (the **Coupons**, which expression includes, where the context so permits, Talons, as defined below) and talons for further Coupons (the **Talons**) appertaining to the Notes in definitive form (the **Couponholders**) at the specified office of each of the Paying Agents. The Holders and the Couponholders are entitled to the benefit of, and are bound by, all the provisions of the Trust Deed, and are deemed to have notice of all the provisions of the Agency Agreement applicable to them.

1. FORM, DENOMINATION AND TITLE

1.1 Form and Denomination

The Notes are serially numbered and in bearer form in the denomination of EUR 50,000 each with Coupons and one Talon attached on issue.

So long as the Notes are represented by the Temporary Global Note and/or the Permanent Global Note and the relevant clearing systems so permit, the Notes shall be tradeable only in principal amounts of at least EUR 50,000 and integral multiples of EUR 1,000 above EUR 50,000.

1.2 Title

Title to the Notes, Coupons and Talons will pass by delivery. The bearer of any Note and the bearer of any Coupon or Talon shall be deemed to be, and may be treated as (except as otherwise required by law or as ordered by a court of competent jurisdiction) its absolute owner for all purposes (whether or not it is overdue and regardless of any notice of ownership, trust or any interest in it or its theft or loss or anything written on it) and no person will be liable for so treating the bearer.

2. STATUS

2.1 No Set-off

Subject to applicable law, no Noteholder may exercise or claim any right of set-off, counterclaim or abatement or other similar remedy which it might otherwise have under the laws of any jurisdiction in respect of any amount owed to it by the Issuer arising under or in connection with the Notes and each Noteholder shall, by virtue of being the holder of any Note, be deemed to have waived all such rights of set-off, counterclaim or abatement.

2.2 Status

The Notes and the Coupons relating to them constitute unsecured obligations of the Issuer, subordinated and conditional as described below, and rank *pari passu* without any preference among themselves.

2.3 Subordination

The Notes and Coupons are subordinated and unsecured obligations of the Issuer (*járulékos kölcsöntőke*, as defined in Point 9.A of Annex 5 to the Hungarian Banking Act, as amended from time to time) and rank junior in priority to the claims of Senior Creditors, and subject to the provisions of the following paragraph, rank *pari passu* without any preference among themselves. The Notes will be treated equally and all amounts paid by the Issuer in respect of principal and interest thereon will be paid *pro rata* on all the Notes.

In the event of the liquidation (*felszámolás*) of the Issuer in accordance with Act XLIX of 1991 on Bankruptcy and Liquidation Proceedings, the payment obligations of the Issuer under the Notes and Coupons will rank in right of payment after Senior Creditors and *pari passu* with all other subordinated obligations of the Issuer other than those which rank or are expessed by their terms to rank senior to the Notes and those which rank or are expressed by their terms to rank junior to the Notes and in priority to the claims of all shareholders of the Issuer, ordinary and preferred.

All payments of interest or any other payment (excluding principal) in respect of or arising under the Notes, Coupons and/or the Trust Deed in respect of the Notes are, in addition to the right of the Issuer to defer payment of interest in accordance with Condition 4, conditional upon the Issuer being able to make such payment, in accordance with Section 7.A (f) of Schedule 5 to the Hungarian Banking Act, from the Issuer's post-tax profits, as specified in the Issuer's annual report for the relevant fiscal year and, adjusted with the Issuer's retained earnings, subsequent to the Issuer's recording of its general reserves, but preceding the payment of any dividends (the **Payment Condition**) and no payment (excluding principal) in respect of or arising from the Notes, Coupons and/or the Trust Deed in respect thereof shall be due and payable except to the extent that the Issuer could make such payment in accordance with the Payment Condition.

A report as to whether or not the Issuer is in compliance with the Payment Condition by two Directors of the Issuer or, in certain circumstances as provided in the Trust Deed, the auditors of the Issuer or, if the Issuer is in winding up, its liquidator, shall in the absence of manifest error be treated and accepted by the Issuer, the Trustee, the Noteholders and the Couponholders as correct and sufficient evidence thereof.

N.B. The obligations of the Issuer in respect of the Notes and the related Coupons are conditional upon the Issuer being able to comply with the Payment Condition for the purpose of this Condition 2.3 immediately before payment by the Issuer. If the Payment Condition is not satisfied, any amounts which might otherwise have been allocated in or towards payment of interest or any other payment (excluding principal) in respect of the Notes may be used to absorb losses.

2.4 Repayment of debt

The proceeds of the issue of the Notes may be used for the settlement of the Issuer's debts.

3. INTEREST

3.1 Interest Rate

Each Note bears interest on its outstanding nominal amount at the applicable Interest Rate from the Issue Date in accordance with provisions of this Condition 3.

Subject to Conditions 2.3 and 4, during the Fixed Rate Interest Period interest shall be payable on the Notes annually in arrear on each Interest Payment Date, and thereafter interest shall be payable on the Notes quarterly in arrear on each Interest Payment Date, in each case as provided in this Condition 3.

3.2 Interest Accrual

Interest shall cease to accrue on each Note on the due date for redemption unless, upon due presentation, payment is improperly withheld or refused, in which event interest shall continue to accrue (in each case, both before and after judgment) at the Interest Rate as provided in the Trust Deed.

3.3 Fixed Interest Rate

For the Fixed Rate Interest Period, the Notes bear interest at the rate of 5.875 per cent. per annum (the **Fixed Interest Rate**).

Where it is necessary to compute an amount of interest in respect of any Note during the Fixed Rate Interest Period for a period of less than a full year, such interest shall be calculated on the basis of the actual number of days in the period from (and including) the most recent Interest Payment Date to (but excluding) the relevant payment date divided by the actual number of days in the period from (and including) the most recent Interest Payment Date to (but excluding) the next scheduled Interest Payment Date.

3.4 Floating Interest Rate

From (and including) the First Reset Date, the Notes will bear interest at a floating rate of interest (the **Floating Interest Rate**). The Floating Interest Rate in respect of each Interest Period commencing on or after the First Reset Date will be determined by the Agent Bank on the basis of the following provisions:

(a) On each Interest Determination Date, the Agent Bank will determine the offered rate (expressed as a rate per annum) for three-month euro deposits as at 11.00 a.m. (Brussels time) on such Interest Determination Date, as displayed on the display designated as page 248 on the Telerate Monitor (or such other page or pages as may replace it for the purpose of displaying such information). The Floating Interest Rate for the Interest Period commencing on the Interest Determination Date shall be such offered rate as determined by the Agent Bank plus the Margin;

(b) if such offered rate does not so appear, or if the relevant page is unavailable, the Agent Bank will, on such date, request the principal Euro-zone office of the Reference Banks to provide the Agent Bank with its offered quotation to leading banks in the Euro-zone interbank market for three-month euro deposits as at 11.00 a.m. (Brussels time) on the Interest Determination Date in question. If at least two of the Reference Banks provide the Agent Bank with such offered quotations, the Floating Interest Rate for the Interest Period shall be the rate determined by the Agent Bank to be the arithmetic mean (rounded if necessary to the nearest one hundred thousandth of a percentage point (0.000005 per cent. being rounded upwards)) of such offered quotations plus the Margin;

(c) if on any Interest Determination Date to which the provisions of subparagraph (b) above apply, one only or none of the Reference Banks provides the Agent Bank with such a quotation, the Floating Interest Rate for the Interest Period shall be the rate which the Agent Bank determines to be the aggregate of the Margin and the arithmetic mean (rounded, if necessary, to the nearest one hundred thousandth of a percentage point (0.000005 per cent. being rounded upwards)) of the euro lending rates which leading banks in the Euro-zone selected by the Agent Bank are quoting, on the relevant Interest Determination Date, to leading banks in Europe for a period of three months, except that, if the banks so selected by the Agent Bank are not quoting as mentioned above, the Floating Interest Rate for such Interest Period shall be the Floating Interest Rate in effect for the last preceding Interest Period to which one of the preceding subparagraphs of this Condition 3.4 shall have applied.

3.5 Determination of Floating Interest Rate and Calculation of Floating Interest Amounts

The Agent Bank will, as soon as practicable after 11.00 a.m. (Brussels time) on each Interest Determination Date, determine the Floating Interest Rate in respect of the Interest Period commencing on that Interest Determination Date and calculate the amount of interest payable in respect of each Note on the Interest Payment Date for that Interest Period (the **Floating Interest Amount**) by applying the Floating Interest Rate for such Interest Period to EUR 50,000, multiplying such sum by the actual number of days in the Interest Period concerned divided by 360 and, if necessary, rounding the resultant figure to the nearest EUR 0.01 (EUR 0.005 being rounded upwards).

3.6 Publication of Floating Interest Rate and Floating Interest Amounts

The Issuer shall cause notice of the Floating Interest Rate determined in accordance with this Condition 3 in respect of each relevant Interest Period, the Floating Interest Amount and the relevant date scheduled for payment to be given to the Trustee, the Paying Agents, any stock exchange or other relevant authority on which the Notes are for the time being listed or admitted to trading and, in accordance with Condition 14, the Noteholders, in each case as soon as practicable after its determination but in any event not later than the fourth Business Day thereafter. The Floating Interest Amount, the Floating Interest Rate and the date scheduled for payment so notified may subsequently be amended (or appropriate alternative arrangements made by way of adjustment) without notice in the event of any extension or shortening of the relevant period in accordance with these Conditions or in the event of manifest error.

3.7 Determination or Calculation by Trustee

The Trustee (or an agent appointed by it at the expense of the Issuer) shall, if the Agent Bank does not at any relevant time for any reason determine the Floating Interest Rate on the Notes in accordance with this Condition 3, determine the Floating Interest Rate in respect of the relevant Interest Period at such rate as, in its absolute discretion (having such regard as it shall think fit to the procedures prescribed in this Condition 3), it shall deem fair and reasonable in all the circumstances and such determination shall be deemed to be a determination thereof by the Agent Bank.

3.8 Agent Bank

So long as any Notes remain outstanding, the Issuer will maintain an Agent Bank. The name of the initial Agent Bank and its initial specified office is set out at the end of these Conditions. The Issuer may, with the prior written approval of the Trustee, from time to time replace the Agent Bank with another leading investment, merchant or commercial bank in the Euro-zone. If the Agent Bank is unable or unwilling to continue to act as the Agent Bank or (without prejudice to Condition 3.7 above) fails duly to determine the Floating Interest Rate in respect of any Interest Period as provided in Condition 3.4, the Issuer shall forthwith appoint another leading investment, merchant or commercial bank in the Euro-zone approved in writing by the Trustee to act as such in its place. The Agent Bank may not resign its duties or be removed without a successor having been appointed as aforesaid.

3.9 Determination of Agent Bank or Trustee Binding

All notifications, opinions, determinations, certificates, calculations, quotations and decisions given, expressed, made or obtained for the purposes of this Condition 3, whether by the Agent Bank or the Trustee (or its agent), shall (in the absence of wilful default, bad faith or manifest error) be binding on the Issuer, the Agent Bank, the Trustee, the Paying Agents and all Noteholders and Couponholders and (in the absence of wilful default or bad faith) no liability to the Noteholders, the Couponholders or the Issuer shall attach to the Agent Bank or the Trustee in connection with the exercise or non-exercise by them of any of their powers, duties and discretions.

4. INTEREST DEFERRAL

4.1 Optional Deferral of Interest

The Issuer may elect to defer any interest accrued during the Interest Period and otherwise scheduled to be paid on an Optional Interest Payment Date by giving notice of such election to the Noteholders in accordance with Condition 14, the Trustee and the Principal Paying Agent not less than 20 Business Days prior to the relevant Optional Interest Payment Date. Any interest not paid on an Optional Interest Payment Date together with any other interest not paid on any other Optional Interest Payment Date shall, so long as the same remains unpaid, constitute **Arrears of Interest**.

Interest payments (including Arrears of Interest) on the Notes shall (subject to Condition 2.3) be payable on each Compulsory Interest Payment Date in respect of the Interest Period ending on the day immediately preceding such date.

Arrears of Interest may, at the option of the Issuer, be paid in whole or in part at any time upon the expiration of not less than seven days' notice to such effect given to the holders of the Notes in accordance with Condition 14, but all Arrears of Interest on all Notes outstanding shall (subject to Condition 2.3) become due in full on whichever is the earliest of:

(a) the date set for any redemption of the Notes pursuant to Condition 5.2, 5.3 or 5.4; or

(b) the commencement of a winding-up of the Issuer; or

(c) the date on which any payment is made of a dividend on, or a repurchase or redemption of, any class of the Issuer's share capital.

Notwithstanding the foregoing, if notice is given by the Issuer of its intention to pay the whole or part of Arrears of Interest, the Issuer shall be obliged (subject to Condition 2.3) to do so upon the expiration of such notice. Arrears of Interest shall not themselves bear interest.

Notwithstanding any other provision in these Conditions or the Trust Deed, the deferral of any interest by virtue of this Condition 4.1 or Condition 2.3 shall not constitute a default for any purpose on the part of the Issuer.

4.2 Dividend and Capital Restriction

If, on an Interest Payment Date, interest in respect of any Notes shall not have been paid as a result of the exercise by the Issuer of its option pursuant to Condition 4.1, then for a period of 12 months from the date of such Interest Payment Date, the Dividend and Capital Restriction shall apply.

The **Dividend and Capital Restriction** means that:

(a) the Issuer's Board of Directors may not declare or pay any distribution or dividend or make any other payment on, and will procure that no distribution or dividend or other payment is made on, any Parity Securities; or

(b) the Issuer may not redeem, purchase, cancel, reduce or otherwise acquire any Parity Securities.

5. REDEMPTION, PURCHASE AND OPTIONS

5.1 No Fixed Redemption Date

The Notes are perpetual notes in respect of which there is no fixed redemption date and the Issuer shall only have the right to redeem them or purchase them in accordance with the following provisions of this Condition 5 and subject to the prior approval of the Regulator.

5.2 Redemption for Taxation Reasons

(a) If at any time the Issuer satisfies the Trustee immediately prior to the giving of the notice referred to below that:

(i) other than in respect of the amendments to Act CXVII of 1995 on the Personal Income Tax relating to the withholding tax on interest payments to private individuals as introduced by Section 14 of Act LXI of 2006 on Amendments to Certain Financial Laws and as may be amended or implemented by subsequent legislation, as a result of a change in, or amendment to, the laws or regulations or the application or official interpretation thereof, which change (A) (subject to (B) below) becomes or would become effective on or after 6 November 2006 or (B) in the case of a change in law, if such change is enacted by the Hungarian Parliament on or after 6 November 2006, if a payment of principal or interest in respect of the Notes were to be due (whether or not the same is in fact then due) on or before the next Interest Payment Date, the Issuer would, for reasons outside its control, be unable (after using all such endeavours as the Trustee shall consider reasonable) to make such payment of principal or interest without having to pay additional amounts as provided or referred to in Condition 7; or

(ii) on the next Interest Payment Date the Issuer would not be entitled to claim a deduction in respect of computing its taxation liabilities in Hungary, or such entitlement is materially reduced, in each case in respect of such interest payment and the Issuer cannot avoid the foregoing in connection with the Notes by taking measures reasonably available to it,

the Issuer may at its option, having given not less than 30 nor more than 60 days' notice in accordance with Condition 14, redeem, at any time prior to 7 November 2016 and on 7 November 2016 or any Interest Payment Date thereafter, all, but not some only, of the Notes then outstanding at their principal amount together with (A) interest accrued up to, but excluding, the date fixed for redemption and (B) any Arrears of Interest.

(b) Subject only to the obligation of the Issuer to use such endeavours as aforesaid, it shall be sufficient to establish the existence of the circumstances required to be established pursuant to this Condition 5.2 if the Issuer shall deliver to the Trustee (i) a certificate of an independent lawyer or accountant satisfactory to the Trustee, in a form satisfactory to the Trustee, to the effect either that such circumstances exist or that, upon a change in the taxation laws (or regulations made thereunder) of the Republic of Hungary or any authority thereof or therein having power to tax or in the application or interpretation of such laws or regulations, which at the date of such certificate is proposed and which in the opinion of such lawyer or accountant can reasonably be expected to become effective on or prior to such Interest Payment Date or time as is referred to in (i) above, becoming so effective, such circumstances would exist and (ii) a certificate signed by two directors of the Issuer to the effect that the Issuer cannot avoid paying such additional amounts by using such reasonable endeavours.

(c) For the avoidance of doubt, nothing in this Condition 5.2 shall allow the Issuer to redeem the Notes as a result of any withholding or deduction it may be required to make in respect of any payment of interest on the Notes arising as a result of Act CXVII of 1995 on the Personal Income Tax relating to the withholding tax on interest payments to private individuals as introduced by Section 14 of Act LXI of 2006 on the Amendments to Certain Financial Laws and as may be amended or implemented by subsequent legislation.

5.3 Redemption for Regulatory Purposes

If at any time the Issuer satisfies the Trustee immediately prior to the giving of the notice referred to below that:

(a) the Notes would not be capable of counting (save where such non-qualification is as a result of the Notes exceeding any applicable limitation on the amount of such capital as a result of action taken or a failure to act by the Issuer) as capital resources satisfying the Regulatory Capital Requirements applicable to the Issuer as a result of any change to the Capital Regulations or the application or official interpretation thereof or as a result of any change to the Capital Regulations or the Regulatory Capital Requirements or the application or official interpretation thereof resulting in any change in any applicable limitation on the amount of such capital, in each case at any time; or

(b) the Notes would no longer be eligible to qualify (save where such non-qualification is as a result of the Notes exceeding any applicable limitation on the amount of such capital as a result of action taken or a failure to act by the Issuer) for inclusion in the Upper Tier 2 Capital of the Issuer on a solo or consolidated basis,

the Issuer may at its option, having given not less than 30 nor more than 60 days' notice in accordance with Condition 14, redeem, at any time on or prior to 7 November 2016 and thereafter on any Interest Payment Date all, but not some only, of the Notes then outstanding at their principal amount together with (i) interest accrued up to, but excluding the date fixed for redemption and (ii) any Arrears of Interest.

For the purposes of this Condition 5.3, paragraph (a) or (b) above may be satisfied by the Issuer by the production of a certificate dated no more than two days prior to its delivery and signed either by (i) two Directors of the Issuer, or(ii) an independent lawyer of good standing, and confirming that the statement in either paragraph (a) or (b) is true.

5.4 Redemption at the Option of the Issuer

The Issuer may, on giving not less than 10 nor more than 30 days' irrevocable notice to the Noteholders in accordance with Condition 14, elect to redeem all, but not some only, of the Notes on any Optional Redemption Date. Any such redemption of Notes shall be at their principal amount together will all Arrears of Interest (if any) as provided in Condition 4.1.

5.5 Purchases

The Issuer may at any time purchase Notes (provided that all unmatured Coupons and unexchanged Talons relating thereto are attached thereto or surrendered therewith) in the open market or otherwise at any price.

5.6 Cancellation

All Notes purchased by or on behalf of the Issuer may be surrendered for cancellation, by surrendering each such Note together with all unmatured Coupons and all unexchanged Talons to the Principal Paying Agent and if so surrendered, shall, together with all Notes redeemed by the Issuer, be cancelled forthwith (together will all unmatured Coupons and unexchanged Talons attached thereto or surrendered therewith). Any Notes so surrendered for cancellation may not be reissued or resold and the obligations of the Issuer in respect of any such Notes shall be discharged.

6. PAYMENTS AND TALONS

6.1 Method of Payment

Payments of principal and interest will be made by or on behalf of the Issuer against presentation and surrender of Notes or the appropriate Coupons at the specified office of any of the Paying Agents except that payments of interest in respect of any period not ending on an Interest Payment Date will only be made upon surrender of the relevant Note. Such payments will be made (subject to Condition 6.4(b) below), at the option of the payee, by euro cheque drawn on, or by transfer to a euro account maintained by, the payee.

6.2 Payments subject to Fiscal Laws

All payments are subject in all cases to any applicable fiscal or other laws, regulations, directives and orders of any court of competent jurisdiction, but without prejudice to the provisions of Condition 8. No commission or expenses shall be charged to the Noteholders or Couponholders in respect of such payments.

6.3 Appointment of Agents

The Principal Paying Agent and the other Paying Agents initially appointed by the Issuer and their respective specified offices are listed below. Subject as provided in the Trust Deed and the Agency Agreement, the Principal Paying Agent and the other Paying Agents act solely as agents of the Issuer and do not assume any obligation or relationship of agency or trust for or with any Noteholder or Couponholder. The Issuer reserves the right at any time with the approval of the Trustee to vary or terminate the appointment of the Principal Paying Agent or any other Paying Agent and to appoint additional or other Paying Agents, provided that the Issuer shall at all times maintain:

(a) a Principal Paying Agent and an Agent Bank;

(b) so long as the Notes are listed on any stock exchange or admitted to trading by any other relevant authority, a Paying Agent with a specified office in such place as may be required by the rules and regulations of the relevant stock exchange or other relevant authority;

(c) for so long as such agent exists, a Paying Agent in a Member State of the European Union that is not obliged to withhold or deduct tax pursuant to European Council Directive 2003/48/EC or any law implementing or complying with, or introduced in order to conform to, such Directive; and

(d) a Paying Agent in a jurisdiction within continental Europe, other than the jurisdiction in which the Issuer is incorporated.

Notice of any such change or any change of any specified office shall promptly be given to the Noteholders by the Issuer in accordance with Condition 14.

6.4 Unmatured Coupons and unexchanged Talons

(a) Upon the due date for redemption of any Note, any unexchanged Talon relating to such Note (whether or not attached) shall become void and no Coupon shall be delivered in respect of such Talon and unmatured Coupons relating to such Notes (whether or not attached) shall also become void and no payment shall be made in respect of them. If any Note is presented for redemption without all unmatured Coupons and any unexchanged Talon relating to it, redemption shall be made only against the provision of such indemnity as the Issuer may require.

(b) If the due date for redemption of any Note is not a due date for payment of interest, interest accrued from the preceding due date for payment of interest or the Issue Date, as the case may be, shall only be payable against presentation (and surrender if appropriate) of the relevant Note representing it.

6.5 Talons

On or after the Interest Payment Date for the final Coupon forming part of a Coupon sheet issued in respect of any Note, the Talon (if any) forming part of such Coupon sheet may be surrendered at the specified office of the Principal Paying Agent in exchange for a further Coupon sheet (and if necessary another Talon for a further Coupon sheet) (but excluding any Coupons that may have become void pursuant to Condition 8).

6.6 Non-Business Days

If any date for payment in respect of any Note or Coupon is not a business day, the holder shall not be entitled to payment until the next following business day nor to any interest or other sum in respect of such postponed payment. In this paragraph, **business day** means a day (other than a Saturday or a Sunday) (i) on which banks and foreign exchange markets are open for business in Luxembourg and the relevant place of presentation, and (ii) a day on which the Trans-European Automated Real-Time Gross Settlement Express Transfer (TARGET) System is open.

7. TAXATION

All payments of principal and interest in respect of the Notes and Coupons by the Issuer will be made without withholding or deduction for or on account of any present or future taxes or duties of whatever nature imposed or levied by or on behalf of any Tax Jurisdiction unless such withholding or deduction is required by law. In such event, the Issuer will pay such additional amounts as shall be necessary in order that the net amounts received by the holders of the Notes or Coupons after such withholding or deduction shall equal the respective amounts of principal and interest which would otherwise have been receivable in respect of the Notes or Coupons, as the case may be, in the absence of such withholding or deduction; except that no such additional amounts shall be payable with respect to any Note or Coupon:

(a) presented for payment in the Republic of Hungary; or

(b) presented for payment by or on behalf of a holder who is liable for such taxes or duties in respect of such Note or Coupon by reason of his having some connection with a Tax Jurisdiction other than the mere holding of such Note or Coupon; or

(c) presented for payment more than 30 days after the Relevant Date (as defined below) except to the extent that the holder thereof would have been entitled to an additional amount on presenting the same for payment on such thirtieth day assuming that day to have been a business day (as defined in Condition 6.6); or

(d) where such withholding or deduction is imposed on a payment to an individual and is required to be made pursuant to European Council Directive 2003/48/EC on the taxation of savings income or any law implementing or complying with, or introduced in order to conform to, such Directive; or

(e) presented for payment by or on behalf of a holder who would have been able to avoid such withholding or deduction by presenting the relevant Note or Coupon to another Paying Agent in a Member State of the European Union.

References in these Conditions to **principal** and/or **interest** shall be deemed to include any additional amounts that may be payable under this Condition 7 or under any obligations undertaken in addition thereto or in substitution therefor under the Trust Deed.

As used herein:

(i) **Tax Jurisdiction** means the Republic of Hungary or any political subdivision or any authority thereof or therein having power to tax; and

(ii) the **Relevant Date** means the date on which such payment first becomes due, except that, if the full amount of the moneys payable has not been duly received by the Principal Paying Agent or the Trustee on or prior to such due date, it means the date on which, the full amount of such moneys having been so received, notice to that effect is duly given to the Noteholders in accordance with Condition 14.

8. PRESCRIPTION

Claims for payment of principal will become void ten years, and claims for payment of interest will become void five years, after the Relevant Date relating thereto.

9. NON-PAYMENT WHEN DUE

Pursuant to the Hungarian Banking Act, neither the Trustee nor the holders of Notes may initiate winding-up proceedings against the Issuer as a result of the Issuer's failure to make any payment in respect of the Notes.

(a) The Trustee may at its discretion and without further notice institute such proceedings against the Issuer as it may think fit to enforce any term or condition binding on the Issuer under the Trust Deed, the Notes or the Coupons (other than any payment obligation of the Issuer relating to or arising from the Notes, the Coupons and/or the Trust Deed) if the Issuer is in default of such term or condition and fails to remedy such default within 14 days after notice of the same has been given to the Issuer provided that the Issuer shall not by virtue of the institution of any such proceedings be obliged to pay any sum or sums, in cash or otherwise, sooner than the same would otherwise have been payable by it.

(b) The Trustee shall not be bound to institute proceedings and/or take the action referred to in paragraph (a) above to enforce the obligations of the Issuer in respect of the Notes and Coupons or take any action under the Trust Deed unless (i) it shall have been so requested by Extraordinary Resolution (as defined in the Trust Deed) of the Noteholders or in writing by the holders of at least one-fifth in nominal amount of the Notes then outstanding (as defined in the Trust Deed) and (ii) it shall have been indemnified and/or secured to its satisfaction.

(c) No Noteholder or Couponholder shall be entitled to institute proceedings for the enforcement of these Conditions or the Trust Deed, except that if the Trustee, having become bound to proceed against the Issuer as aforesaid, fails to do so within a reasonable period and such failure is continuing, then any such holder may, on giving an indemnity satisfactory to the Trustee, in the name of the Trustee (but not otherwise), himself institute such proceedings and/or take such other action to the same extent (but not further or otherwise) that the Trustee would have been entitled so to do.

(d) No remedy against the Issuer, other than as referred to in this Condition 9, shall be available to the Trustee or any Noteholder or Couponholder whether for the recovery of amounts owing in relation to or arising from the Notes, the Coupons and/or the Trust Deed or in respect of any breach by the Issuer of any of its other obligations relating to or arising from the Notes, the Coupons and/or the Trust Deed.

10. INDEMNIFICATION OF THE TRUSTEE

The Trust Deed contains provisions for the indemnification of the Trustee and for its relief from responsibility, including provisions relieving it from taking proceedings unless indemnified and/or secured to its satisfaction. The Trustee is entitled to enter into business transactions with the Issuer and/or any subsidiary and/or any holding company of the Issuer and/or any other subsidiary of any such holding company without accounting for any profit resulting therefrom.

11. MEETINGS OF NOTEHOLDERS, MODIFICATION, WAIVER AND SUBSTITUTION

11.1 Meetings of Noteholders

The Trust Deed contains provisions for convening meetings of Noteholders to consider any matter affecting their interests, including the sanctioning by Extraordinary Resolution (as defined in the Trust Deed) of any modification of any of these Conditions or any of the provisions of the Notes, the Coupons or the Trust Deed, except that certain provisions of the Trust Deed may only be modified subject to approval by Extraordinary Resolution passed at a meeting of Noteholders to which special quorum provisions shall have applied. Any Extraordinary Resolution duly passed shall be binding on Noteholders (whether or not they were present at the meeting at which such resolution was passed) and on all Couponholders.

11.2 Modification of the Trust Deed

The Trustee may agree, without the consent of the Noteholders or Couponholders, to (a) any modification of any of the provisions of these Conditions or the Trust Deed that is of a formal, minor or technical nature or is made to correct a manifest error or an error which, in the opinion of the Trustee is proven; and (b) any modification, and any waiver or authorisation of any breach or proposed breach, of any of the provisions of these Conditions or the Trust Deed, the Notes or the Coupons that is in the opinion of the Trustee not materially prejudicial to the interests of the Noteholders. Any such modification, authorisation, waiver or determination shall be binding on the Noteholders and the Couponholders and, if the Trustee so requires, shall be notified to the Noteholders as soon as practicable in accordance with Condition 14.

11.3 Substitution

The Trustee may, without the consent of the Noteholders or Couponholders, agree with the Issuer to the substitution in place of the Issuer (or of any previous substitute under this Condition) as the principal debtor under the Notes, the Coupons and the Trust Deed (on a subordinated basis equivalent to that set out in Condition 2.3) of a subsidiary of the Issuer, or a holding company of the Issuer or any other subsidiary of any such holding company, subject to (a) the Trustee being satisfied that the interests of the Noteholders will not be materially prejudiced by the substitution, (b) the prior consent of the Regulator has been obtained and (c) certain other conditions set out in the Trust Deed being complied with.

11.4 Change of Governing Law

In the case of a substitution pursuant to Condition 11.3 the Trustee may in its absolute discretion agree, without the consent of the Noteholders or Couponholders, to a change of the law governing the Notes, the Coupons, the Talons and/or the Trust Deed and/or the Agency Agreement provided that such change would not in the opinion of the Trustee be materially prejudicial to the interests of the Noteholders.

11.5 Entitlement of the Trustee

In connection with the exercise by it of any of its trusts, powers, authorities, or discretions (including, but without limitation, any modification, waiver, authorisation, determination or substitution), the Trustee shall have regard to the general interests of the Noteholders as a class and shall not have regard to any interests arising from circumstances particular to individual Noteholders or Couponholders (whatever their number) and, in particular, but without limitation, shall not have regard to the consequences of such exercise for individual Noteholders and Couponholders resulting from their being for any purpose domiciled or resident in, or otherwise connected with, or subject to the jurisdiction of, any particular territory and the Trustee shall not be entitled to require, nor shall any Noteholder or Couponholder be entitled to claim, from the Issuer, the Trustee or any other person any indemnification or payment in respect of any tax consequence of any such exercise upon individual Noteholders or Couponholders except to the extent already provided for in Condition 7 and/or any undertaking given in addition to, or in substitution for, Condition 7 pursuant to the Trust Deed.

12. REPLACEMENT OF NOTES, COUPONS AND TALONS

If a Note, Coupon or Talon is lost, stolen, mutilated, defaced or destroyed, it may be replaced, subject to applicable laws, regulations and stock exchange or other relevant authority regulations, at the specified office of the Principal Paying Agent or such other place of which notice shall be given in accordance with Condition 14 in each case on payment by the claimant of the expenses incurred in connection therewith and on such terms as to evidence, security and indemnity (which may provide, *inter alia*, that if the allegedly lost, stolen or destroyed Note, Coupon or Talon is subsequently presented for payment or, as the case may be, for exchange for further Coupons, there shall be paid to the Issuer on demand the amount payable by the Issuer in respect of such Note, Coupon or further Coupons) and otherwise as the Issuer may reasonably require. Mutilated or defaced Notes, Coupons or Talons must be surrendered before replacements will be issued. In addition, the Issuer may require the person requesting delivery of a replacement Note, Coupon or Talon to pay, prior to delivery of such replacement Note, Coupon or Talon, any stamp or other tax or governmental charges required to be paid in connection with such replacement. No replacement Note shall be issued having attached thereto any Coupon or Talon, claims in respect of which shall have become void pursuant to Condition 8.

13. FURTHER ISSUES

The Issuer may from time to time without the consent of the Noteholders or Couponholders create and issue further notes having the same terms and conditions as the Notes in all respects (or in all respects except for the first payment of interest on them) and so that such further notes shall be consolidated and form a single series with the Notes. References in these Conditions to the Notes include (unless the context requires otherwise) any other notes issued pursuant to this Condition and forming a single series with the Notes. The Trust Deed contains provisions for convening a single meeting of the Noteholders and the holders of notes of other series in certain circumstances where the Trustee so decides.

14. NOTICES

All notices regarding the Notes to Noteholders will be deemed to be validly given if published (a) in a leading English language daily newspaper of general circulation in London and (b) if and for so long as the Notes are admitted to trading on the Luxembourg Stock Exchange's regulated market and listed on the Official List of the Luxembourg Stock Exchange, a daily newspaper of general circulation in Luxembourg and/or the Luxembourg Stock Exchange's website, www.bourse.lu. It is expected that such publication will be made in the *Financial Times* in London and the *d'Wort* or the *Tageblatt* in Luxembourg. The Issuer shall also ensure that notices are duly published in a manner which complies with the rules of its seat of registration and of any stock exchange or other relevant authority on which the Notes are for the time being listed or by which they have been admitted to trading. Any such notice will be deemed to have been given on the date of the first publication or, where required to be published in more than one newspaper, on the date of the first publication in all required newspapers, and in the case of publication on the website of the Luxembourg Stock Exchange, on the date of such publication.

Couponholders shall be deemed for all purposes to have notice of the contents of any notice given to the holders of the Notes in accordance with this Condition 14.

15. GOVERNING LAW AND JURISDICTION

The Trust Deed, the Notes, the Coupons and the Talons are governed by, and shall be construed in accordance with, English law save in respect of Condition 2 which shall be governed by, and construed in accordance with, the laws of the Republic of Hungary.

The Courts of England are to have exclusive jurisdiction to settle any disputes which may arise out of or in connection with the Trust Deed, the Notes, the Coupons or the Talons (other than any dispute in relation to Condition 2 in respect of which the Courts of Hungary are to have exclusive jurisdiction) and accordingly any legal action or proceedings arising out of or in connection with the Trust Deed, the Notes, the Coupons or the Talons may be brought in such courts.

The Issuer appoints Hungarian International Finance Ltd. at its registered office at 9 King Street, London EC2V 8EA as its agent for service of process, and undertakes that, in the event of Hungarian International Finance Ltd. ceasing so to act or ceasing to be registered in England, it will appoint another person as its agent for service of process in England in respect of any Proceedings. Nothing herein shall affect the right to serve proceedings in any other manner permitted by law.

16. THIRD PARTY RIGHTS

No person shall have any right to enforce any term or condition of the Notes under the Contracts (Rights of Third Parties) Act 1999 but this does not affect any right or remedy of any person that exists or is available apart from that Act.

17. DEFINITIONS

In these Conditions:

Arrears of Interest has the meaning given in Condition 4.1.

Business Day means a day (other than a Saturday or Sunday) on which commercial banks and foreign exchange markets are open for business in Luxembourg and a day on which the Trans-European Automated Real-Time Gross Settlement Express Transfer (TARGET) System is open.

Capital Regulations means the rules and regulations that set out the conditions required to meet the Regulatory Capital Requirements.

Compulsory Interest Payment Date means any Interest Payment Date if, since the date of the last Annual General Meeting of the Issuer, (i) any dividend has been declared or paid or any payment of interest made on any class of share capital of the Issuer (or any other obligations of the Issuer that rank or are expressed to rank junior to the Notes) or any payment has been made in respect of any Parity Securities or (ii) any repurchase or redemption of any class of share capital of the Issuer (or any other obligations of the Issuer that rank or are expressed to rank junior to the Notes) or of any Parity Securities has been made.

First Reset Date means 7 November 2016.

Fixed Interest Rate has the meaning given to it in Condition 3.3.

Fixed Rate Interest Period means the period from (and including) the Issue Date to (but excluding) the First Reset Date.

Floating Interest Amounts has the meaning given to it in Condition 3.5.

Floating Interest Rate has the meaning given in Condition 3.4.

Hungarian Banking Act means Act CXII of 1996 on Credit Institutions and Financial Enterprises.

Interest Determination Date means, in relation to each Interest Period from and including the Interest Period beginning on the First Reset Date, the first day of the relevant Interest Period.

Interest Payment Date means (a) in respect of the period from the Issue Date to (and including) the First Reset Date, 7 November in each year, starting on (and including) 7 November 2007 and (b) after the First Reset Date, 7 February, 7 May, 7 August and 7 November in each year, starting on (and including) 7 February 2017, provided that if any Interest Payment Date after the First Reset Date would otherwise fall on a day which is not a Business Day, it shall be postponed to the next day which is a Business Day, unless it would thereby fall in the next calendar month, in which event it shall be brought forward to the immediately preceding Business Day.

Interest Period means the period beginning on (and including) the Issue Date and ending on (but excluding) the first Interest Payment Date and each successive period beginning on (and including) an Interest Payment Date and ending on (but excluding) the next succeeding Interest Payment Date.

Interest Rate means the Fixed Interest Rate and/or the Floating Interest Rate, as the case may be.

Issue Date means 7 November 2006.

Margin means 3.00 per cent.

Optional Interest Payment Date means any Interest Payment Date which is not a Compulsory Interest Payment Date.

Optional Redemption Date means each Interest Payment Date from and including the First Reset Date.

Parity Securities means any securities which rank or are expressed to rank *pari passu* with the Notes and which are capable of being eligible as Upper Tier 2 Capital or Tier 1 Capital of the Issuer either on a solo or a consolidated basis.

Payment Condition has the meaning given to it in Condition 2.3.

Reference Banks means four major banks in the euro interbank market in the Euro-Zone as selected by the Agent Bank.

Regulator means the Hungarian Financial Supervisory Authority (*Pénzügyi Szervezetek Állami Felügyelete*) which expression shall include any successor to the Hungarian Financial Supervisory Authority (*Pénzügyi Szervezetek Állami Felügyelete*) as the relevant regulator of banks operating in the Republic of Hungary.

Regulatory Capital Requirements means any applicable minimum or notional margin of solvency or minimum capital or capital requirements specified for banks or financial groups applicable to the Issuer.

Senior Creditors means all creditors of the Issuer (including depositors) who are (a) unsubordinated creditors of the Issuer or (b) subordinated creditors of the Issuer other than those whose claims rank or are expressed to rank *pari passu* with or below the claims of the Noteholders.

Tier 1 Capital (*alapvető tőke*) has the meaning given to it by the Hungarian Banking Act from time to time.

Upper Tier 2 Capital (*járulékos tőke*) has the meaning given to it by the Hungarian Banking Act from time to time.

SUMMARY OF PROVISIONS RELATING TO THE NOTES WHILE IN GLOBAL FORM

1. EXCHANGE

The Notes will be represented initially by a Temporary Global Note in bearer form without Coupons or Talons which will be deposited outside the United States with a common depositary for Clearstream, Luxembourg and Euroclear on or about 7 November 2006. The Temporary Global Note will be exchangeable in whole or in part (free of charge to the holder) for interests in a Permanent Global Note in bearer form without Coupons or Talons on or after a date which is expected to be 18 December 2006 (the **Exchange Date**) upon certification as to non-US beneficial ownership as required by US Treasury regulations and as described in the Temporary Global Note. Upon deposit of the Temporary Global Note or the Permanent Global Note (each a **Global Note**) with a common depositary, Clearstream, Luxembourg and Euroclear will credit each subscriber with a principal amount of Notes equal to the principal amount thereof for which it has subscribed and paid.

Each of the persons shown in the records of Clearstream, Luxembourg or Euroclear as the holder of a Note represented by a Global Note must look solely to Clearstream, Luxembourg or Euroclear for his share of each payment made by the Issuer to the bearer of such Global Note, subject to and in accordance with the rules and procedures of Clearstream, Luxembourg or Euroclear (as the case may be).

The Global Notes will contain provisions applicable to the Notes represented thereby, some of which modify the effect of the Terms and Conditions of the Notes. Certain of these are summarised in this section.

For so long as any of the Notes is represented by a Global Note, the bearer of the Global Note may, except as ordered by a court of competent jurisdiction or as required by law, be treated by the Issuer, the Trustee and the Paying Agents as the owner thereof and of all rights thereunder free from all encumbrances (in accordance with and subject to its terms and the Trust Deed) and the expression **Holder** and related expressions shall be construed accordingly. Interests in Notes which are represented by a Global Note will only be transferable in accordance with the rules and procedures for the time being of Clearstream, Luxembourg and/or Euroclear, as the case may be.

If any date on which a payment is due on the Notes occurs prior to the Exchange Date, the relevant payment will be made on the Temporary Global Note only to the extent that certification as to non US beneficial ownership as required by US Treasury regulations (in substantially the form referred to in the Temporary Global Note or in such other form as is customarily issued in such circumstances by the relevant clearing system or depositary) has been received by Clearstream, Luxembourg or Euroclear. Payment of amounts due in respect of the Permanent Global Note will be made through Clearstream, Luxembourg or Euroclear without any requirement for certification.

The holder of the Temporary Global Note shall not (unless, upon due presentation of such Temporary Global Note for exchange (in whole or in part) for interests in the Permanent Global Note, such exchange is improperly withheld or refused and such withholding or refusal is continuing at the relevant payment date) be entitled to receive any payment in respect of the Notes represented by such Temporary Global Note which falls due on or after the Exchange Date.

Interests in the Permanent Global Note will be exchangeable in whole but not in part (free of charge to the holder) for definitive bearer Notes (**Definitive Notes**) if the Permanent Global Note is held on behalf of Clearstream, Luxembourg or Euroclear or an Alternative Clearing System (as defined below) and any such clearing system is closed for business for a continuous period of 14 days (other than by reason of public holidays, statutory or otherwise) or announces an intention permanently to cease business or does in fact do so, by the Holder of the Permanent Global Note giving notice to the Principal Paying Agent and, if applicable, the Issuer of its intention to exchange interests in the Permanent Global Note for definitive Notes on or after the Permanent Global Exchange Date (as defined below) specified in the notice.

On or after the Permanent Global Exchange Date the holder of the Permanent Global Note shall surrender the Permanent Global Note to or to the order of the Principal Paying Agent. In exchange for the Permanent

Global Note, the Issuer shall deliver, or procure the delivery of, an equal aggregate principal amount of duly executed and authenticated definitive Notes having attached to them all Coupons in respect of interest which has not already been paid on the Permanent Global Note and a Talon.

Alternative Clearing System means any such other clearing system as shall have been approved by the Trustee.

Permanent Global Exchange Date means a day falling not less than 60 days after that on which the notice requiring exchange is given and on which banks are open for business in the city in which the specified office of the Principal Paying Agent is located.

In the event that a Global Note is exchanged for Definitive Notes, such Definitive Notes shall be issued in the denominations of EUR 50,000 only. Noteholders who hold Notes in the relevant clearing system in amounts that are not integral multiples of EUR 50,000 may need to purchase or sell, on or before the Permanent Global Exchange Date, a principal amount of Notes such that their holding is an integral multiple of EUR 50,000.

2. PAYMENTS

Principal and interest in respect of the Permanent Global Note shall be paid to its holder against presentation and (if no further payment falls to be made on it) surrender of it to or to the order of any Paying Agent which shall endorse such payment or cause payment to be endorsed in the appropriate schedule to the Permanent Global Note. A record of each payment so made will be endorsed in the appropriate schedule to the Permanent Global Note which endorsement shall be *prima facie* evidence that such payment has been made in respect of the Notes. No person shall however be entitled to receive any payment on the Permanent Global Note falling due after the Permanent Global Exchange Date, unless exchange of the Permanent Global Note for definitive Notes is improperly withheld or refused by or on behalf of the Issuer. Condition 7(c) of the Notes will apply to the Definitive Notes only.

3. NOTICES

So long as the Permanent Global Note is held on behalf of Clearstream, Luxembourg or Euroclear or an Alternative Clearing System and the rules of any stock exchange on which the Notes are admitted to trading permit, notices required to be given to Holders may be given by their being delivered to Clearstream, Luxembourg and/or Euroclear or, as the case may be, the Alternative Clearing System, rather than by publication as required by the Terms and Conditions of the Notes. Any notice delivered to Clearstream, Luxembourg and/or Euroclear and/or, as the case may be, the Alternative Clearing System shall be deemed to have been given to the Holders on the day on which such notice is so delivered.

4. MEETINGS

The holder of the Permanent Global Note shall be treated at any meeting of Holders as having one vote in respect of each EUR 1,000 of the Notes.

5. PURCHASE AND CANCELLATION

Cancellation of any Note represented by the Permanent Global Note which is required by the Terms and Conditions of the Notes to be cancelled will be effected by reduction in the principal amount of the Permanent Global Note.

6. TRUSTEE'S POWERS

In considering the interests of Holders in circumstances where the Permanent Global Note is held on behalf of any one or more of Clearstream, Luxembourg, Euroclear and an Alternative Clearing System, the Trustee may have regard to such information as may have been made available to it by or on behalf of the relevant clearing system or its operator as to the identity of its accountholders (either individually or by way of category) with entitlements in respect of the Permanent Global Note and may consider such interests on the basis that such accountholders were the holder of the Permanent Global Note.

7. TRADEABLE AMOUNTS

So long as the Notes are represented by the Temporary Global Note and/or the Permanent Global Note and the relevant clearing systems so permit, the Notes shall be tradeable only in principal amounts of at least EUR 50,000 and integral multiples of EUR 1,000 above EUR 50,000.

USE OF PROCEEDS

The net proceeds from issue of the Notes amounting approximately to EUR 494,725,000 will be applied by the Issuer for acquisition purposes. The total expenses related to the admission to trading are estimated to be EUR 20,000.

DESCRIPTION OF THE ISSUER

CAPITALISATION OF OTP BANK NYRT.

The following table shows the non-consolidated and consolidated audited capitalisation of OTP Bank Nyrt. (the **Bank**) as at 31 December 2005 extracted from the Bank's audited financial statements for the financial year ended 31 December 2005:

	31 December 2005 *(in HUF billion)* *(IFRS, non-consolidated)*	**31 December 2005** *(in HUF billion)* *(IFRS, consolidated)*
Short-term liabilities	2,685.2	3,691.6
Long-term liabilities	434.4	976.8
Total liabilities	3,119.6	4,668.4
Share Capital	28.0	28.0
Retained Earnings and Reserves	486.1	572.6
Treasury Shares	(40.8)	(53.6)
– Minority Interest	–	0.5
Total shareholders' equity	473.3	547.5
Total Capitalisation	3,592.9	5,215.9

HISTORY

The legal name of OTP Bank Nyrt. (the **Bank** or **OTP Bank**) is Országos Takarékpénztár és Kereskedelmi Bank Nyilvánosan Működő Részvénytársaság. The Bank also operates under the commercial name of OTP Bank Nyrt., which translates into English as OTP Bank Plc. The Bank has its registered office at Nádor utca 16., 1051 Budapest, Hungary, telephone number: +36 1 298 4351. The Bank was registered with the Metropolitan Court of Budapest on 28 November 1991 as a company limited by shares (részvénytársaság) under registration number Cg 01-10-041585. The Bank was founded for an indefinite period. The Bank operates under Hungarian law, in particular Act CXII of 1996 on credit institutions and financial enterprises and Act CXX of 2001 on the capital markets.

The Bank is a universal credit institution (i.e. carrying out both financial services and investment services activities) and is also the principal member of the OTP Group of companies (the **Group** or the **OTP Group**).

The National Savings Bank, the predecessor of the Bank, was established in 1949 as a nationwide, state-owned banking entity providing current and savings account services and loans. In the ensuing years, the Bank's activities and the scope of its authority were gradually widened to include housing loans and, later, the management of retail foreign currency accounts and foreign exchange services as well as banking services for Hungarian municipal governments.

Since 1989, the Bank has operated as a multi-functional commercial bank, providing deposit account services and loans, not only to retail customers and municipal governments, but also to businesses through its commercial loan and deposit account services, as well as other banking services such as interbank and export-import transactions.

In 1990, the Bank was converted from a state corporation into a company with limited liability with HUF 23 billion share capital and with the Hungarian government maintaining 100 per cent. ownership. Subsequently, non-banking activities were separated from the Bank, along with their supporting organisational units.

The Bank's privatisation began in 1992 with the conversion of shares representing 5 per cent. of the registered capital of the Bank into dividend preference shares and the sale of those shares to retail investors in Hungary. At the beginning of 1994, another block of shares representing 20 per cent. of the registered capital of the Bank, was sold to retail investors through the issue of compensation notes. In April 1994, the Ministry of Finance increased the share capital of the Bank by HUF 5 billion so that the total share capital of the Bank became HUF 28 billion. During 1994 and 1995, shares representing 22 per cent. of the registered capital of the Bank were transferred to social security funds and local municipalities, which meant that the government's direct holding of the Bank decreased to 58.43 per cent. In 1995, the Hungarian Privatisation and State Holding Company sold a block of shares representing 33.43 per cent. of the Bank's total share capital to international institutional investors through a private placement to the Hungarian public by way of a public offering and to the Bank's management and employees through an employee share option plan (ESOP). It thus reduced the Hungarian State's shareholding to 25 per cent. plus one share of the total share capital of the Bank. Following the sale, the shares were listed on the Budapest Stock Exchange and the global depositary receipts (GDRs) then issued were listed on the Luxembourg Stock Exchange and were quoted on SEAQ International. In 1997, the Bank issued a single voting preference share of HUF 1,000 face value (a "golden share") to the Hungarian State and, following a secondary offering in October 1997 to international institutional and domestic retail investors, the state's ownership in the Bank decreased to one golden share. In 1998, the Hungarian Government took over the assets of social security funds (such assets including shares in the Bank) and instructed the Hungarian Privatisation and State Holding Company to sell the shares. In October 1999, the Hungarian Privatisation and State Holding Company sold the shareholding the government had received in 1998. This shareholding comprised 3,946,562 OTP Bank shares and represented 14.7 per cent. of the registered capital. The shares were sold to domestic and international institutions as well as to domestic retail investors. As a result, the state's ownership in the Bank again decreased to one golden share.

Following the initial public offering in 1995, the Bank acted to consolidate its market position and to increase profitability through the implementation of measures designed to increase efficiency. These included streamlining operations and headcount, improving product offering and pricing and focusing on customer relations and satisfaction. The Bank has not only maintained a leading position in the Hungarian banking market, but has redefined itself as a full service financial and related services group.

The main subsidiaries of the Bank include OTP-Garancia Insurance Ltd., OTP Real Estate Ltd., OTP Faktoring Ltd., OTP Building Society Ltd., HIF Ltd., Merkantil Bank Ltd. and Merkantil Car Ltd., as well as OTP Fund Management Ltd., OTP Mortgage Bank Ltd., OTP Banka Slovensko, DSK Bank (Bulgaria), OTP Banka Hrvatska, OTP Bank Romania, Niska Banka.

Recent Developments

In 2002, the Bank started to supplement organic growth with acquisitions, particularly within the Eastern European region. Initially, the Bank acquired Slovakia's IRB Bank in 2002, which was followed by the acquisition of Bulgaria's DSK Bank in 2003; Romania's RoBank in 2004 and Croatia's Nova banka in 2005, and Niska Banka in Serbia in March 2006. The Bank has three ongoing acquisitions in progress, (i) the purchase of Raiffeisenbank Ukraine, (ii) the purchase of a 96.4 per cent. share package in the Russian Investsberbank Group (approved by the Central Bank of the Russian Federation 19 October 2006) and (iii) the purchase of Crnogorska komercijalna banka AD in Montenegro.

(i) Raiffeisenbank Ukraine

According to the extraordinary announcement of the Issuer dated 1 June 2006, OTP acquired Raiffeisenbank Ukraine. Representing the buyer OTP Bank, Chairman and CEO Dr. Sándor Csányi and Deputy CEO László Wolf, and representing the sellers Raiffeisen International Bank-Holding AG and Raiffeisen Zentralbank Österreich AG, Dr. Herbert Stepic, CEO of Raiffeisen International and Jeffrey Millikan, CIS Managing Director of Raiffeisen International signed the sale and purchase agreement for the acquisition of a 100 per cent. stake in Raiffeisenbank Ukraine (RBUA), the 100 per cent. subsidiary of Raiffeisen International Bank-Holding AG. In accordance with the document signed in Vienna, OTP Bank will pay a purchase price of EUR 650 million for the bank. The purchase price is based on RBUA's current and potential value, and on the favourable growth potential of the Ukrainian banking market.

Kyiv-based RBUA was founded on 2 March 1998 as the subsidiary of Raiffeisen International Bank-Holding AG, which is majority-owned by Raiffeisen Zentralbank Österreich AG. Based on its end-2005 total assets of EUR 1.2 billion, RBUA has a market share of 3.6 per cent. and is Ukraine's seventh largest bank. The bank had shareholders' equity capital of EUR 139 million and pre-tax profit of EUR 39.7 million at the end of last year.

The bank had around 1,900 large corporate and 3,600 SME clients as of end 2005. Its market share was 3.6 per cent. and 4.0 per cent. in corporate deposits and corporate loans, respectively, while the bank's corporate loans totalled EUR 690 million. RBUA's retail deposits totalled EUR 173 million at the end of last year, implying a market share of 1.6 per cent. Its retail loans totalled EUR 302 million, implying an over 5 per cent. market share. The bank, which has some 1,700 employees, serves its clients via 42 branches and 17 representative offices as per end of April 2006.

The closing of the transaction and the transfer of the purchase price will happen in possession of the necessary governmental approvals, expectedly in the autumn of 2006. After closing, OTP will focus on the integration and transformation of the bank, and will start to coordinate the IT systems and develop the products and services.

Following the acquisition of Raiffeisenbank Ukraine, OTP Bank wants to further strengthen its positions via acquisitions, besides organic growth in Ukraine, where 166 banks operate according to the most recent data of the National Bank of Ukraine. At the end of last year Ukraine's banking sector's aggregated total assets/GDP ratio was around 50 per cent., which allows a significant growth potential. OTP Bank's aim in Ukraine – with Ukraine rated Ba3 with stable outlook by Moody's – is to provide full range of financial services to both retail and corporate clients. In order to achieve this, OTP Bank plans to build a banking group, just like in other countries where it is present.

(ii) Investsberbank Group

Representatives of the private individuals and legal entities selling a 96.4 per cent. share package of the Investsberbank Group and Dr. Sándor Csányi, Chairman – Chief Executive Officer and László Wolf, deputy CEO, representing the buyer OTP Bank, signed the sale and purchase agreement in Moscow, the capital of the Russian Federation. The share sale and purchase agreement, signed on 3 July 2006, contains the price, as well as all important terms and conditions and guarantees of the transaction.

OTP Bank is expected to transfer to the sellers 90 per cent. of the USD 477 million (EUR 373 million) purchase price of the 96.4 per cent. share package of the Investsberbank Group, headquartered in Moscow, in possession of the required Russian and Hungarian regulatory approvals at the closing of the transaction, in the autumn of 2006, while 10 per cent. will be deposited for a term of one year to cover any guarantee claims.

The project took several months to complete and a detailed analysis and due diligence had been conducted before the transaction with the participation of OTP Bank's acquisition team, advisors of the credit institution, PriceWaterhouseCoopers as the auditor, and representatives of Baker&McKenzie law office as legal counsel.

The Investsberbank Group consists of three banks: Investsberbank, seated in Moscow, Promfinservicebank, seated in Novorossiysk, acquired by Investsberbank in 2000, and Omskpromstroibank, seated in Omsk, acquired in 2004.

With its EUR 979.5 million balance sheet total, the Investsberbank Group is among the first 50 banks in the Russian market comprising over 1,200 participants. Its shareholders' equity is EUR 101.5 million, and it closed the 2005 business year with EUR 9.1 million in profit before taxation.

The activities of the privately owned universal banking group cover approximately 80 per cent. of the territory of Russia. In 2005, the EUR 614.6 million loan portfolio increased by nearly 86 per cent. compared to the previous year, and the EUR 727.4 million deposit portfolio also shows a strong growth dynamics.

OTP Bank considers the purchase price to be reasonable, reflecting the current market value of the Investsberbank Group and the potential business value based on the intensive growth outlook of the economy of the Russian Federation.

(iii) Crnogorska komercijalna banka AD

A sale and purchase agreement for the 100% share package of Crnogorska komercijalna banka AD was signed in Podgorica, the capital of Montenegro on 29 August 2006 by the representatives of the companies selling the credit institution and Chairman-CEO Dr. Sándor Csányi and Deputy CEO László Wolf on behalf of the OTP Bank as buyer.

In addition to the purchase price, the document sets out all the essential conditions and guarantees of the deal.

The EUR 105 million purchase price for the 100% share package of Crnogorska komercijalna banka AD will be paid upon the final closing of the deal scheduled for end-2006.

The deal was preceded by comprehensive in-depth analyses and due diligence spanning several months, and involving the OTP Bank's acquisition working group as well as consultants, including Deloitte Touche Tomatsu as financial advisor and the representatives of Berecz&Andrékó Linklaters Law Office as legal counsellors. The sellers were advised by KPMG on the financial side and Weil, Gotshal&Manges Law Firm as legal advisers.

Crnogorska komercijalna banka AD was founded by 28 small and medium-sized companies as greenfield investment in 1997. The balance sheet total of the credit institution as at end-2005 amounted to EUR 303.3 million, translating into a 44% market share. The bank, with an original focus on the SME sector, provides a wide spectrum of services for both corporate and retail customers and is, unequivocally, a dominant market player in all business lines.

The bank's equity, which has been increasing steadily, stood at EUR 19.3 million at end-2005. EUR 3.025 million was posted in after-tax profit in the 2005 fiscal year, which represented 54.6% growth. The EUR 161.2 million customer loan portfolio increased by 87.4% in 2005 on a year earlier. An even more robust, 141.5% rise was experienced in its EUR 248.1 million customer deposit portfolio. Crnogorska komercijalna banka AD services its approximately 150 thousand customers through a network of 33 units and via electronic channels.

Although the market leader Montenegrian bank is headquartered in Podgorica, approximately 25% of its loans and deposits are linked to the coastal region, which is of key importance, given that an increasingly dynamic tourism industry has come to play an important role in the country's economy.

In the OTP Bank's opinion, the purchase price is realistic, reasonable, value-proportionate and reflects both the current market value of Crnogorska komercijalna banka and the potential business value based on the anticipated development of Montenegro's economy.

Further to the above three ongoing acquisitions, the Bank submitted a binding bid for 69.9 per cent. of the shares in CEC, Romania on 17 July 2006 and at the date of this Prospectus the Bank is in the final round of the bid procedure.

In addition, on 15 September 2006 the Bank also submitted a binding bid for the acquisition of a 100 per cent. share package of Croatia-based Diners Club Adriatic d.d. (**DCA**). DCA, founded in 1992, has licences via its subsidiaries in the CEE region where OTP Group has presence. DCA's market share in the Croatian credit card market currently approaches 30 per cent., while the number of cards issued by the company is near 440,000.

STRATEGY

The Group's business strategy focuses on the maximisation of shareholder value through the development of the most efficient, retail-focused universal bank in Central and Eastern Europe. The objective of the Group is to achieve an outstanding financial performance comparable to that of European banks.

The Group endeavours to offer customised, constantly improving services to its customers through innovation and strengthening its services.

In order to create value, it is essential to rationalise operational processes and to improve the operational and cost efficiency of the members of the Group. Synergistic effects within the subsidiaries can be achieved by harmonised developments and integration of several activities within the Hungarian and the international groups.

Highly qualified staff are indispensable in order to achieve the Bank's and the Group's objectives. Therefore the creation and containment of a well-prepared sales-oriented and loyal administrative workforce is of outstanding importance in the Bank's strategy, as is the creation of personalised careers in order to retain talented professionals.

Some of the main financial targets of the Group are to:

- retain its position as the market leader in Hungary and Bulgaria and improve its position in other countries;
- achieve above 25 per cent. return on average equity (ROAE) each year; and
- reduce cost/income ratio below 50-53 per cent.

BRIEF DESCRIPTION OF THE GROUP'S ACTIVITIES AND RESULTS

Financial Highlights (consolidated, in accordance with IFRS) for the financial years ended 31 December 2004 and 31 December 2005.

Profit and Loss Account	2004	2005	Change %
		(in HUF mn)	
Net interest income	260,889	297,225	13.9
Net interest income after provision	244,841	269,183	9.9
Non-interest income	161,769	216,497	33.8
Total income (with net fees)	402,070	493,792	22.8
Operating cost	229,998	273,673	19.0
Profit before tax	156,024	192,077	23.1
Profit after tax	131,518	158,274	20.3

Balance Sheet*	2004	2005	Change %
		(in HUF bn)	
Total assets	4,162.4	5,215.9	25.3
Loans and advances to customers	2,586.1	3,297.2	27.5
Retail loans	1,547.4	1,965.8	27.0
Corporate loans	920.6	1,195.4	29.8
Municipal loans	118.1	136.0	15.2
Interbank loans and advances	286.2	438.8	53.3
Deposits from customers	2,902.2	3,428.2	18.1
Retail deposits	2,155.8	2,562.9	18.9
Corporate deposits	549.8	662.2	20.4
Municipal deposits	196.5	203.1	3.4
Issued securities	317.2	543.5	71.3
Total receivables	2,586.1	3,297.2	27.5
Performing loans	2,284.7	2,876.5	25.9
Qualified loans	301.4	420.7	39.6
Non-performing loans (NPLs)	90.7	119.1	31.3
Provisions for possible loan losses	79.3	105.9	33.5
Shareholders' equity	433.7	547.5	26.2

Performance Ratios	2004	2005	Change %
Cost/income ratio, %	57.2	55.4	(1.8)
Return on average assets (ROAA), %	3.45	3.38	(0.07)
Capital adequacy ratio* (unconsolidated, HAR), %	11.2	10.6	(0.6)
Undiluted Earnings per Share	HUF 501	HUF 603	HUF 102
Diluted Earnings per Share	HUF 499	HUF 599	HUF 100

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

* as at December 31

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

In 2005 the volume of the Group's customer loans and customer deposits grew, the Group's income increased, its operating efficiency improved, and the Bank's after-tax profit increased – despite an unfavourable change in taxation.

The Group's financial performance in 2005

For the year ended 31 December 2005, the Group's consolidated after-tax profit based on IFRS was HUF 158.3 billion, up by 20.3 per cent. compared to the previous year and 19.2 per cent. more than the Bank's unconsolidated pre-tax profit for the same period. In 2005, the Bank's consolidated return on average assets (ROAA) and its consolidated return on average equity (ROAE) was 3.38 per cent. and 32.3 per cent., respectively, (in 2004: 3.45 per cent. and 35.3 per cent.).

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

As of 31 December 2005, the aggregate balance sheet total of those members of the Group that conduct banking activities (the Bank, Merkantil Bank, OTP Building Society Ltd. and OTP Mortgage Bank) represented 24.1 per cent. of the balance sheet total of the entire Hungarian credit institution sector (i.e. based on the Annual Report, and Statistical Annexes, 2005, published by the Hungarian Financial Supervisory Authority, and audited 2005 reports of the Bank).

The Bank was the largest contributor to the consolidated balance sheet total and profits for the year ended 31 December 2005. Its income grew 22.8 per cent. compared to the prior year. The Bank also retained its position as the most profitable bank in Hungary in absolute terms (based on the Annual Report and Statistical Annexes, 2005, published by the Hungarian Financial Supervisory Authority, and audited 2005 reports of the Bank). For the year to 31 December 2005 its after-tax earnings accounted for 43 per cent. of the Hungarian banking sector's aggregate total after-tax profit (based on the Annual Report, and Statistical Annexes, 2005 published by the Hungarian Financial Supervisory Authority, and audited 2005 reports of the Bank) and in terms of ROA and ROE, it ranked as the leading bank in Hungary.

Of its Hungarian subsidiaries, OTP Garancia Insurance achieved the following results in 2005: its gross premium income grew by 36 per cent. and its after-tax profit by 97 per cent. The Merkantil Group increased its loan portfolio by more than 33 per cent. despite a stagnating vehicle sales market, and the aggregate total after-tax profit of Merkantil Group members grew by more than 67 per cent. in 2005. The net asset value of investment funds managed by OTP Fund Management grew by close to 50 per cent. compared to year-end 2004, and its after-tax profit was 39 per cent. more than in the period to 31 December 2004. The assets and number of investors in OTP Funds increased considerably, and OTP Funds' share of household deposits exceeded 20 per cent. at the end of 2005.

The international subsidiaries also achieved considerable growth. In 2005 DSK Bank's loan portfolio grew by 41 per cent., its deposit portfolio by 31 per cent., and its after-tax profit by more than 38 per cent. The number of debit cards issued exceeded 900,000, and DSK Bank's sales network and electronic services were strengthened.

The loan portfolio of the Slovakian OBS grew by 41 per cent., its deposit portfolio by 8.5 per cent., and its after-tax profit was almost three times as high as in 2004.

The Bank's Romanian subsidiary, OTP Bank Romania, launched its retail services and expanded its branch network by the addition of 13 new branches. By year-end 2005 the number of OBR branches had grown from 14 at the end of 2004 to 27.

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

Number of customers, sales network and headcount at the Group

As of December 2005 the Bank and its foreign subsidiaries had approximately 9.7 million customers in five countries in the region. As of 31 December 2005 the Bank had approximately 4.8 million customers, consisting of approximately 4.6 million retail customers, 196,000 micro and small businesses, more than 19,000 medium-sized companies and large corporations, and approximately 2,400 municipal customers. The total number of customers of the Group's foreign subsidiaries was in excess of 4.9 million, more than 4.6 million of whom were retail customers. Among the international subsidiaries, DSK Bank had more than 4.2 million customers as at 31 December 2005.

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

As of 31 December 2005, the Group employed 17,977 people, which is 1,004 more than in the same period last year. The principal reason for this growth in headcount was the acquisition of the Croatian subsidiary. However, the acquired banks are undergoing rationalisation and consolidation which is expected to result in a reduced headcount, nevertheless, the launch of new divisions in Romania and the establishment of financial groups at the other foreign subsidiaries will result in headcount growth. Approximately one-third of the Group's employees work outside Hungary, while close to two-thirds work for the Hungarian members of the Group, of whom 7,899 are employed by the Bank.

The Bank's principal markets

The Bank is a universal bank with strong retail focus. Since the mid-1990s, it has gradually developed a fully-fledged financial servicing group around its core banking business. Its subsidiaries include an insurance company, fund management, car financing, factoring, leasing, building society and mortgage bank operations. The Bank has got a wide network of branches (408) having a nationwide presence, operating a large number of ATMs.

The Group is a strong participant in the Hungarian banking sector, representing 25.8 per cent. of total assets, 20.7 per cent. of total loans and 25.1 per cent. of total deposits. Within the retail segments its market position is even more significant comprising 35.9 per cent. of retail loans, 46.4 per cent. of housing loans and 34.7 per cent. of retail deposits. While its mainstream revenue generation is connected to the retail activity (housing loans, consumer loans, site and term deposits), the Bank is the main partner of around 70 per cent. of the local authorities (its market share in municipality loans was nearly 53 per cent., and 63.3 per cent. in deposits, respectively). Also, the Bank is one of the major players of the corporate sector.

Within the Group, the Bank is the major contributor both in terms of total assets (69 per cent.) and net earnings (68.7 per cent.).

In 2002 the Bank started its regional acquisition drive, and until the date hereof, it has acquired banks in Slovakia, Bulgaria, Croatia, Romania, the Ukraine and Russia.

Main developments in the Bank in 2005

During 2005 the Bank continued to implement large-scale capital projects aimed at strengthening its competitiveness, rationalising and streamlining operations, cutting costs and improving the quality of services. The Bank also followed up on the many initiatives that had been started in 2004.

Work on the framework of the START Project, intended to promote sales and improve branch processes has continued with demonstrable results. Customer satisfaction surveys conducted by GFK Hungária Market Research Institute confirm that the quality of customer service has improved and waiting times have been shortened. The Bank's experts continue to improve the system in response to ongoing feedback.

The Bank continued its Basel II project and commenced its IFRS project. Since October 2004 the Bank has completed the majority of tasks required under its Basel II Implementation Project for its launch in 2007 and for approval by the Hungarian Financial Supervisory Authority. The objective of the IFRS project is to establish and introduce consolidated IFRS accounting and controlling procedures as well as a settlement system.

In addition, the Bank has implemented systems that make the provision of mandatory data by the Bank considerably simpler. The Mandatory Report Preparation System (**MRPS**) enables the Bank to produce reports for the supervisory authority automatically using uniform procedures. Activities that had previously been performed manually have become automated. Manual data input is supported by a controlled interface, and general ledger reconciliation has been expanded with the result that employee time has been freed for other tasks.

In 2005 the Interest system that had been used for handling securities was replaced by the CLAVIS system.

In 2005 the Bank continued to improve its electronic banking systems and a number of additional features were added to the system (e.g. credit card bank statements can be downloaded retroactively). In connection with this, the MiddleWare and Base24 systems, providing support for the sales channels and card systems, were also improved.

Bank card systems were also enhanced: the operational system supporting ATMs was upgraded and its functionality increased. The new developments ensure consistent availability of the services offered by ATMs.

In order to develop and improve the efficiency of its agency sales network, the Bank launched the Partner Project in 2005. The first phase of this project involved identifying the areas to be improved (capacity utilisation, product offering, customer relations, and the system of staff incentivisation, training and support). The implementation phase was commenced in the autumn of 2005, and the first campaigns were launched with an expanded selection of products.

In addition, improvements have been made to several of the Bank's IT systems. These systems and the connections they provide enable the Bank to be prepared to respond to market challenges both in terms of information and infrastructure.

Main developments in the Bank in the first half of 2006[1]

Consolidated earnings before tax reached HUF 111.1 billion, HUF 18.6 billion higher than in the base period 2005 (+20.2 per cent.), after tax profit grew by HUF 16.5 billion (+21.6 per cent.) amounting to HUF 92.9 billion. Interest revenues increased by 8.1 per cent. and were HUF 246.6 billion, while interest expenditures grew by 19.1 per cent. and reached HUF 102.1 billion. Net interest income only slightly exceeded the base period (+1.5 per cent.), however the swap adjusted dynamism was significantly higher (13.5 per cent.) given the negative result of net swap (HUF 12.6 billion).

Provisions for loan losses amounted to HUF 9.3 billion, 28 per cent. less than a year ago. Non-interest type revenues grew (+41.2 per cent.) and were close to HUF 136 billion, the growth of non-interest expenditures was more moderate (20.1 per cent.) at HUF 160 billion. Within total revenues of HUF 280 billion, the share of non-interest type revenues grew to 48.5 per cent. against 40.4 per cent. in the base period.

The dynamic growth of the loan portfolio was accompanied by a moderate weakening of the loan book quality: the portion of qualified loans grew from 12.4 per cent. to 13.7 per cent., within that the ratio of non-performing loans picked up more significantly reaching 4.2 per cent. versus 3.3 per cent. a year ago. The cost of risk on the other hand dropped to 53 basis points (2005 1H: 0.93 per cent.) The cost to income ratio increased slightly by 0.5 per cent. reaching 54.8 per cent.. The return-on-assets was 3.39 per cent. (-6 basis points), the return-on-equity was 32.5 per cent. (-1.2 per cent.). Equity-per-share stood at HUF 359, the diluted one was HUF 358, by HUF 68 and HUF 67 higher than a year ago.

1 The data provided in this section are based on the non-audited 2006 Second Quarter Stock Exchange Report of the Bank.

As at 30 June 2006 the consolidated IFRS total assets of the Bank were HUF 5,735 billion, representing a HUF 1,042 billion or 22.2 per cent. growth over the same period a year earlier. Consolidated IFRS total assets were 45 per cent. higher as at 30 June 2006 than the non-consolidated figure. The balance sheet grew by HUF 290 billion or 5.3 per cent. during the second quarter of 2006.

On the liability side, customer liabilities were HUF 3.715 billion, 18.1 per cent. higher than a year earlier. Customer deposits grew by HUF 197.2 billion or by 5.6 per cent. from the end of the first quarter. Customer deposits represented 64.8 per cent. of total liabilities (67 per cent. as at 30 June 2005). Out of total 20.8 per cent. of deposits came from corporate; 73.7 per cent. from retail and 5.4 per cent. from municipality sector customers.

The Bank's consolidated shareholders' equity on 30 June 2006 was HUF 598.7 billion, HUF 122.4 billion or 25.7 per cent. higher than the consolidated shareholders' equity as at 30 June 2005, and 24.9 per cent. higher than the unconsolidated shareholders' equity. During the second quarter of 2006 the consolidated shareholders' equity increased by HUF 59.7 billion. The shareholders' equity represented 10.4 per cent. of total assets. Book value per share (BVPS) amounted to HUF 2.287 as at 30 June 2006.

Gains made in the Bank's profit and loss account which are due to foreign exchange operations have been on the whole offset by losses on interest rate swaps.

Balance sheet events after the first half of 2006

- On 3 July 2006 the Bank announced the purchase of Investsberbank, Russia. The price for 96.4 per cent. of shares was USD 477 million (EUR 373 million). Structural changes in the management of Investsberbank are currently planned.
- On 5 July 2006 the Bank purchased the remaining 25 per cent. of shares in SCD Group, thus becoming the owner of 100 per cent. of shares in OTP-SCD Leasing Plc. The company is prominent in the Hungarian housing leasing market.
- As a next step in its Serbian acquisition, the Bank purchased 76 per cent. of shares in Kulska banka. The price was EUR 118.6 million.
- On 17 July 2006 the Bank submitted a binding bid for 69.9 per cent. of shares in CEC, Romania.
- Based on the notification received on 27 July 2006, Julius Baer Investment Management LLC (New York) acquired ownership of shares above 5 per cent.; their current holding is 5.57 per cent.
- On 29 August 2006 the Bank announced the purchase of 100 per cent. share package of Crnogorska komercijalna banka AD.
- Pursuant to the extraordinary announcement of Kafijat Kereskedelmi és Consulting Kft. (registered seat: 1023 Budapest, Felhévízi u. 24., Hungary) dated 15 September 2006, the companies owned by Mr. Megdet Rahimkulov and his close relatives acquired 5.294 per cent. of indirect influence in the Bank through stock exchange transactions.
- The Bank will in the near future utilise the majority of its treasury shares to support the financing of its recent acquisitions. The Bank issued the following extraordinary announcement in connection with this plan on 19 October 2006.

"October 19, 2006

Extraordinary announcement

Offer of Income Certificates Exchangeable for Shares

OTP Bank Plc. hereby announces that OTP Bank sold 14.5 million shares owned by OTP Group through an issue of Income Certificates Exchangeable for Shares ("ICES"). Within the transaction 10 million shares owned by OTP Bank, and 4.5 million shares owned by OTP Fund Management Ltd. were sold during the underwriting period of ICES on the weighted average market price (HUF 7,080) of the Budapest Stock Exchange. Following the transaction the number of shares owned by OTP Bank is 190,888, the number of shares owned by OTP Fund Management is 390,010.

The shares have been purchased by Opus Securities S.A., which issued exchangeable bonds with a total face value of EUR 514,274,000 backed by those shares.

The exchangeable bonds have been sold at 32% premium over the selling price of the shares. The EUR denominated exchangeable bonds are without final maturity and the investors can exercise the conversion right between the 6th and 10th year. The bonds are carrying fix cupon of 3.95% during the first 10 years thereafter the Issuer has the right to buy back the bonds at face value. Following the 10th year the bonds are carrying a cupon of 3 month Euribor +3%.

Settlement of the issue is expected to take place on October 31, 2006. Merrill Lynch International was acting as the sole book runner and lead manager of the transaction. Application will be made for the ICES to be listed on the Luxembourg Stock Exchange on or following the Issuance Date. The ICES were offered as a private placement to institutional investors.

Proceeds from the transaction are partially going to finance the purchase of Investsberbank and Raiffeisenbank Ukraine. Remaining portion of the purchase price of those transactions is going to be covered with the issuance of an annuity type upper Tier 2 transaction in the near future.

OTP will focus its attention on the consolidation of the acquired assets throughout 2007.

OTP Bank Plc."

Trend information

In 2005 decreasing inflation created further room for the National Bank of Hungary (**NBH**) to cut rates. In total, NBH lowered rates by 350 basis points last year, which caused significant pressure on margins. Because of its mix of products the Bank has been able to offset this with higher loan volumes moderating the drop in net interest margins.

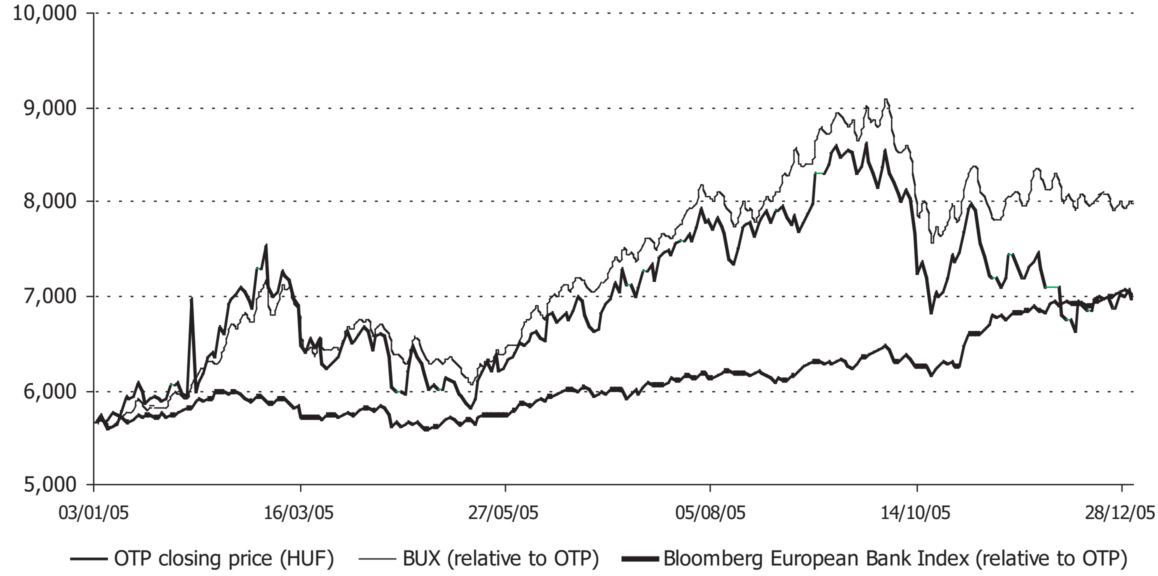
An increase in global rates and domestic inflation has led to an increase in domestic official rates since June 2006, prompting the NBH to increase interest rates by 200 basis points to 8 per cent. effective from 25 October 2006. In line with expectations reflected by the yield curve, a further 50 basis points increase in official interest rates is likely in the remainder of the year. For the first half of 2007 the Bank anticipates a flat interest rate environment, followed by cuts of 100 basis points in the second half of the year.

Intensifying competition will continue to put pressure on interest rate margins and the NIM (Net Interest Margin) of the Bank is expected to decrease in 2006 compared to 2005. However, loan volume is expected to show strong, double-digit growth, especially in the case of retail products. Net interest income, and net fees and commission earnings are expected to grow further as volume growth offsets the negative impact of declining interest rate margins.

In July 2006, the Hungarian Parliament approved an "austerity package" in order to restore fiscal equilibrium within Hungary. One-off tax measures, as well as the indirect effects thereof may put pressure on the underlying business through lower volumes and also, on earnings. The announced acquisitions in the Ukraine, Russia and Serbia will also influence the Bank's mid-term strategic goals. In 2006 the net impact of those developments are neutral and the management believes that the Bank will achieve its original earning targets of HUF 185 billion. In 2007 the consolidated profit after tax may move upwards as a result of incorporating the profit and loss accounts of the newly-acquired banks, despite of the negative impact of fiscal tightening.

Share price in 2005

The increase in the price of the Bank shares in the past years has been greater than that of the share prices of many eastern and western European banks. In 2005 the price of the Bank's shares increased by 25.1 per cent. to HUF 6,967 at year-end, while the BUX, the share index of the Budapest Stock Exchange, increased by 41 per cent. in the same period. The market value of the Bank's shares had risen to HUF 1,950 billion or EUR 7.7 billion by the end of December 2005. Up until the autumn of 2005, the Bank's share price outperformed the benchmark indices; however, in the autumn – primarily due to investors' assessment of the emerging economics and of Hungarian macroeconomic performance in particular – the share price underperformed its benchmarks (BUX Index and Bloomberg European Bank Index). In 2005 the price of the Bank's shares had grown by a factor of almost 61 (in forint terms) since the initial listing in August 1995.



The price of OTP Bank shares in 2005

MANAGEMENT

Board of Directors

Under Hungarian law, the Board of Directors is responsible for the day-to-day management of the Bank. The Board of Directors reports to the shareholders on the Bank's management, financial position and business policy. According to the Bank's Articles of Association, the Board of Directors (the Board) may not consist of less than five nor more than 11 members. The Board of Directors is elected for a term of five years and the members may be re-elected. Each member of the Board of Directors has a single vote at Board meetings. In the event of a voting tie, the vote of the Chairman is decisive. The business address for members of the Board of Directors of the Bank is Nádor utca 16, 1051 Budapest, Hungary. Members of the Board of Directors are as follows:

Dr. Sándor Csányi has served as Chairman and Chief Executive Officer of the Bank since 1992 and is responsible for the strategy and overall operations of the Bank. Dr. Csányi has held senior positions in the banking sector, including Head of Department at Hungarian Credit Bank Ltd. from 1986 until 1989, and Deputy Chief Executive Officer at K&H Bank from 1989 until 1992. He previously worked in the Revenue Directorate and the Secretariat of the Hungarian Ministry of Finance and as Head of Division at the Hungarian Ministry of Agriculture and Food Industry. He is a financial economist, a certified price analyst and a chartered accountant. He is a member of the Board of Directors of Europay, MOL and also member of the presidency of the Hungarian Banking Association.

Dr. Zoltán Spéder has been a member of the Board since 1991, has served as Vice Chairman of the Board since 1995, and as Chief Financial Officer and Deputy Chief Executive Officer of the Bank since 1996. From 1987 to 1996, he was employed at the Financial Research Institute as research fellow in banking and corporate finance. Between 1991 and 1992, Dr. Spéder was adviser to the Minister of Finance. Dr. Spéder has a PhD and MSc from the Budapest University of Economics.

Mr. Mihály Baumstark has been a member of the Bank's Board since April 1999 and has been Chairman and Chief Executive Officer of Csányi Vinery Ltd. since 1999. Mr. Baumstark holds degrees in agricultural engineering and agricultural economy. Mr. Baumstark was employed between 1978 and 1989 at the Ministry of Agriculture and Food, his last position being Deputy Head of the Accounting Department.

Dr. Tibor Bíró has been a member of the Board since May 1992, and is currently Head of Department at the College of Economics in Budapest, where he has taught since 1982. Dr. Bíró has a degree in economics from the Budapest University of Economics and was Head of the Financial Department of Tatabánya City Council from 1978 to 1982. Dr. Bíró is a registered auditor and a member of the Council of Experts of the Hungarian Chamber of Auditors.

Mr. Péter Braun was a Deputy Chief Executive Officer and Head of the IT and Logistics Division from 1993 until 2001, and he has been a member of the Board since 1997. Mr. Braun earned a degree in electrical engineering at the Budapest University of Technology. Between 1954 and 1989, Mr. Braun was employed at the Research Institute for Electrical Energy, his last position being Head of Department. Thereafter, Mr. Braun was the Managing Director of K&H Bank, working in its Computer and Information Centre. Mr. Braun is also a member of the Board of Directors of Giro Ltd.

Dr. István Kocsis has been a member of the Board since 1997. Dr. Kocsis is a graduate of the Budapest Technical University and, between 1991 and 1993, worked at the Ministry of Industry and Trade as Head of Department and later as Deputy Undersecretary of the Hungarian State. He served as Deputy Chief Executive Officer, and subsequently acting Chief Executive Officer, at the Privatisation Agency (ÁPV Rt.) from 1993 until 1996, at which time he regained the position of Deputy Chief Executive Officer. Dr. Kocsis was Head of Division at RWE Energie AG, General Director at ÉMÁSZ Rt. and CEO of Paks Nuclear Power Plant. Since 2005, he has been CEO of Hungarian Power Companies Ltd. (MVM Rt.).

Mr. Csaba Lantos has been a member of the Board since 2001. He has served as Deputy Chief Executive Officer of the Bank since 2000. He was employed at Budapest Bank as a bond dealer from 1986. Subsequently, he was Head of Securities Trading at Creditanstalt Securities Ltd. until 1994 and the Deputy CEO until 1997. At the same time he served as a managing director of Creditanstalt Securities Investment Fund Management Ltd. Between 1997 and 2000, he was CEO and Chairman of the Board of CA IB Securities. He has been a member of the Council of the Budapest Stock Exchange since 1990 and Chairman of the Board of Central Clearing House and Depository Ltd. (KELER) since 1993.

Dr. Sándor Pintér has been a member of the Board of Directors since April 2006. He was member of the Supervisory Board of the Bank from 2003 until April 2006. Dr. Pintér has a degree from the Police Officer Training College and gained a law degree from Eötvös Loránd University (ELTE) in 1986. From 1970, he worked for the Home Office. In December 1996, he retired as police superintendent. From 1998 until 2002, he served as Home Secretary of the Hungarian Republic. He previously served as a member of the Board of Directors of the Bank between 1997 and 1998.

Dr. Antal Pongrácz has been a member of the Board since 2002. He has served as Managing Director and later as Deputy Chief Executive Officer of the Bank since 2001. From 1969 he worked as an analyst, from 1976 he was employed at the Ministry of Finance, where he was the principal officer of several departments. Thereafter, he was deputy Chairman of the State Youth and Sport Office. From 1988 until 1990, he served as Deputy CEO of the Bank. He was CEO and later Chairman and CEO of European Commercial Bank Ltd. until 1994. Subsequently, he was Chairman of Szerencsejáték Rt. and thereafter CEO of Hungarian Airlines Ltd. Dr. Pongrácz has a PhD and MSc from the Budapest University of Economics.

Dr. László Utassy has been a member of the Board since 2001. He has served as Chairman and CEO of OTP Garancia Insurance Ltd. since 1996. From 1978 to 1995, he was employed at State Insurance Company and ÁB-AEGON Insurance Company. Dr. Utassy has a law degree from Eötvös Loránd University (ELTE) Budapest and also a degree in economics from the Budapest University of Economics.

Dr. József Vörös has been a member of the Board since 1992. Currently, Dr. Vörös is the General Deputy Rector at the University of Pécs, where he has taught since 1984. Dr. Vörös acquired a degree in economics from the Budapest University of Economics in 1974 and holds a PhD and DSc from the Hungarian Academy of Sciences, gained in 1984 and 1993, respectively. Dr. Vörös was Dean of the Faculty of Business and Economics at the Janus Pannonius University from 1990 to 1993 and AMP at the Harvard Business School in 1993.

Supervisory Board

The Supervisory Board is responsible for monitoring the managerial and administrative affairs of the Bank and for ensuring that the Bank complies with Hungarian law and its own constitutive documents. It reviews all important reports submitted at the General Meeting, proposals by the Board of Directors, the financial statements and recommendations concerning the distribution of profits, the report of the independent auditors, and prepares a written report for the General Meeting. All of the Supervisory Board members are elected by a simple majority vote at the General Meeting, though one-third are nominated by the Workers' Council from the employees (and the shareholders are required to elect such nominees). According to the Bank's Articles of Association, the Supervisory Board may not have less than three nor more than nine members. Under the Credit Institutions Act, a bank's supervisory board may not have more than nine members.

Members of the Supervisory Board are as follows:

Mr. Tibor Tolnay is the Chairman of the Supervisory Board and has been a member of the Supervisory Board since 1992. Mr. Tolnay is currently Chief Executive Officer of Magyar Építök Ltd., a position he has held since 1972. Mr. Tolnay earned a degree in architecture from the Budapest University of Technology and a degree in economics from the Budapest University of Economics.

Dr. Gábor Nagy has been a member of the Supervisory Board since 1991. Dr. Nagy is a registered auditor with a degree from the Budapest University of Economics. From 1974 to 1977, he worked at the Institute for Further Education at the Ministry of Finance of Hungary. Since 1977, Dr. Nagy has worked in a variety of positions in the accounting division of the Hungarian Ministry of Finance and is currently Head of the Accounting Division.

Dr. Gábor Horváth is a member of the Supervisory Board. Dr. Horváth has a law degree from Eötvös Loránd University (ELTE). From 1983 to 1986, Dr. Horváth worked for the Hungarian State Development Bank. From 1986 to 1990, he worked for a legal co-operative office. Since 1990, Dr. Horváth has worked as a private, independent lawyer, and his clients include the Hungarian Ministry of Finance, the Hungarian State Institute for Research and the Budapest Municipality.

Mr. Antal Kovács has been a member of the Supervisory Board since 2004. Mr. Kovács has a degree from Budapest University of Economics. He started his professional career at K&H Bank, where he was a Branch Director from 1993 to 1995. From 1995, he was employed by the Bank as County Director and from 1998 he became the Regional Director of the South Transdanubian Region.

Ms. Klára Vécsei is a member of the Supervisory Board and is the Deputy Managing Director of the Bank's Northern Hungary Region. Ms. Vécsei joined the bank in 1970 and has held a variety of senior positions, including Deputy Head of the Accounting and Controlling Department and Chief Accountant. She received a degree in economics from the Budapest University of Economics.

Senior Management

The Chairman and CEO, Dr. Sándor Csányi, and the six Deputy CEOs manage the Bank's course of business on a day-to-day basis. The Deputy CEOs are:

Dr. Zoltán Spéder	Strategic and Financial Division
Csaba Lantos	Retail Banking Division
Dr. István Gresa	Credit Approval and Risk Management Division
Ákos Takáts*	IT and Logistics Division
Dr. Antal Pongrácz	Staff Division
László Wolf	Commercial Banking Division
Géza Lenk	Presidential Adviser

Dr. István Gresa has served as Deputy Chief Executive Officer of the Credit Approval and Risk Management Division of the Bank since March 2006. Dr. Gresa earned a degree at the College of Finance and Accountancy in 1974 and he acquired a degree in economics at the Budapest University of Economic Sciences in 1980. He was awarded a doctorate degree at the Budapest University of Economic Sciences in 1983. From 1989 to 1993 he was employed at the Budapest Bank as a branch manager in Zalaegerszeg. He has been employed at the Bank since 1993, first as county managing director, and since 1998 as senior managing director of the Bank's West Transdanubian Region.

***Mr. Ákos Takáts** has been nominated as Deputy Chief Executive Officer of the IT and Logistics Division of the Bank with the effect of 1 October 2006 and his nomination was approved by the Hungarian Financial Supervisory Authority on 19 October 2006. Mr. Takáts acquired a BSc degree in 1982 and an MSc degree in 1985 in Horticulture Engineering at Horticulture and Food Industry University in Budapest. From 1985 to 1987 he was Associate Lecturer at the Horticulture and Food Industry University. From 1987 to 1989 he was employed as Programmer at the Bank. From 1989 he was the Head of IT at Investbank Ltd. for 4 years. From 1993 to 1995 he served as Deputy Head of Department, at the Bank, IT Development Directorate, and from 1995 to 2006 as Managing Director of the Directorate. From October, 2006 he serves as Deputy CEO and CIO at the Bank.

Mr. László Wolf has served as Deputy Chief Executive Officer of the Commercial Banking Division of the Bank since 1994. Mr. Wolf acquired a degree in economics from the Budapest University of Economic Sciences in 1983. From 1983 he was employed at the National Bank of Hungary, International Banking Division for eight years. From 1991 to 1993 he was the Chief Treasurer of BNP-KH-Dresdner Bank in Budapest. From April 1993 he served as Managing Director of the Treasury of the Bank.

Mr. Géza Lenk was a member of the Board from 2001 until 28 April 2006. He has served as Deputy CEO of OTP Bank since 2001, from March 2006 as adviser to the chairman, prior to that, having responsibility for managing the Bank's Credit Approval and Risk Management Division. Previously he worked at the National Bank of Hungary, and was CEO of the General Enterprise Bank until 1988. After that he served as Chairman & CEO of K&H Bank until 1995. From 1996 Mr. Lenk was the Vice Chairman and Deputy CEO of Trigon Bank in Vienna. From 1998 to 2000 he was the head of the MKB Leasing and Finance group, and Chairman and CEO of the company Reorg Rt. Mr. Lenk is a graduate of the Budapest University of Economics and the International Banker's School in London.

The business address for the members of the Supervisory Board and Senior Management is Nádor utca 16., 1051 Budapest, Hungary.

Conflicts of interest

There are no actual or potential conflicts of interest between the private interests or duties of the members of the Board, the Supervisory Board or Senior Management of the Bank and their duties to the Bank.

Management share ownership

30 June 2006			
Type	**Name**	**Position**	**No. of shares held**
Board of Directors	Dr. Sándor Csányi	Chairman and CEO	4,945
Board of Directors	Dr. Zoltán Spéder	Deputy Chairman and Deputy CEO	388,400
Board of Directors	Mr. Mihály Baumstark	member	90,000
Board of Directors	Dr. Tibor Bíró	member	58,000
Board of Directors	Mr. Péter Braun	member	631,905
Board of Directors	Dr. István Kocsis	member	83,500
Board of Directors	Mr. Csaba Lantos	member, Deputy CEO	284,116
	Dr. Sándor Pintér	member	25,380
Board of Directors	Dr. Antal Pongrácz	member, Deputy CEO	240,000
Board of Directors	Dr. László Utassy	member	70,000
Board of Directors	Dr. József Vörös	member	130,000
Supervisory Board	Dr. Tibor Tolnai	Chairman	120,580
Supervisory Board	Dr. Gábor Horváth	member	30,000
Supervisory Board	Mr. Antal Kovács	member	70,000
Supervisory Board	Dr. Gábor Nagy	member	130,000
Supervisory Board	Ms. Klára Vécsei	member	11,000
Senior Management	Dr. István Gresa	Deputy CEO	63,600
Senior Management	Mr. Gyula Pap	Deputy CEO	372,820
Senior Management	Mr. László Wolf	Deputy CEO	817,640
Senior Management	Mr. Géza Lenk	Deputy CEO	192,000
Total			**3,813,856**

ORGANISATIONAL STRUCTURE AND EMPLOYEES

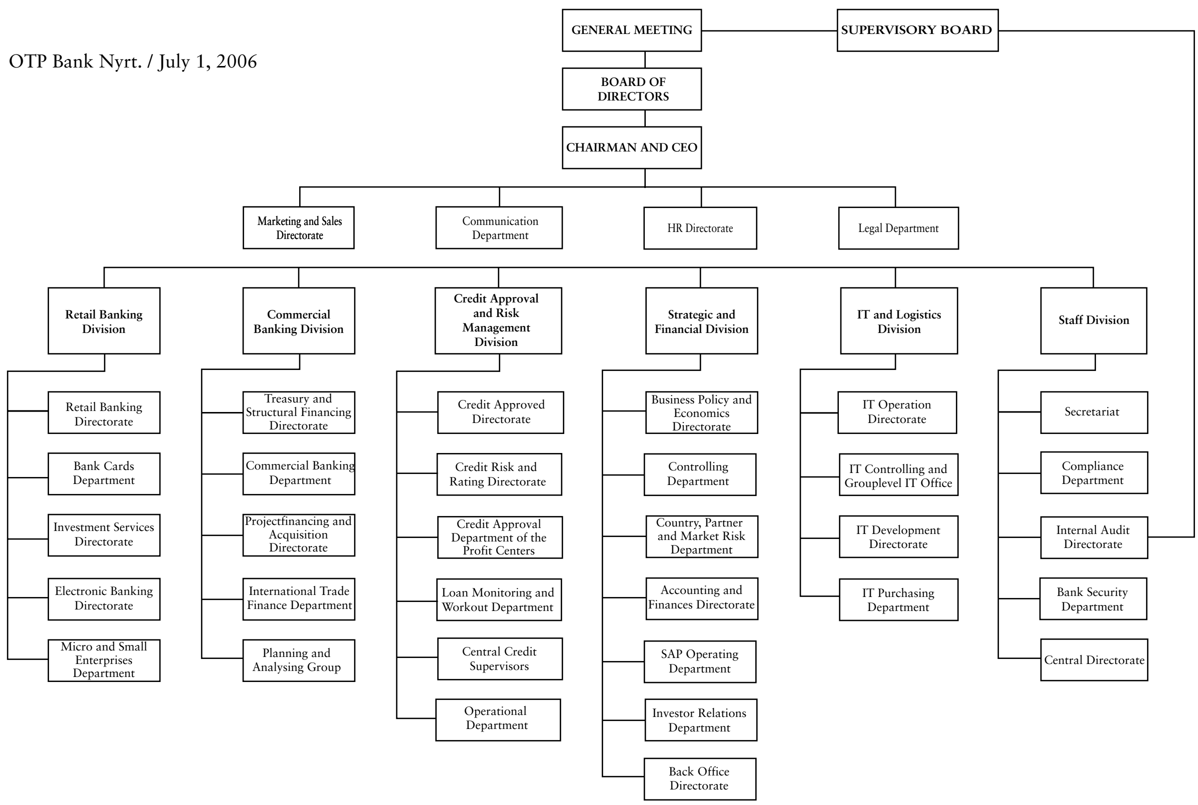
Organisational Structure

The Bank's operations are divided between the Bank's headquarters in Budapest and the Bank's branches throughout Hungary. The main banking activities of the Bank are carried out at the branches. The functions of the headquarters in Budapest include, among other things, the overall management of the business, the monitoring of the performance and activities of the branches, the development of new products and supporting the branches in their customer relations efforts.

The Bank has recently been restructured to streamline its operations. As a result, the Bank currently consists of two core operational divisions and three functional divisions, each headed by a Deputy Chief Executive Officer. The core operational divisions are the Retail Banking Division and the Commercial Banking Division. The Retail Banking Division is responsible for retail services such as savings and current account services and consumer loans. The Commercial Banking Division is responsible for the corporate, municipal, international, securities and treasury and structured finance businesses. The principal non-operational divisions of the Bank are the Credit Approval and Risk Management Division, the Strategic and Financial Division and the Information Technology and Logistics Division.

Management of the Bank is currently reviewing the corporate structure of the Group to allow for the better monitoring of its non-Hungarian subsidiaries.

The chart below sets out the Bank's organisational and responsibility structure:



Employees

The table below shows the total number of employees as at 31 December, of the year represented.

	2000	2001	2002	2003	2004	2005
Total number of employees	8,137	8,293	8,770	7,980	7,777	7,999

The Bank has enjoyed relatively low staff turnover, due to its strong labour market position. It operates training programmes focused on developing the competencies needed for the given position. These are targeted at new employees, specialists and management respectively.

As a result of changes in the Hungarian pension system, an increasing number of employees are now required to pay 8 per cent. of their gross salary into the Private Pension Fund. The fund, which was established by the Bank, began operating in 1998. The Bank makes a further contribution of 2 per cent. to this fund in respect of its own employees. In addition, in 1995 the Bank established a voluntary private pension fund. The total employees' contribution amounts to 12 per cent. of gross salary, of which 10 per cent. is paid by the Bank and 2 per cent. by the employee. At present, most employees are members of the fund.

The Bank has also established a health fund, which has been operating since May 2002. Currently, the monthly contribution of employees to the health fund is HUF 7,700 (approximately EUR 31), of which 78 per cent. is paid by the Bank.

Furthermore, in 1995 an independent employee trade union was founded, which set up the Alliance of Financial Employees Trade Unions.

MAJOR SHAREHOLDERS

The following table sets out the shareholding structure of the Bank as at 30 June 2006.

The Bank is not aware of any arrangements the operation of which may at a subsequent date result in a change in control.

	30 June 2006	
Description of owner	**Ownership ratio**	**Quantity of shares**
Domestic institution/company	12.3%	34,361,467
Foreign institution/company	72.6%	203,190,739
Domestic individual	3.5%	9,698,344
Foreign individual	1.0%	2,678,584
Employees, senior officers	2.3%	6,532,546
Treasury shares	6.5%	18,199,408
Government held owners	0.4%	1,138,913
International Development Institutions	1.5%	4,200,000
Other	0.0%	0
TOTAL	100.0%	280,000,001

Shareholders with stake exceeding 5%

Name	**Stake (%)**	**Voting rights (%)**
Bank of New York (GDR depository)	28.30	25.00
Julius Baer Investment Management LLC**	5.57	5.96
Kafijat Kereskedelmi és Konsulting Kft.***	5.29	5.66
OPUS Securities S.A.****	5.18	5.23

** OTP Bank was informed on 27 July 2006 on the acquisition of ownership

*** Indirect ownership. OTP Bank was informed on 15 September 2006 on the acquisition of ownership.

**** In a transaction of 24 October 2006 OPUS Securities S.A. lent OTP Bank shares which amounted to a stake of 1.97% (representing voting rights of 1.97%), leaving OPUS Securities S.A. with an immediate holding of 3.21% representing voting rights of (1.97%).

Ownership of Golden Share by Hungarian Government

The Hungarian government owns a so-called "golden share" in the Issuer. Its ownership serves to prevent the merger of the Issuer without the consent of the Hungarian government. On an acquisition of the Issuer, the golden share could be utilised to make structural changes to the Issuer difficult to effect.

Ongoing attempts by the European Commission to remove the powers given to holders of golden shares may mean that in the future the Issuer may be more susceptible to acquisitive approaches than in the past.

On 29 October 2006, the Hungarian Government submitted a bill on the termination of the legal concept of golden share to the Hungarian Parliament, after a request from the European Commission in June 2006 that the Hungarian Government amend the Privatisation Act because it restricted the free movement of capital and freedom of establishment in an unjustifiable way. If the "golden share" concept is abandoned, the annual general meeting of OTP Bank will still be able to grant new shares with priority voting rights to the government, although this would require an amendment to the Companies Act.

THE GROUP

The Bank is at the head of the Group, which consists of 49 other companies.

ACTIVITIES OF THE HUNGARIAN OTP GROUP MEMBERS[2]

RETAIL BANKING SERVICES

Basic retail services

The Bank is one of Hungary's best known banks. During the process of consolidation that has taken place in the banking market in the past few years, the Bank has maintained its position in the retail segment through developing its product range and focusing on customer service. In order to achieve this, the Bank has been using the Transaction Database and the CRM system, both of which have been implemented in the last year, to retain customers and develop products suited to their needs. Several other projects were launched and successfully completed in 2005 to improve customer service. The "Key Developments" section of this document contains more information about these projects.

Account management, channels, banking transactions

At the end of 2005, the Bank had 4.6 million retail customers, 2.9 million of whom had forint current accounts.

The Bank has sought to simplify account management for its customers through the use of technology. The number of customers using the Bank's electronic channels increased substantially in 2005. Some 727,000 customers made calls to the telephone help desk (33.8 per cent. market share), over 533,000 customers used the mobile phone based services (47.6 per cent. market share), while 370,000 customers used internet banking (51.4 per cent. market share). This represents a 24 per cent. and 33 per cent. increase in the number of telephone banking and internet banking customers respectively, while the number of mobile banking service users grew by 112 per cent. The number of text messages sent (e.g. mobile signature, control, interactive text message) grew by 53 per cent., the number of internet transactions by 62 per cent., the number of mobile phone contracts by 108 per cent., and the number of Electronic Account packages by 47 per cent.

In 2005 improvements were made to the Bank's electronic delivery channels. These improvements offered increased practicality and convenience for customers. For example, customers received help in storing certain frequently occurring data and in issuing multiple direct debit orders and within internet based services, application and download options have been enhanced, and securities management functions are being made more widely available.

The Bank is developing and improving the efficiency of its agency sales network. In order to achieve this, it launched the Partner Project, under which a new sales support and incentive system was introduced, the IT support system was further improved, and the number of agents was increased by the end of the year to 725. The project includes a sales competition to encourage agents to achieve the targeted volumes. The key products sold by the agents were housing and mortgage-backed loans. In the last months of the year, personal loans and credit cards were added to the selection of products offered within the Partner system. In December 2005 more than 40 per cent. of the contracted housing loan volume was sold by agents.

The renovation and modernisation of the branch network continued in 2005. Quality of customer service has improved and waiting times have been shortened. Within the Infrastructure and Network Optimisation Project, 21 branches had been opened by 31 December 2005.

Bank cards

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

2 According to Hungarian Accounting Standards

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

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

As at 31 December 2005, the number of POS terminals was 25,478, representing an increase of 3,801 compared to the previous year. The Bank operated 3,439 of these terminals at its own branches, 17,104 at commercial outlets and 4,935 at post offices. The number of POS terminals at commercial outlets grew by 24.4 per cent. In 2005, the number of transactions made using the Bank's own POS network was 63 million, with a volume of HUF 527 billion, which represents a 21 per cent. rise in the number of transactions and in turnover. On the issuer side, the number of transactions and turnover increased by 17.2 per cent. and 18.3 per cent. respectively compared to 2004. The 50 million transactions carried out by the Bank's customers resulted in a turnover of HUF 375 billion.

Deposits, investments

At year-end 2005 the Group managed more than one third of total household deposits in Hungary (34.7 per cent.). Based on the combined balance sheet total of financial institutions, at year-end 2005 the Bank had a market share of 34.5 per cent. in household forint deposits and 36.0 per cent. in foreign-currency deposits. Within the group, household deposit products are offered by the Bank, Merkantil Bank and OTP Building Society.

Retail deposits

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

Within retail deposits, forint deposits increased by 7.0 per cent., or HUF 106.1 billion, to HUF 1,612.1 billion in 2005. The proportion of retail current account deposits – a key product line – within forint deposits was 77.5 per cent. (in 2004: 75.1 per cent.). Following a 3.8 per cent. fall over the year, the total balance of passbook deposits amounted to HUF 326.9 billion as at 31 December 2005, representing a 20.3 per cent. share within forint deposits. The volume of foreign currency deposits grew by 11.4 per cent., or HUF 26.3 billion, to HUF 258 billion, accounting for 13.8 per cent. of retail deposits as at year-end 2005 (in 2004: 13.3 per cent.). In 2005 the previous decline in the volume of foreign currency deposits came to an end, and the volume of such deposits began to grow markedly, partly due to exchange rate changes.

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

Investment funds, securities

Through OTP Fund Management, the Group is one of the leading service providers in the fund management market. As at 31 December 2005, the Group's market share of the securities fund market in Hungary was 38.3 per cent.

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

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

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

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

Pension and health insurance fund services

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

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

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

Life and non-life insurance

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

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

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

Retail loans

At the end of December 2005, the volume of retail loans made by the bank was HUF 460.1 billion, 23.9 per cent. higher than at year-end 2004, which can be attributed to a five-fold increase in the volume of foreign currency loans. In March 2005, the majority of disbursed forint based housing loans, foreign currency based housing and mortgage loans were transferred to OTP Mortgage Bank. Close to half of the approximately 34,000 loans that were transferred to OTP Mortgage Bank were foreign currency-based. The Group[3] had a market share of 37.7 per cent. in household loans at the end of 2005.

Housing loans

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

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

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

Consumer loans

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

3 OTP Bank, Merkantil Bank, OTP Mortgage Bank and OTP Building Society.

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

The portfolio of personal loans grew, by 67.2 per cent. in 2005, to reach HUF 123.3 billion by the end of the year, gradually replacing the "*B-*" and "*C-Hitel*" overdraft facilities, the volume of which fell by 51.8 per cent. to HUF 24.5 billion.

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

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

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

Private banking services

The Group's private banking proposition to affluent customers was supplemented further in terms of its content in 2005. The Bank offers advisory services – investment advice, tax advice, travel arrangements, art and real estate advice – as well as 'prestige' benefits, such as a gold bank card and VIP lounge at Ferihegy airport, to its private banking customers. Since the middle of 2005, the Bank's Private Banking customers – as an opportunity available to them alone – have also been able to apply for an American Express exclusive Gold debit card.

In addition to the wide variety of domestic investment products available, the number of investment opportunities abroad also increased considerably in 2005, partly through the launch in Hungary of five foreign investment funds offered by UBS Asset Management, and through the offering of foreign equities and index-tracking funds (ETF) available via the Xetra stock exchange system.

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

Private Banking customers are offered information on the products and services available to them on a separate private banking website and can also access the latest capital market information, which is prepared by the Bank's Analysis Centre through the website.

The number of private banking contracts was close to 11,000 by year-end 2005. Assets under management grew, by HUF 84.5 billion, to reach HUF 326.3 billion on 31 December 2005, representing a 35 per cent. gain in a year. Within the Private Banking portfolio, the portfolio managed in the context of the 'VIP' private banking service increased by 63 per cent., to reach HUF 46.4 billion in 2005.

COMMERCIAL BANKING SERVICES

Corporate services

Corporate account management, banking transactions

In addition to the corporate products and services offered by the Bank, Merkantil Bank offers corporate account management, and OTP Building Society and OTP Fund Management also offer deposit taking and investment fund sales to corporate customers. The total share of the Group[4] of the deposit portfolio of the credit institution sector in Hungary was 11.4 per cent. at year-end 2005.

As of 31 December 2005, the corporate deposit portfolio of the Group stood at HUF 459.5 billion, a 9.1 per cent. increase over the previous year. Of the deposit total, 60 per cent. was made up of the deposits of incorporated business entities, which represented an increase of 10.4 per cent. over the course of one year. The forint deposits of incorporated business entities grew by 9.8 per cent. to reach HUF 246.9 billion, while their foreign currency deposits in 2005 grew by 15.6 per cent. to HUF 29.5 billion. The volume of deposits held by small enterprises and individual entrepreneurs grew by 5.3 per cent. to HUF 64.7 billion, of which the share of forint deposits was 97 per cent.

In 2005, the handling of the corporate customer segment was divided into two groups, micro and small businesses on the one hand, and medium sized and large businesses on the other hand to enable the Bank to provide a more tailored response to customer needs. As a part of this reorganisation, the Bank created an MSE (micro and small enterprises) department within its retail division. Since September 2005, the Bank has extended the services offered to micro and small businesses and increased their availability. The deposit portfolio of MSE customers stood at HUF 215.3 billion as of 31 December 2005, and the total number of MSE customers was close to 200,000.

Bank cards, electronic services

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

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

Corporate loans

The Bank and its subsidiaries – the Merkantil Group and OTP Building Society (in the case of domestic financing) – offer a wide selection of loan products to their corporate customers. As at 31 December 2005, the Group had a share of 11.7 per cent. of the credit institution sector's corporate loan portfolio.

The corporate loan portfolio grew by HUF 69.7 billion, to HUF 876 billion, at 31 December 2005.

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

At the end of 2005, the largest single portion of the loan portfolio, 26.0 per cent., consisted of loans extended to the real estate and business services sector. A further 15 per cent. was extended to electricity, gas, heat and water supply companies, 15 per cent. to enterprises engaged in trade, 13 per cent. to manufacturing entities, and 11 per cent. to transport, warehousing, postal and

4 The Bank, Merkantil Bank and OTP Building Society.

telecommunications companies. The agricultural sector accounted for 4 per cent. of the total loan portfolio.

Over the year to 31 December 2005, loans to enterprises in the real estate and business services sector increased most, by HUF 68.9 billion, although there was also a HUF 14.1 billion growth in the volume of loans to the trading sector, and a HUF 13.4 billion increase in loans to the transport, warehousing, postal and telecommunications sector. However, the loan portfolio of sectors offering other services decreased by 33.1 per cent.

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

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

Leasing

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

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

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

Project finance

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

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

MUNICIPALITY SERVICES

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

At the end of 2005, the volume of deposits held by municipalities was HUF 151 billion, which was 5.4 per cent. lower than at the end of 2004. As a result of intense competition the Bank's share of the market dropped slightly, from 66.2 per cent. to 63.4 per cent. At the same time, the Bank's portfolio of municipality loans grew in the course of the year, by 34.3 per cent. to HUF 127 billion, bringing its share of this segment of the loans market to 52.7 per cent.

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

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

TREASURY AND STRUCTURED FINANCING

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

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

In February 2005 a subordinated bond of EUR 125 million was issued and in June an EMTN bond programme with a total of EUR 1 billion was set up, which allows the Bank rapid access to the international capital markets. In July 2005 the Bank issued bonds with a variable interest rate at a face value of EUR 500 million, and in the fourth quarter, bonds with a face value of EUR 300 million under the programme. In August 2006 the Bank updated its EMTN programme and increased the programme amount from EUR 1 billion to EUR 3 billion. The Bank issued fix rate subordinated notes with an aggregate nominal amount of EUR 300 million on 19 September 2006 to finance the current acquisitions of the Bank.

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

In 2005, among primary traders, the Bank, according to the State Debt Management Agency's assessment based on trading figures, came in second after ING Bank in the overall evaluation. The Bank came first in the most important category (government bond sales). In 2005 the Bank's foreign currency trading was sufficient for it to take over the number one spot on the turnover list among Hungarian banks according to statistics provided by the National Bank of Hungary (MNB), the first time this has been achieved in the Bank's history.

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

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

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

ACTIVITIES OF FOREIGN SUBSIDIARIES[5]

DSK Group

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

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

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

DSK Bank rapidly broadened its range of retail banking products in response to the demands of the marketplace. In 2005 these included housing loans for non-residents, housing loans on semi-completed homes, and freely usable mortgage loans. "DSK-Direkt", which was developed for retail customers, was further improved, and, as a result, services based on the call centre, internet, and on text messages improved. A service package was developed for MSE customers, and, in addition, the electronic banking services offered to corporate customers and call centre services were expanded.

In addition to classic banking services, in 2005 DSK Bank began offering additional financial services through its subsidiaries. In addition to its existing subsidiaries[6], new subsidiaries DSK Asset Management, DSK Garancia General, a general insurance services company, and DSK Leasing (offering vehicle financing), began their operations.

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

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

OTP banka Hrvatska d.d.

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

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

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

5 According to IFRS

6 POK DSK-Rodina, which manages two mandatory and one voluntary supplementary pension fund, DSK Tours, which offers recreational and tourism services; DSK Trans Security, which offers security services and valuables transportation; and DSK Garancia Life Insurance, which provides life insurance

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

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

OTP Banka Slovensko, a. s.

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

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

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

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

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

OTP Bank Romania S.A.

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

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

OBR closed the 2005 business year with a loss of HUF 2.1 billion.

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

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

In August 2006 OTP Group increased the registered capital of OBR by EUR 30 million. As result of the capital increase, the ownership of the Bank in OBR increased to 99.99 per cent.

MANAGEMENT'S ANALYSIS OF DEVELOPMENTS IN THE BANK'S ASSET AND FINANCIAL POSITION[7]

CONSOLIDATED FINANCIAL RESULTS OF OTP BANK ACCORDING TO IFRS

Consolidated balance sheet

The balance sheet total of the group as at 31 December 2005 amounted to HUF 5,215.9 billion, which was 25.3 per cent., or HUF 1,053.5 billion, higher than in the previous year, and exceeded the Bank's non-consolidated year-end 2005 balance sheet total by 45.2 per cent.

The Bank's consolidated shareholders' equity was HUF 547.5 billion. This represented an increase of HUF 113.8 billion, or 26.2 per cent., over the previous year and was 15.7 per cent. higher than the Bank's equity. Equity per share (BVPS) was HUF 1,955 as at 31 December 2005.

The Bank's consolidated balance sheet

	Restated[8] 31/12/2004 HUF mn	31/12/2005 HUF mn	Change HUF mn	%
Cash, due from banks and balances with the NBH	465,887	483,191	17,304	3.7
Placements with other banks, net of allowance for placement losses	286,200	438,768	152,568	53.3
Financial assets at fair value through statements of operations	70,580	48,054	(22,526)	(31.9)
Securities available-for-sale	295,835	409,945	114,110	38.6
Gross loans	**2,586,110**	**3,297,218**	**711,108**	**27.5**
Allowance for loan losses	(79,315)	(105,920)	(26,605)	33.5
Loans, net of allowance for loan losses	2,506,795	3,191,298	684,503	27.3
Accrued interest receivable	31,400	37,870	6,470	20.6
Equity investments	9,389	12,357	2,968	31.6
Securities held-to-maturity	247,259	289,803	42,544	17.2
Premises, equipment and intangible assets, net	174,775	233,245	58,470	33.5
Other assets	74,239	71,371	(2,868)	(3.9)
TOTAL ASSETS	**4,162,359**	**5,215,902**	**1,053,543**	**25.3**
Due to banks and deposits from the NBH and other banks	254,125	364,124	109,999	43.3
Deposits from customers	2,902,190	3,428,193	526,003	18.1
Liabilities from issued securities	317,222	543,460	226,238	71.3
Accrued interest payable	27,015	24,902	(2,113)	(7.8)
Other liabilities	213,798	260,728	46,930	22.0
Subordinated bonds and loans	14,324	47,023	32,699	228.3
TOTAL LIABILITIES	**3,728,674**	**4,668,430**	**939,756**	**25.2**
TOTAL SHAREHOLDERS' EQUITY	**433,685**	**547,472**	**113,787**	**26.2**
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	**4,162,359**	**5,215,902**	**1,053,543**	**25.3**

7 Due to rounding, in some cases the figures in the tables contained in the Management's analysis section may not precisely match the total of the component figures and for the same reason, the figures referring to the same subject in different tables may not be exactly the same.

8 Effective from 1 January 2005, the Group adopted revised IAS 39 ("Financial Instruments: Recognition and Measurement"), IFRS 2 ("Share-based payment") and IFRS 3 ("Business combinations"). These revised standards implicated the restatement of year 2004. Revisions to a number of other IAS also took effect in the consolidated condensed financial statements of the Group, but those revisions concerned matters of detailed application which have no significant effect on amounts reported.

On the ***assets*** side, cash, due from banks and balances with the National Bank of Hungary were 3.7 per cent. higher than a year earlier. Placements with other banks, due in part to the Bank's modified placement structure, grew by 53.3 per cent. from the end of December 2004, amounting to HUF 438.8 billion as at 31 December 2005.

Financial assets at fair value through profit or loss fell by 31.9 per cent. to HUF 48.1 billion over the year. Within this, the size of the portfolio of securities held for trading was 43.5 per cent., or HUF 29.3 billion lower than at year-end 2004.

The size of the portfolio of securities available-for-sale increased by 38.6 per cent., or HUF 114.1 billion, during the year.

Loans, net of allowance for loan losses, rose by 27.3 per cent., i.e. from HUF 2,506.8 billion as at 31 December 2004 to HUF 3,191.3 billion.

As at 31 December 2005, of the consolidated gross customer loan portfolio (HUF 3,297.2 billion, annual change: +27.5 per cent.), the share of corporate loans was 36.3 per cent. (HUF 1,195.4 billion, annual change: +29.8 per cent.), that of retail loans 59.6 per cent. (HUF 1,965.8 billion, +27.0 per cent.), and loans to municipalities 4.1 per cent. (HUF 136 billion, +15.2 per cent.). Within the retail loan portfolio, housing and mortgage loans represented HUF 1,222.4 billion (+20.4 per cent.), and consumer loans HUF 743.4 billion (+39.8 per cent.). The Bank's foreign subsidiaries contributed 23.2 per cent. (HUF 786.0 billion) to the aggregated loan portfolio as at 31 December 2005.

Besides the consolidation of OTP banka Hrvatska, a major role in the growth of the loan portfolio during the 12 months to 31 December 2005 was played by the Bank (corporate loans before consolidation +96.9 billion HUF, retail loans +89.8 billion HUF; total: HUF 201.6 billion); DSK (corporate loans +19.8 billion HUF, consumer loans +62.3 billion HUF, mortgage loans +28.9 billion HUF; total +111 billion HUF); the Mortgage Bank's loan portfolio (+79 billion HUF); Merkantil Bank's car financing loans (+75.6 billion HUF) and OBS (corporate loans +34.2 billion HUF, mortgage loans +15.1 billion HUF; total +55.4 billion HUF).

Consolidated gross loan portfolio as at 31 December 2005 (HUF million)

	Corporate	Municipal	Retail	Consumer	Housing	Total
OTP Bank Nyrt.	902,696	131,107	463,867	253,717	210,150	**1,497,670**
OTP Factoring Ltd.	3,218	–	10,454	1,676	8,779	**13,673**
OTP Building Society Ltd.	–	–	6,189	–	6,189	**6,189**
Merkantil Bank Ltd.	30,629	33	95,363	95,363	–	**126,025**
Merkantil Car Ltd.	9,609	48	93,973	93,973	–	**103,630**
OTP Mortgage Bank Ltd.	-	-	849,252	7,023	842,229	**849,252**
OTP Banka Slovensko, a.s.	142,566	3,547	43,827	7,587	36,240	**189,940**
DSK Group	82,668	216	301,552	225,110	76,442	**384,436**
OTP Leasing, a.s.	10,366	395	8,917	8,917	–	**19,678**
OTP Bank Romania S.A.	22,169	–	2,396	2,068	328	**24,565**
OTP banka Hrvatska group	59,792	693	90,014	47,974	42,040	**150,499**
Other subsidiaries*	17,606	–	–	–	–	**17,606**
Total	1,281,319	136,039	1,965,805	743,408	1,222,397	**3,383,163**
Consolidated	1,195,374	136,039	1,965,805	743,408	1,222,397	**3,297,218**

*OTP Garancia Insurance Ltd., Bank Center No. 1. Ltd., HIF Ltd. and OTP Faktoring Slovensko, a.s. taken together

The quality of the IFRS loan portfolio was good at the end of 2005: performing receivables represented 87.2 per cent. of the total volume, the share of the "to-be-monitored" category was 9.1 per cent., and non-performing loans accounted for 3.6 per cent., with this latter figure having risen 0.1 of a percentage point compared to the previous year. 18.2 per cent. of the consolidated qualified portfolio and 23.5 per cent. of the non-performing loans were recorded on the balance sheets of the Bank's foreign subsidiaries.

Consolidated gross loan volume by qualifying categories

	Restated 31/12/2004		31/12/2005		Change		
	HUF mn	share %	HUF mn	share %	HUF mn	%	share %
Performing	2,284,688	88.3	2,876,541	87.2	591,853	25.9	(1.1)
Qualified	301,423	11.7	420,677	12.8	119,254	39.6	1.1
To-be-monitored	210,752	8.1	301,581	9.1	90,829	43.1	1.0
NPLs	90,671	3.5	119,096	3.6	28,425	31.3	0.1
Below Average	25,381	1.0	27,627	0.8	2,246	8.8	(0.1)
Doubtful	19,493	0.8	27,802	0.8	8,309	42.6	0.1
Bad	45,797	1.8	63,668	1.9	17,871	39.0	0.2
Total	**2,586,111**	**100.0**	**3,297,218**	**100.0**	**711,107**	**27.5**	

IFRS consolidated provisions for loan and placement losses were HUF 105.9 billion, of which HUF 101.4 billion related to the qualified portfolio, and which resulted in a provisioning coverage ratio of 24.1 per cent. Within this, HUF 89.6 billion was available to cover the HUF 119.1 billion in non-performing loans, which meant a coverage ratio of 75.2 per cent.

Coverage of qualified customer loans

	Restated 31/12/2004	31/12/2005	Change %
Qualified volume (HUF mn)	301,423	420,677	39.6
Provision (HUF mn)	79,315	101,354	33.5
Coverage %	26.3	24.1	(2.2)
NPLs (HUF mn)	90,671	119,096	31.3
Provision (HUF mn)		89,613	
Coverage %		75.2	

The portfolio of securities held-to-maturity grew by 17.2 per cent. in 2005, amounting to HUF 289.8 billion as at 31 December 2005.

On the ***liabilities*** side, deposits from customers amounted to HUF 3,428.2 billion as of 31 December 2005, which was 18.1 per cent. more than a year earlier. 74.8 per cent. of **customer deposits** came from retail customers, 19.3 per cent. from corporate, and 5.9 per cent. from municipal customers.

The growth in the deposit portfolio was primarily due to the increase in the corporate and retail deposits of the parent bank and DSK, the deposits of OTP Building Society and the consolidation of OTP banka Hrvatska. The contribution of the foreign subsidiaries to the aggregated deposit total increased from 17.2 per cent. to 24.6 per cent. in 2005.

Consolidated deposit volume - as at 31 December 2005 (HUF mn)

	Corporate	Municipal	Retail	Total
OTP Bank Nyrt.	474,052	161,993	1,870,412	**2,506,457**
OTP Building Society Ltd.	4,100	6	74,718	**78,825**
Merkantil Bank Ltd.	1,848	–	2,743	**4,591**
Merkantil Car Ltd.	12	0	85	**97**
OTP Banka Slovensko, a. s.	71,063	21,152	59,636	**151,851**
DSK Group	66,560	13,853	352,002	**432,415**
OTP Bank Romania S.A.	15,279	756	9,294	**25,329**
OTP Faktoring Slovensko, a.s.	709	–	–	**709**
OTP banka Hrvatska group	33,168	5,350	193,978	**232,496**
Total	666,791	203,111	2,562,869	**3,432,771**
Consolidated	662,214	203,111	2,562,869	**3,428,194**

Compared to the end of December 2004, the deposit portfolio of the parent bank and of DSK grew considerably. The Bank's corporate deposit portfolio increased by HUF 42.1 billion and its retail deposit total by HUF 131.8 billion, while municipality deposits decreased by HUF 8.4 billion. At DSK, the increase in the deposit portfolio was HUF 101.1 billion, of which the growth in the retail portfolio accounted for HUF 69.1 billion.

The portfolio of **issued securities** grew by 71.3 per cent. over the year, amounting to HUF 543.5 billion by year-end. Growth was attributable to the Bank's issuance of foreign currency based bonds in a total nominal value of EUR 800 million in the third and fourth quarters of 2005.

Consolidated results

The Bank's consolidated after-tax profit for 2005 according to IFRS was HUF 158.3 billion, which exceeded that of 2004 by HUF 26.8 billion, or by 20.3 per cent., and was HUF 25.4 billion, or 19.1 per cent., more than the Bank's non-consolidated profit.

Consolidated Statement of Operations of the Bank

	2004 HUF mn	2005 HUF mn	Change HUF mn	%
Interest Income	433,678	459,024	25,346	5.8
Interest Expense	172,789	161,799	(10,990)	(6.4)
NET INTEREST INCOME	**260,889**	**297,225**	**36,336**	**13.9**
Provision for loan and placement losses	16,048	28,042	11,994	74.7
NET INTEREST INCOME AFTER PROVISION FOR LOAN AND PLACEMENT LOSSES	**244,841**	**269,183**	**24,342**	**9.9**
Fees and commissions	91,625	118,884	27,259	29.8
Foreign exchange gains, net	1,250	3,879	2,629	210.3
Gains and losses on securities, net	6,466	9,708	3,242	50.1
Gains on real estate transactions, net	1,818	96	(1,722)	(94.7)
Dividend income and gains and losses of associated companies	593	672	79	13.4
Insurance premiums	49,337	69,793	20,456	41.5
Other income	10,680	13,465	2,785	26.1
Total Non-Interest Income	**161,769**	**216,497**	**54,728**	**33.8**
Fees and commissions	20,588	19,930	(658)	(3.2)
Personnel expenses	79,538	95,235	15,697	19.7
Depreciation and amortisation	29,150	21,897	(7,253)	(24.9)
Insurance expenses	40,264	58,468	18,204	45.2
Other expenses	81,046	98,073	17,027	21.0
Total Non-Interest Expense	**250,586**	**293,603**	**43,017**	**17.2**
INCOME BEFORE INCOME TAXES	**156,024**	**192,077**	**36,053**	**23.1**
Income taxes	24,506	33,803	9,297	37.9
INCOME AFTER INCOME TAXES	**131,518**	**158,274**	**26,756**	**20.3**
Minority interest	(12)	(39)	(27)	223.4
NET INCOME	**131,506**	**158,235**	**26,729**	**20.3**

Consolidated **net interest income** in 2005 was HUF 297.2 billion, which represents an increase for the year of 13.9 per cent., and exceeded the Bank's non-consolidated net interest income by 76.2 per cent.

Provisions were 74.7 per cent. higher in 2005 than in the same period of the previous year, and amounted to HUF 28.0 billion. The increase was significant at the parent bank, Merkantil Bank, OTP Banka Slovensko and at OTP Bank Romania, and was also due to the inclusion of OTP Leasing, a.s. within the consolidation circle. The rise in risk-related expenses is explained partly by the expansion in lending and partly by the group's prudent provisioning policy. The ratio of provisioning to average gross loans was 0.95 per cent., compared to 0.69 per cent. in 2004.

The interest margin on the average balance sheet total (HUF 4,689.1 billion) as per end-of-period data was 6.34 per cent. in 2005, or 51 basis points lower than in 2004. The net interest margin (after provisioning) was 5.74 per cent., compared to 6.42 per cent. a year earlier. The gross interest margin for 2005 – excluding the impact of swap deals on interest income – was 6.2 per cent., and the net interest margin was 5.6 per cent., which, if we take into account the net interest income from swap transactions (HUF 6,584 million), were respectively 23 and 40 basis points lower than in 2004.

Non-interest income was in total 33.8 per cent. higher than in the previous year, and amounted to HUF 216.5 billion. Fees and commissions received grew by 29.8 per cent., to HUF 118.9 billion. This is 12.8 per cent. below the non-consolidated fee and commission income figure, primarily due to the exclusion from the consolidation total of commissions from the Mortgage Bank (HUF 52.7 billion). Consolidated fee and commission expenses decreased by 3.2 per cent. over the year. Net fees and commissions amounted to HUF 99 billion, which is an increase of 39.3 per cent. compared to 2004.

Net price gains on securities trading amounted to HUF 9.7 billion, compared to HUF 6.5 billion in 2004, due to price gains realised on the securities portfolio and to the gains from the securities transactions of OTP Garancia Insurance. Net foreign exchange gains amounted to HUF 3.9 billion, compared to HUF 1.3 billion in 2004, due mainly to changes in the result of swap positions. Gains on real estate transactions were HUF 96 million on a consolidated level. Insurance premium revenues amounted to HUF 69.8 billion, which was 41.5 per cent. higher than in 2004. Compared to 2004, insurance expenses grew by 45.2 per cent. The net insurance result grew by 24.8 per cent., to HUF 11.3 billion, relative to 2004. Other non-interest income, amounting to HUF 13.5 billion, was 26.1 per cent. higher than a year earlier.

Non-interest expenses, amounting to HUF 293.6 billion, exceeded those of 2004 by 17.2 per cent., and the Bank's non-consolidated figure by 89.6 per cent.

Consolidated personnel expenses were 19.7 per cent. higher than a year earlier. The increase in personnel expenses already contains the impact of the IFRS 2 standard (HUF 7.5 billion). Depreciation fell considerably relative to 2004, by HUF 7.3 billion. Other non-interest expenses grew by 21 per cent., to HUF 98.1 billion. In 2005, non-corporate taxes represented an expense of HUF 27.7 billion, 77.1 per cent. more than in 2004. Within this, the separate tax imposed on credit institutions and financial enterprises (net interest income tax) was also recognised among other expenses, in an amount of HUF 10.2 billion. Without the separate credit institutions tax, the increase in consolidated non-interest expenses was 13.1 per cent.

The Bank's consolidated cost-to-income ratio in 2005 (according to a calculation method[9] similar to that used in Hungary) was 55.4 per cent., 178 basis points lower than a year earlier.

Consolidated return on average assets (**ROAA**) reached 3.38 per cent. in 2005 (in 2004: 3.45 per cent.), while consolidated return on average equity (**ROAE**) was 32.3 per cent., or 3.0 percentage points lower than in the previous year. Real return on equity (**real ROAE**) was 28.7 per cent. in 2005. Basic earnings per ordinary share (**basic EPS**) was HUF 603, which is HUF 102 higher than the 2004 figure, while **diluted EPS** was HUF 599 in 2005 (in 2004: HUF 499).

9 Calculation method: (non-interest expenses – fee expenses) / (net interest income before provisions + non-interest income – fee expenses).

NON-CONSOLIDATED FINANCIAL RESULTS OF OTP BANK ACCORDING TO IFRS

Non-consolidated balance sheet

The Bank's balance sheet total as at 31 December 2005 was HUF 3,592.9 billion; 17.6 per cent., or HUF 538.4 billion, higher than a year earlier.

Non-Consolidated balance sheet of the Bank

	Restated 31/12/2004 HUF mn	31/12/2005 HUF mn	Change HUF mn	%
Cash, due from banks and balances with the NBH	399,401	379,249	(20,152)	(5.0)
Placements with other banks, net of allowance for placement losses	200,100	393,659	193,559	96.7
Financial assets at fair value through statement of operations	22,059	34,054	11,995	54.4
Securities available-for-sale	324,130	371,433	47,303	14.6
Gross loans	**1,296,051**	**1,497,670**	**201,619**	**15.6**
Allowance for loan losses	(19,810)	(22,162)	(2,352)	11.9
Loans, net of allowance for loan losses	1,276,241	1,475,508	199,267	15.6
Accrued interest receivable	41,180	41,276	96	0.2
Investments in subsidiaries	154,298	223,881	69,583	45.1
Securities held-to-maturity	507,503	521,797	14,294	2.8
Premises, equipment and intangible assets, net	96,538	105,569	9,031	9.4
Other assets	33,025	46,447	13,422	40.6
TOTAL ASSETS	**3,054,475**	**3,592,873**	**538,398**	**17.6**
Due to banks and deposits from the NBH and other banks	203,777	255,211	51,434	25.2
Deposits from customers	2,340,924	2,506,457	165,533	7.1
Liabilities from issued securities	1,997	202,267	200,270	–
Accrued interest payable	9,414	5,735	(3,679)	(39.1)
Other liabilities	94,987	102,881	7,894	8.3
Subordinated bonds and loans	14,324	47,023	32,699	228.3
TOTAL LIABILITIES	**2,665,423**	**3,119,574**	**454,151**	**17.0**
TOTAL SHAREHOLDERS' EQUITY	**389,052**	**473,299**	**84,247**	**21.7**
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	**3,054,475**	**3,592,873**	**538,398**	**17.6**

On the ***assets*** side, cash, due from banks and balances with the National Bank of Hungary were 5.0 per cent. lower, while placements with other banks were 96.7 per cent., or HUF 193.6 billion, higher than a year earlier. Financial assets at fair value through profit or loss grew by 54.4 per cent., or HUF 12.0 billion, of which the growth in securities held for trading accounted for HUF 5.2 billion.

Within securities available-for-sale, which amounted to HUF 371.4 billion (annual increase of 14.6 per cent.), the government bond portfolio accounted for HUF 67.6 billion, that of mortgage bonds for HUF 253.4 billion, and that of other bonds for HUF 42.6 billion, while the portfolio of Hungarian discount treasury bills was HUF 7.9 billion.

Gross loans were HUF 1,497.7 billion as at 31 December 2005, representing a growth of 15.6 per cent. over the year. Provisions for loan losses rose by 11.9 per cent., to HUF 22.2 billion. The net portfolio of loans and bills of exchange amounted to HUF 1,475.5 billion as at 31 December 2005, representing a 15.6 per cent. rise for the year as a whole.

Non-consolidated loan gross loan volume by business lines of the Bank

	31/12/2004 HUF mn	31/12/2005 HUF mn	Change HUF mn	%
Corporate	805,804	902,696	96,892	12.0
Municipal	116,175	131,107	14,932	12.9
Retail	374,072	463,867	89,795	24.0
Consumer	204,657	253,718	49,061	24.0
Housing	169,415	210,149	40,734	24.0
Total	**1,296,051**	**1,497,670**	**201,619**	**15.6**

Within the gross loan portfolio, loans to businesses amounted to HUF 902.7 billion (representing an annual increase of 12 per cent.), municipal placements to HUF 131.1 billion (an annual increase of 12.9 per cent.), consumer loans to HUF 253.7 billion (an increase of 24.0 per cent.), and housing and mortgage loans to HUF 210.2 billion (also an annual increase 24 per cent.). Loans to businesses represented 60.3 per cent. of the loan portfolio, retail loans 30.9 per cent., and loans to municipalities 8.8 per cent.

Non-consolidated gross loan volume by qualifying categories

	31/12/2004 HUF mn	share %	31/12/2005 HUF mn	share %	Change HUF mn	%	share %
Performing	1,227,903	94.7	1,418,879	94.7	190,976	15.6	(0.0)
Qualified	68,148	5.3	78,791	5.3	10,643	15.6	0.0
To be monitored	35,822	2.8	44,250	3.0	8,428	23.5	0.2
NPLs	32,326	2.5	34,541	2.3	2,215	6.9	(0.2)
Below average	14,401	1.1	13,160	0.9	(1,241)	(8.6)	(0.2)
Doubtful	12,107	0.9	14,119	0.9	2,012	16.6	0.0
Bad	5,818	0.4	7,262	0.5	1,445	24.8	0.0
Total	**1,296,051**	**100.0**	**1,497,670**	**100.0**	**201,619**	**15.6**	

The quality of the loan portfolio was good at the end of December 2005: performing receivables represented 94.7 per cent. of the total volume, the same as in 2004. The "to be monitored" category accounted for 3 per cent. of the total, and non-performing loans 2.3 per cent. The coverage ratio in respect of the qualified portfolio was 28.1 per cent., and for non-performing loans, 53.4 per cent.

Coverage of qualified customer loans

	31/12/2004	31/12/2005	Change %
Qualified volume (HUF mn)	68,148	78,791	15.6
Provision (HUF mn)	19,810	22,162	11.9
Coverage %	29.1	28.1	(0.9)
NPLs (HUF mn)	32,326	34,541	6.9
Provision (HUF mn)		18,449	
Coverage %		53.4	

The portfolio of securities held-to-maturity rose by 2.8 per cent. in 2005, to HUF 521.8 billion, of which the portfolio of government bonds accounted for HUF 201.4 billion and the portfolio of mortgage bonds for HUF 289.8 billion.

On the ***liabilities*** side, deposits from customers grew by 7.1 per cent. from 31 December 2004. The share of deposits from customers in the Bank's liabilities fell from 76.6 per cent. in 2004 to 69.8 per cent. Of the deposits from customers, amounting to a total of HUF 2,506.5 billion, 88.1 per cent. were forint deposits. 74.6 per cent. of the deposit total (HUF 1,870.4 billion; an annual increase of 7.6 per cent.) consisted of retail deposits, while corporate deposits represented 18.9 per cent. (a 9.8 per cent. increase) and municipal deposits, 6.5 per cent. (a 5 per cent. fall).

Non-consolidated deposit volume of the Bank

	31/12/2004 HUF mn	31/12/2005 HUF mn	Change HUF mn	%
Corporate	431,921	474,052	42,131	9.8
Municipal	170,431	161,993	(8,439)	(5.0)
Retail	1,738,572	1,870,412	131,841	7.6
Total	**2,340,924**	**2,506,457**	**165,533**	**7.1**

In the framework of the Bank's foreign currency based bond programme, due to the bonds of nominal value EUR 500 million issued in the third quarter and of EUR 300 million issued in the fourth quarter, the portfolio of own-issued securities within the Bank's liabilities grew significantly, by over HUF 200 billion, and by the end of the year, accounted for 5.6 per cent. of all liabilities.

The Bank's ratio of gross loans to deposits was 59.8 per cent. by year-end, compared to 55.4 per cent. on 31 December 2004.

The Bank's shareholders' equity was 21.7 per cent. higher than a year earlier, amounting to HUF 473.3 billion, or 13.2 per cent. of the balance sheet total. The HUF 84.2 billion rise in the Bank's equity was chiefly due to a HUF 91.8 billion, or 35.1 per cent., increase in retained earnings and reserves, without profit, a HUF 19.4 billion, or 17.1 per cent., increase in balance sheet profit and – as a reducing item – a HUF 26.9 billion, or 195.1 per cent., increase in the book value of repurchased treasury shares.

Equity per share increased by 21.7 per cent. to reach HUF 1,690.4 at the end of 2005.

Non-consolidated results

The Bank's pre-tax profit according to IFRS was HUF 155.8 billion in 2005, which exceeded the previous year's result by HUF 23.4 billion, or 17.7 per cent. The increase in profits was attributable to a dynamic, 17 per cent. growth in income (including net commissions and net interest income before provisioning), an 11.2 per cent. increase in non-interest expenses net of commissions paid, which was significantly less than the increase in non-interest income, and to a HUF 7.8 billion rise in provisions. Dividends received accounted for HUF 5.4 billion of the growth in income. The increase in pre-tax profits, calculated using tax conditions comparable to those as of the base period (i.e. excluding the HUF 10.2 billion expense increasing impact of the introduction in 2005 of the special tax imposed on credit institutions and financial enterprises), was HUF 25.4 per cent.

In the context of an increase (from 14.3 per cent. to 14.7 per cent.) compared to 2004 in the actual rate of tax (calculated together with the special credit institution tax), the Bank's after tax profit amounted to HUF 132.8 billion, which was 17.1 per cent., or HUF 19.4 billion, higher than in the previous year. (Without the special credit institution tax, the Bank's after-tax profit would have increased by 26 per cent., to HUF 143 billion.) The Bank will – in line with its proclaimed dividend policy – pay out 40 per cent. of its after-tax profit according to HAS (Hungarian accounting standards) as dividends to its shareholders, which means that in 2006 it will pay dividends of HUF 197 per ordinary share of nominal value HUF 100, to its owners.

Basic and diluted earnings per ordinary share (EPS) were HUF 492 and HUF 488 respectively in 2005 (in 2004: HUF 420 and HUF 418).

The Bank's return on average assets (ROAA) and return on average equity (ROAE) was 4 per cent. and 30.8 per cent. in 2005 (in 2004: 3.92 per cent. and 34.1 per cent. respectively).

Non-consolidated Statement of Operations of the Bank

	Restated 2004 HUF mn	2005 HUF mn	Change HUF mn	%
Interest Income	290,935	281,402	(9,533)	(3.3)
Interest Expense	139,852	112,763	(27,089)	(19.4)
NET INTEREST INCOME	**151,083**	**168,639**	**17,556**	**11.6**
Provision for loan and placement losses	8,628	16,435	7,807	90.5
NET INTEREST INCOME AFTER PROVISION FOR LOAN AND PLACEMENT LOSSES	**142,455**	**152,204**	**9,749**	**6.8**
Fees and commissions	113,299	136,264	22,965	20.3
Foreign exchange gains, net	914	1,603	689	75.4
Gains on securities, net	1,081	3,103	2,022	187.0
Losses on real estate transactions, net	(103)	(28)	75	(72.8)
Dividend income	8,500	13,937	5,437	64.0
Other income	2,654	3,541	887	33.4
Non-Interest Income	**126,345**	**158,420**	**32,075**	**25.4**
Fees and commissions	9,692	13,840	4,148	42.8
Personnel expenses	54,342	62,437	8,095	14.9
Depreciation and amortisation	13,401	15,244	1,843	13.8
Other expenses	59,006	63,301	4,295	7.3
Total Non-Interest Expenses	**136,441**	**154,822**	**18,381**	**13.5**
INCOME BEFORE INCOME TAXES	**132,359**	**155,802**	**23,443**	**17.7**
Income taxes	18,882	22,954	4,072	21.6
NET INCOME AFTER INCOME TAXES	**113,477**	**132,848**	**19,371**	**17.1**

The Bank's net interest income grew by 11.6 per cent., from HUF 151.1 billion to HUF 168.6 billion, in 2005, as a result of a 3.3 per cent. increase in interest income and a 19.4 per cent. fall in interest expenses.

Interest income from loans accounted for 52.4 per cent. of interest income in 2005, which represents an expansion of 7.6 per cent. over the year (6.9 per cent. without the gains on swap deals). Gains on swap deals accounted for HUF 0.9 billion of the HUF 147.4 billion in income.

Within interest income, income from placements with other banks (gains/losses on swap deals excluded) dropped by 14.4 per cent., due primarily to market rates of interest. Income from interest on securities held-to-maturity fell by 26.2 per cent. compared to 2004, and amounted to HUF 39.3 billion in 2005, which represented 14 per cent. of total interest income.

Recorded among interest revenue from interbank placements and loans, as well as under interest expense related to liabilities towards banks and interest expense towards customers, was the net HUF 7.3 billion interest result from swap transactions, which was HUF 8.5 billion less than in 2004.

By far the bulk of interest expenses, 72.3 per cent., was accounted for by interest paid on customer deposits in 2005 (in 2004: 85.2 per cent.), which fell by 31.6 per cent., to HUF 81.5 billion. The interest paid on issued securities amounted to HUF 1.7 billion, with the HUF 1.5 billion increase being attributable to the significant expansion of the volume of securities issued.

At HUF 16.4 billion, provisions for expected loan and placement losses were 90.5 per cent. higher than in 2004. The ratio of provisioning to the average gross loan portfolio was 1.18 per cent., compared to 0.72 per cent. in 2004.

In 2005, the Bank's gross interest margin was 5.07 per cent., while the net interest margin (after provisioning) was 4.58 per cent., respectively a 15 and 34 basis point decrease compared to 2004. Without recognition of the interest result from swap deals, in 2005 the gross interest margin was 4.86 per cent., while the net interest margin was 4.36 per cent., with the former representing an 18 basis point increase, and the latter a 2 basis point decrease compared to 2004.

Non-interest income grew by HUF 32.1 billion, or 25.4 per cent., to HUF 158.4 billion. 86 per cent. of non-interest income, which amounted to HUF 136.3 billion (representing a growth of 20.3 per cent.) in 2005, came from fees and commissions received. Fees and commissions paid rose by 42.8 per cent., to HUF 13.8 billion, and thus net fees and commissions were 18.2 per cent. higher than in 2004, amounting to HUF 122.4 billion. Net price gains on securities were HUF 3.1 billion, compared to HUF 1.1 billion in 2004, while the net result of foreign exchange transactions was a profit of HUF 1.6 billion, compared to HUF 0.9 billion in 2004. In 2005, the Bank received HUF 13.9 billion in dividends from its subsidiaries, compared to HUF 8.5 billion 2004. Other income grew by 33.4 per cent., to HUF 3.5 billion, compared to 2004.

Non-interest expenses, amounting to HUF 154.8 billion, were 13.5 per cent. higher in total than a year earlier. Within this, personnel expenses grew by 14.9 per cent. to HUF 62.4 billion (of which HUF 7.5 billion was attributable to the adoption of the IFRS 2 standard), while depreciation rose by 13.8 per cent. to HUF 15.2 billion. Other non-interest expenses, amounting to HUF 63.3 billion, were 7.3 per cent. higher than in 2004. Within this, the special tax imposed on credit institutions and financial enterprises was also recognised among other expenses, in an amount of HUF 10.2 billion. Without the separate credit institutions and financial enterprises tax, the growth in non-interest expenses was 6 per cent.

The Bank's cost-to-income ratio (according to a calculation method similar to the one used in Hungary) was 45 per cent. in 2005, which was 233 basis points lower than in 2004 (47.3 per cent.). The cost-to-income ratio calculated without the credit institutions tax was 41.8 per cent., or 557 basis points lower than in the previous year.

Capitalisation, capital adequacy (according to HAR)

The Bank's shareholders' equity grew from HUF 325 billion on 31 December 2004 to HUF 407.6 billion, or by 25.4 per cent. – significantly exceeding the rate of the growth of the balance sheet total. Due to this, the ratio of shareholders' equity to the balance sheet total increased from 10.7 per cent. at the end of 2004 to 11.3 per cent.

Although the Bank's capital adequacy ratio declined somewhat, from 11.19 per cent. at the end of 2004 to 10.56 per cent. on 31 December 2005, it was well in excess of the 8 per cent. stipulated by the Act on Credit Institutions and Financial Enterprises. Management of the Bank is aiming to maintain a capital adequacy ratio of 9.5 per cent. of year end 2006.

The fall in this ratio was caused by a growth in the Bank's guarantee capital that lagged behind the expansion in lending activity: compared with the previous year, risk-weighted assets grew by 18.8 per cent., while the guarantee capital was 12.2 per cent. higher than at the end of the previous year.

CALCULATION OF THE CAPITAL ADEQUACY RATIO

		31/12/2004 HUF mn	31/12/2005 HUF mn	Change HUF mn	%
I.	Primary capital elements	328,510	387,123	58,613	17.8
	A) subscribed capital	28,000	28,000	–	–
	B) capital reserve	52	52	–	–
	C) general reserve	51,807	65,642	13,835	26.7
	D) general risk reserve	18,120	21,534	3,414	18.8
	E) profit reserve	177,401	202,544	25,143	14.2
	F) balance sheet profit	53,130	69,351	16,221	30.5
II.	Deductible components of primary capital	51,950	79,192	27,242	52.4
	A) capital subscribed not yet paid	–	–	–	–
	B) intangible assets	51,950	79,192	27,242	52.4
III.	Primary capital (I-II.)	276,560	307,931	31,371	11.3
IV.	Secondary capital	12,459	42,850	30,391	243.9
V.	Guarantee capital before deductions (III + IV.)	289,019	350,781	61,762	21.4
VI.	Book value of financial institutions, insurance companies and investment services companies and subordinated loans issued to them	90,099	128,810	38,711	43.0
VII.	Guarantee capital according to the rules of prudence (V - VI.)	198,920	221,971	23,051	11.6
VIII.	Capital requirement of limit breaches and sovereign risk	5,902	5,362	(540)	(9.1)
IX.	Guarantee capital for calculating the capital adequacy ratio	193,018	216,609	23,591	12.2
X.	Risk weighted total assets	1,725,655	2,050,855	325,200	18.8
XI.	**Capital adequacy ratio %**	**11.19**	**10.56**		

Of the various factors taken into account when calculating the numerator of the solvency ratio, the total of the positive components of the primary capital increased by 17.8 per cent. over the course of 2005, while the total of the negative components of the primary capital increased by 52.4 per cent. As a result, the Bank's primary capital increased by 11.3 per cent., or by HUF 31.4 billion, in 2005. The secondary capital that can be taken into account in calculating the guarantee capital rose markedly, by nearly three-and-a-half times its value a year earlier. On 31 December 2005 the guarantee capital before deductions was HUF 350.8 billion, which exceeded the previous year's figure by 24.1 per cent. Of the various deductible factors, the total of investments in financial institutions, insurance companies and investment companies grew by HUF 38.7 billion, or 43 per cent., while the amount of capital that needed to be set aside for covering possible limit breaches, as per the Act on Credit Institutions and Financial Enterprises, declined by HUF 0.5 billion, or 9.1 per cent., during 2004. The guarantee capital that may be taken into account for the purpose of calculating the solvency ratio stood at HUF 216.6 billion on 31 December 2005 (a 12.2 per cent. growth).

Of the increase in the volume of risk-weighted assets (the adjusted balance sheet total), 74.4 per cent. is attributable to the change in the risk-weighted value of balance sheet items and 25.6 per cent. to the change in risk weighted off balance sheet items.

The risk weighted value of balance sheet items grew by 17.3 per cent. (HUF 241.9 billion) to reach HUF 1,638.9 billion, while total assets grew by 18.1 per cent. – as a result of the fact that, due to the increase in the share of customer placements, there has been a slight shift in the structure of the asset portfolio towards placements with a higher risk weighting. The risk weighted value of off-balance-sheet items and contingent and future liabilities, which is used for calculating the risk weighted balance sheet total, increased by HUF 83.3 billion, representing a 25.4 per cent. increase over the previous year. This change is explained by the increase in contingent liabilities (primarily the existing liabilities arising from the unused portion of credit lines and from assumed guarantees).

RESULTS OF THE MAIN SUBSIDIARIES

In 2005 the activities of the Bank's subsidiaries were in line with the Bank's targets and with the expectations of the owners. The combined balance sheet totals of the fully consolidated subsidiaries rose by 37.8 per cent., from HUF 2,006 billion to HUF 2,764 billion (of which the balance sheet total of OTP banka Hrvatska, purchased in 2005, was HUF 298.2 billion).

The aggregate after-tax profit of the fully consolidated subsidiaries amounted to HUF 44 billion in 2005, which was HUF 5.7 billion, or 14.8 per cent., higher than in 2004.

Total assets and Profit after tax of the fully consolidated subsidiaries

	Total assets				Profit after tax			
	31/12/2004	31/12/2005	Change		2004	2005	Change	
Subsidiary	HUF mn	HUF mn	HUF mn	%	HUF mn	HUF mn	HUF mn	%
Merkantil Bank Ltd.	58,939	136,688	77,749	131.9	2,605	2,620	15	0.6
Merkantil Car Ltd.	135,399	113,121	(22,278)	(16.5)	916	3,638	2,722	297.2
Merkantil Lease Ltd	1,594	1,684	90	G5.7	275	87	(188)	(68.4)
NIMO 2002. Ltd.	1,300	1,734	434	33.4	6	7	1	16.7
Merkantil Group	197,232	253,227	55,995	28.4	3,802	6,352	2,550	67.1
OTP Building Society Ltd.	66,274	86,653	20,379	30.7	664	1,390	726	109.3
OTP Mortgage Bank Ltd.	879,117	956,072	76,955	8.8	13,181	5,248	(7,933)	(60.2)
OTP Banka Slovensko, a. s.	214,887	262,858	47,972	22.3	512	1,373	861	168.2
DSK Group	410,499	583,423	172,924	42.1	11,993	16,572	4,579	38.2
OTP Bank Romania S.A.	44,565	55,225	10,660	23.9	50	(2,122)	(2,172)	–
OTP banka Hrvatska d.d.	–	298,175	–	–	–	2,135	–	–
OTP Garancia Insurance Ltd.	118,496	157,225	38,729	32.7	3,400	6,704	3,304	97.2
OTP Fund Management Ltd.	8,601	11,519	2,918	33.9	2,775	3,853	1,078	38.8
HIF Ltd.	12,340	14,369	2,029	16.4	127	133	6	4.7
OTP Real Estate Ltd.	18,239	20,454	2,216	12.1	845	940	95	11.2
OTP Factoring Ltd.	7,826	11,700	3,874	49.5	589	564	(25)	(4.2)
OTP Factoring Asset Management Ltd.	1,565	1,459	(105)	(6.7)	17	66	49	288.2
Bank Center No. 1. Ltd.	7,885	8,255	369	4.7	115	343	228	198.3
OTP Fund Servicing and Consulting Ltd.	1,967	2,245	279	14.2	95	167	72	75.8
OTP Mérleg Ltd.	1,353	-	-	-	(43)	-	-	-
Inga Companies	11,122	10,736	(386)	(3.5)	120	147	27	22.5
Concordia Info Ltd.	3,196	3,610	414	13.0	37	50	13	35.1
OTP Card Manufacturing Ltd.	823	803	(20)	(2.4)	39	41	2	5.1
OTP Faktoring Slovensko, a.s.	–	3,692	–	–	–	27	–	–
OTP Leasing, a.s.	–	22,680	–	–	–	23	–	–
Subsidiaries total	**2,005,986**	**2,764,380**	**758,394**	**37.8**	**38,318**	**44,006**	**5,688**	**14.8**

MAIN INDICATORS OF MERKANTIL GROUP

Merkantil Group

	2004	2005	Change %
ROAA%	2.12	2.82	0.70
ROAE %	25.5	32.7	7.2
Cost/income ratio %	44.0	36.4	(7.6)

MAIN FINANCIAL DATA OF MERKANTIL GROUP

	31/12/2004 HUF mn	31/12/2005 HUF mn	Change HUF mn	%
Gross loans	172,525	229,655	57,130	33.1
Provisions	(10,738)	(15,268)	(4,530)	42.2
Net loans	161,787	214,387	52,600	32.5
Receivables due to leasing	16,072	16,262	190	1.2
Deposits	5,495	4,688	(807)	(14.7)
Issued securities	35,072	35,016	(56)	(0.2)
Liabilities to credit institutions	129,079	181,516	52,437	40.6
Shareholders' equity	16,018	22,833	6,815	42.5
Total assets	**197,232**	**253,227**	**55,995**	**28.4**
Profit before tax	4,782	8,633	3,851	80.5
Profit after tax	3,801	6,352	2,551	67.1

- Merkantil Group's aggregate balance sheet total as at 31 December 2005 was HUF 253.2 billion, up by 28.4 per cent., or HUF 56.0 billion, on a year earlier. The group's aggregated after-tax profit for 2005 amounted to HUF 6.4 billion, representing a 67.1 per cent. rise from a year earlier.

- Merkantil Group concluded close to 63,000 new vehicle financing contracts in 2005, which was 3.9 per cent., or over 2,000 contracts, more than the number of new contracts concluded in 2004. Based on the total number of contracts, the proportion of foreign currency loan facilities was 91 per cent., for forint denominated loans, 6.2 per cent., for cars sold under financial lease contracts, 2.5 per cent. and for permanent lease facilities, 0.3 per cent.

- The aggregate (gross) loan portfolio was HUF 229.7 billion as at 31 December 2005, which was HUF 57.1 billion, or 33.1 per cent., higher than in the previous year.

- In 2005, Merkantil Group achieved HUF 19 billion in net interest income, representing a 12.9 per cent. rise compared to the previous year. Non-interest income grew by 9.3 per cent., while non-interest expenses were more than 20.9 per cent. lower than in 2004. Gross interest margin was 8.43 per cent. in 2005, i.e. 96 basis points lower than in 2004. The group's aggregated cost-to-income ratio was 36.4 per cent. in 2005 (in 2004: 44.0 per cent.).

MAIN INDICATORS OF MERKANTIL GROUP

Merkantil Group

	2004	2005	Change %
ROAA%	4.15	2.68	(1.47)
ROAE %	22.7	19.4	(3.3)
Cost/income ratio %	46.9	43.9	(3.0)

MAIN FINANCIAL DATA OF MERKANTIL GROUP

	31/12/2004	31/12/2005	Change	
	HUF mn	HUF mn	HUF mn	%
Gross loans	50,422	126,025	75,583	149.8
Retail	34,231	95,363	61,132	178.6
Corporate	16,190	30,629	14,438	89.2
Municipal	21	33	12	57.1
Provisions	(5,378)	(7,222)	(1,844)	34.3
Net loans	45,064	118,803	73,739	163.6
Deposits	4,664	4,591	(73)	(1.6)
Issued securities	35,072	35,016	(55)	(0.2)
Liabilities to credit institutions	521	75,983	75,462	–
Shareholders' equity	12,179	14,801	2,622	21.5
Subscribed capital	2,000	2,000	–	–
Total assets	**58,939**	**136,688**	**77,749**	**131.9**
Profit before tax	2,950	2,834	(116)	(3.9)
Profit after tax	2,605	2,620	15	0.6

- In 2005 Merkantil Bank's gross loan portfolio was close to two and a half times, or HUF 75.6 billion, higher than that of the previous year, and its balance sheet total also grew substantially, by 131.9 per cent., reaching HUF 136.7 billion as at 31 December. The dynamic expansion of the portfolio was attributable in part to the fact that the bank took over the provision of foreign currency vehicle financing loans from Merkantil Car during the year.

- 78.1 per cent. of the HUF 126.0 billion loan portfolio was qualified as of the end of 2005, the bulk of which (92 per cent.) had been placed in the "to be monitored" category, as the bank automatically includes foreign currency loans in this category. 6.5 per cent. of the gross portfolio consisted of non-performing loans.

- In addition to the interbank credit line provided by the parent bank, the volume of issued securities – which amounted to HUF 35.0 billion at year-end 2005 and the bulk of which (HUF 33.3 billion) were sold through the Bank's branch network – was also significant in the bank's liabilities structure. In addition, the bank had deposit liabilities of HUF 4.6 billion, which was 1.6 per cent. lower than at the end of the previous year.

- No material change occurred in the distribution of income from business activities in 2005. Interest income and administration fees from vehicle financing continued to provide a decisive contribution to the bank's total interest and interest type income. The bank earned HUF 7.2 billion in interest revenues in 2005, which was 11.4 per cent. higher than in the previous year. The gross interest rate margin calculated on the average asset portfolio was 7.4 per cent.

- The bank's provisions for loan and placement losses were HUF 1.9 billion in 2005, which was HUF 1.5 billion higher than in 2004. The net interest margin after provisioning was 5.42 per cent.

- The bank's after-tax profit amounted to HUF 2.6 billion, which was HUF 15 million, or 0.6 per cent., higher than in the previous year.

MAIN INDICATORS OF MERKANTIL CAR LTD.

Merkantil Car Ltd.

	2004	2005	Change %
ROAA %	0.81	2.93	2.12
ROAE %	54.2	96.5	42.3
Cost/income ratio %	25.4	26.1	0.7

MAIN FINANCIAL DATA OF MERKANTIL CAR LTD.

	31/12/2004 HUF mn	31/12/2005 HUF mn	Change HUF mn	%
Gross loans	122,083	103,630	(18,453)	(15.1)
Retail	103,709	93,973	(9,736)	(9.4)
Corporate	18,119	9,609	(8,510)	(47.0)
Municipal	255	48	(207)	(81.1)
Provisions	(5,360)	(8,046)	(2,685)	50.1
Net loans	116,722	95,584	(21,138)	(18.1)
Receivables due to leasing	15,250	15,132	(117)	(0.8)
Deposits	831	97	(734)	(88.3)
Liabilities to credit institutions	128,083	104,832	(23,251)	(18.2)
Shareholders' equity	1,950	5,588	3,638	186.6
Subscribed capital	50	50	–	–
Total assets	**135,399**	**113,121**	**(22,278)**	**(16.5)**
Profit before tax	1,471	5,638	4,167	283.3
Profit after tax	916	3,638	2,722	297.3

- Merkantil Car's balance sheet total was HUF 113.1 billion at the end of 2005, which was 16.5 per cent. lower than that of the previous year. The decrease was attributable to the fact that Merkantil Bank assumed the granting of foreign currency vehicle financing loans. The (gross) loan portfolio was HUF 103.6 billion as at 31 December 2005, which was HUF 18.5 billion, or 15.1 per cent., lower than in the previous year.

- 99.6 per cent. of the loan portfolio was qualified at year-end 2005, and this was comprised almost exclusively (92 per cent.) of the "to be monitored" category, due to the fact that foreign currency loans are automatically included in this category.

- Merkantil Car earned HUF 11.6 billion in interest income in 2005, which was 9.8 per cent. higher than in the pervious year. The gross interest rate margin calculated on the average asset portfolio was 9.35 per cent.

- Merkantil Car's provisions for loan and placement losses were HUF 2.7 billion in 2005, which was 2.1 per cent. lower than in 2004. Net interest margin after provisioning was 7.15 per cent. The ratio of provisions to the average gross loan and leasing portfolio was 2.13 per cent.

- Merkantil Car's after-tax profit rose from HUF 916 million to HUF 3,638 million in 2005, or close to four times that of the previous year. Its return on average assets (ROAA) was 2.93 per cent., and its return on average equity (ROAE) was 96.5 per cent.

MAIN INDICATORS OF OTP BUILDING SOCIETY LTD.

OTP Building Society Ltd.

	2004	2005	Change %
ROAA %	1.12	1.82	0.70
ROAE %	15.1	26.5	11.4
Cost/income ratio %	65.2	44.7	(20.5)

MAIN FINANCIAL DATA OF OTP BUILDING SOCIETY LTD.

	31/12/2004 HUF mn	31/12/2005 HUF mn	Change HUF mn	%
Loans	7,929	6,189	(1,740)	(21.9)
Deposits	59,492	78,825	19,333	32.5
Shareholders' equity	4,671	5,822	1,151	24.6
Subscribed capital	2,000	2,000	–	–
Total assets	**66,274**	**86,653**	**20,379**	**30.7**
Profit before tax	783	1,819	1,036	132.3
Profit after tax	664	1,390	726	109.3

- The balance sheet total of OTP Building Society, thanks to a dynamic increase in its deposit portfolio, rose by 30.7 per cent. in 2005.
- The 32.5 per cent. growth in the deposit portfolio was due to 106,000 new contracts concluded in 2005 produced, as well as to an increase in contractual volumes.
- The loan portfolio fell in 2005, as it had done in the previous year. Compared to the 2004 figure, the portfolio decreased by nearly 22 per cent., which was attributable to a fall in the take-up of loans resulting from changes to the favourable terms and conditions of subsidised loans.
- OTP Building Society achieved a 54.7 per cent. market share of the building society savings market in terms of the number of valid (active) contracts and a 48.7 per cent. market share in terms of contractual volumes.
- The after-tax profit of OTP Building Society more than doubled compared to the previous year, rising from HUF 664 million to HUF 1,390 million, the bulk of which was attributable to a 32.5 per cent. rise in the deposit portfolio and to a reduction in costs.
- The company paid HUF 1,348 million in dividend on its after-tax profits in 2005 to its owner, OTP Bank.

MAIN INDICATORS OF OTP MORTGAGE BANK LTD.

OTP Mortgage Bank Ltd.

	2004	2005	Change %
ROAA %	1.71	0.57	(1.14)
ROAE %	41.3	14.0	(27.3)
Cost/income ratio %	22.2	29.1	6.9

MAIN FINANCIAL DATA OF OTP MORTGAGE BANK LTD.

	31/12/2004 HUF mn	31/12/2005 HUF mn	Change HUF mn	%
Loans	770,265	849,252	78,987	10.3
Deposits	790,914	812,700	21,786	2.8
Shareholders' equity	37,859	36,939	(920)	(2.4)
Subscribed capital	20,000	20,000	–	–
Total assets	**879,117**	**956,072**	**76,955**	**8.8**
Profit before tax	15,652	6,799	(8,853)	(56.6)
Profit after tax	13,181	5,248	(7,933)	(60.2)

- The loan portfolio of OTP Mortgage Bank grew from HUF 770.3 billion in 2004 to HUF 849.3 billion 2005. This growth, which was less strong than in the year before, as well as developments in the composition of the portfolio, reflect market trends. From March 2005, in addition to forint denominated housing loans, OTP Mortgage Bank also purchased foreign currency housing and mortgage type loans. The loan portfolio assumed by OTP Mortgage Bank in 2005 was HUF 146.3 billion, within which the share of foreign currency loans was approximately 40 per cent.
- Fully performing loans accounted for 97.95 per cent., "to be monitored" loans 1.97 per cent., and doubtful loans 0.08 per cent. of the loan portfolio at year-end 2005. Under a cooperation agreement, OTP Bank repurchased some HUF 4 billion in non-performing loan receivables from the Mortgage Bank in 2005.
- Along with the expansion of its loan portfolio, the volume of mortgage bonds issued by the Mortgage Bank also grew. As at 31 December 2005, the closing portfolio was HUF 812.7 billion. In accordance with amendments to the law, a new domestic bond issuance program, one that is in line with European regulations, has been developed, which enables the Mortgage Bank to distribute its mortgage bonds not only in forint but also in euro and Swiss francs, in a quick and flexible manner in line with its funding requirements related to receivables purchases.
- Among the three mortgage banks in Hungary (OTP, FHB and HVB), OTP Mortgage Bank has a market share of over 60 per cent. in terms of both the volume of mortgage bonds it has issued and the housing loan portfolio.
- OTP Mortgage Bank's pre-tax profit fell by 56.6 per cent., to HUF 6.8 billion, which was due primarily to an increase (from HUF 26.1 billion in 2004 to HUF 52.8 billion in 2005) in fees and commissions paid to the Bank.
- Taking into account the fees paid to the Bank, the value contribution of OTP Mortgage Bank exceeded HUF 59 billion.

MAIN INDICATORS OF OTP GARANCIA INSURANCE LTD.

OTP Garancia Insurance Ltd.

	2004	2005	Change %
ROAA %	3.12	4.86	1.74
ROAE %	27.2	37.7	10.5
Cost/income ratio %	93.1	90.5	(2.6)

MAIN FINANCIAL DATA OF OTP GARANCIA INSURANCE LTD.

	31/12/2004 HUF mn	31/12/2005 HUF mn	Change HUF mn	%
Insurance technical reserves	98,680	131,116	32,436	32.9
Shareholders' equity	14,272	21,336	7,064	49.5
Subscribed capital	7,351	7,351	–	–
Total assets	**118,496**	**157,225**	**38,729**	**32.7**
Gross insurance premiums	55,603	75,763	20,160	36.3
Life insurances	26,672	44,569	17,897	67.1
Non-life insurances	28,930	31,193	2,263	7.8
Insurance expenses	40,370	59,699	19,329	47.9
Damages and insurance services	25,917	27,263	1,346	5.2
Change in reserves	14,453	32,436	17,983	124.4
Profit before tax	4,049	7,936	3,887	96.0
Profit after tax	3,400	6,704	3,304	97.2

- OTP Garancia Insurance Ltd. achieved premium revenue of HUF 75.8 billion in 2005, which was 36.3 per cent., or HUF 20.2 billion, higher than in the previous year. Of total premium revenues, the revenues of the life and bank assurance divisions amounted to HUF 44.6 billion, representing an outstanding 67.1 per cent. rise, while those of the non-life division were HUF 31.2 billion. Within life insurance premium revenue, the revenue from one-off premium-payment life insurance policies grew dynamically, by 124.3 per cent., or HUF 15.8 billion, while revenue from regular payment insurance policies grew by 14.9 per cent.

- The company's insurance expenses rose from HUF 40.4 billion to HUF 59.7 billion in 2005. Of the insurance expense total, gross damage payments were HUF 27.3 billion. The change in net reserves amounted to HUF 32.4 billion, which represents an over two-fold rise compared to the previous year-end figure. Thus total insurance technical reserves stood, after a close to 33 per cent. growth, at HUF 131.1 billion as at 31 December 2005.

- The company's balance sheet total grew by 32.7 per cent. compared to the previous year, to HUF 157.2 billion, and its shareholders' equity increased from the previous year's HUF 14.3 billion to HUF 21.3 billion.

- The company's after-tax profit was close to twice that of the previous year, rising to HUF 6.7 million, while return on average assets (ROAA) increased from 3.12 per cent. to 4.86 per cent., and return on average equity (ROAE) rose from 27.2 per cent. to 37.7 per cent. The company paid HUF 4.5 billion in dividend on its after-tax profits in 2005 to the Bank.

MAIN INDICATORS OF OTP FUND MANAGEMENT LTD.

OTP Fund Management Ltd.

	2004	2005	Change %
ROAA %	27.28	38.30	11.02
ROAE %	47.3	46.4	(0.9)
Cost/income ratio %	20.2	21.2	1.0

MAIN FINANCIAL DATA OF OTP FUND MANAGEMENT LTD.

	31/12/2004 HUF mn	31/12/2005 HUF mn	Change HUF mn	%
Managed assets	760,800	1,096,900	336,100	44.2
Managed assets in investment funds	391,000	580,400	189,400	48.4
Managed assets in pension funds	294,900	405,800	110,900	37.6
– from this OTP Pension Funds	288,600	396,200	107,600	37.3
Other managed assets	75,000	110,700	35,700	47.6
Shareholders' equity	6,352	10,256	3,904	61.5
Subscribed capital	900	900	–	–
Total assets	**8,601**	**11,519**	**2,918**	**33.9**
Profit before tax	3,300	4,631	1,331	40.3
Profit after tax	2,775	3,853	1,078	38.8

- Within the net asset value of the funds managed by OTP Fund Management, the net asset value of the Optima Fund stood at HUF 411.9 billion at year-end 2005, which represents a rise of 29.5 per cent. The assets of the Maxima, Paletta, UBS Fund of Funds, Quality Equity Fund and Fantázia Structured Equity Fund also rose, while the assets held in the Euro and Dollar Funds fell over the course of 2005.
- At the end of 2005, the Fund Manager's share of the securities funds market was 38.3 per cent. (compared to 40.5 per cent. at the end of 2004).
- With respect to the pension fund market, the Fund Manager maintained its share of approximately 18-19 per cent. of total assets under management in 2005.
- The company achieved an after-tax profit of HUF 3,853 million in 2005, which resulted in a return on average assets (ROAA) of 38.3 per cent. and a 46.4 per cent. return on average equity (ROAE). The company's cost-to-income ratio was 21.2 per cent. in 2005. The Fund Manager paid HUF 3.8 billion in dividends on its after-tax profits in 2005 to the Bank.

MAIN INDICATORS OF DSK GROUP

DSK Group

	2004	2005	Change %
ROAA %	3.27	3.33	0.06
ROAE %	24.0	26.3	2.3
Cost/income ratio %	50.0	45.2	(4.8)

MAIN FINANCIAL DATA OF DSK GROUP

	31/12/2004 HUF mn	31/12/2005 HUF mn	Change HUF mn	%
Gross loans	273,413	384,436	111,023	40.6
Retail	210,379	301,552	91,173	43.3
Corporate	62,850	82,668	19,818	31.5
Municipal	183	216	32	17.7
Provisions	(5,505)	(10,902)	(5,397)	98.0
Net loans	267,908	373,534	105,626	39.4
Deposits	331,347	432,415	101,068	30.5
Retail	282,900	352,002	69,102	24.4
Corporate	41,805	66,560	24,755	59.2
Municipal	6,642	13,853	7,212	108.6
Liabilities to credit institutions	16,933	67,627	50,694	299.4
Shareholders' equity	54,563	71,243	16,680	30.6
Subscribed capital	14,430	14,430	0	0.0
Total assets	**410,499**	**583,423**	**172,924**	**42.1**
Profit before tax	13,359	19,601	6,242	46.7
Profit after tax	11,993	16,572	4,579	38.2

- The group's after-tax profit was HUF 16.6 billion in 2005, representing a 38.2 per cent. increase over the 2004 figure, and thus ROAA and ROAE stood at 3.33 per cent. and 26.3 per cent. respectively at year-end 2005.
- DSK Bank's balance sheet total on 31 December 2005 stood at more than HUF 583.4 billion, or 42.1 per cent. higher than at year-end 2004, giving DSK Bank a market share of 13.6 per cent. and making it Bulgaria's largest bank. The bank's loans grew by 40.6 per cent., further increasing the bank's market share (to 16.2 per cent.), and its deposits grew by 30.5 per cent., as a result of which DKS maintained its market leading position in this respect too (with a share of 14.8 per cent.).
- The group's shareholders' equity was HUF 71.2 billion as at 2005, representing a 30.6 per cent. rise.
- In compliance with the stipulations of the National Bank of Bulgaria, the Bank's solvency ratio was 12.21 per cent., compared to 13.41 per cent. a year earlier.
- DKS Group's net interest income before provisioning rose by HUF 9.7 billion, amounting to close to HUF 34.3 billion (+39.4 per cent. annual increase), and thus net interest margin was 6.9 per cent. in 2005.
- Non-interest income, with revenues from net fees and commissions considered, fell by 9.9 per cent., despite the fact that income from net fees and commissions grew by 38.8 per cent. in 2005.
- The group's cost-to-income ratio declined by close to 5 percentage points, to 45.2 per cent., in 2005.

MAIN INDICATORS OF OTP BANKA HRVATSKA D.D.*

OTP Banka Hrvatska d.d.

	2004	2005
ROAA %	–	1.00
ROAE %	–	10.6
Cost/income ratio %	–	67.2

MAIN FINANCIAL DATA OF OTP BANKA HRVATSKA D.D.

	31/12/2004 HUF mn	31/12/2005 HUF mn
Gross loans	–	150,499
Retail	–	90,014
Corporate	–	59,792
Municipal	–	693
Deposits	–	232,496
Retail	–	193,978
Corporate	–	33,168
Municipal	–	5,350
Shareholders' equity	–	30,571
Subscribed capital	–	17,304
Total assets	–	**298,175**
Profit before tax	–	3,117
Profit after tax	–	2,135

- On 10 March 2005 OTP Bank acquired the Croatian Nova banka as it was then known, which has been operating as OTP banka Hrvatska (**OBH**) since September 2005.
- As at 31 December 2005 OBH's consolidated balance sheet total was HUF 298.2 billion, which gave the Bank a share of the Croatian market of 3.4 per cent.
- The Bank's gross loans amounted to HUF 150.5 billion at year-end 2005, which meant its market share was 3.1 per cent. at the end of the year. Deposits from customers were HUF 232.5 billion at year-end, corresponding to a market share of 4.1 per cent.
- OBH's net interest income was HUF 7.4 billion in 2005. The group's non-interest income reached HUF 3.9 billion, while its non-interest expenses rose to HUF 7.9 billion. Its cost-to-income ratio was 67.2 per cent. in 2005.
- In 2005 OBH contributed HUF 2.1 billion to the Group's consolidated profits with its after-tax profits that it achieved in Q2-Q4 of 2005 following the conclusion of the acquisition. The Bank's annualised ROAA was 1.00 per cent., and its ROAE 10.6 per cent.
- From its after-tax profits of 2005, OBH will pay the Bank HUF 3,563 million in dividends on its stand-alone performance, which in 2005 differed substantially from OBH's group-level performance due to the one-off result of intra-group real estate sales.

* Figures for the period after acquisition of OTP banka Hrvatska (2-4Q 2005) and annualized financial indicators

MAIN INDICATORS OF OTP BANKA SLOVENSKO, A. S.

OTP Banka Slovensko, A.S

	2004	2005	Change %
ROAA %	0.27	0.57	0.30
ROAE %	3.5	8.6	5.1
Cost/income ratio %	97.5	78.7	(18.8)

MAIN FINANCIAL DATA OF OTP BANKA SLOVENSKO, A.S.

	31/12/2004 HUF mn	31/12/2005 HUF mn	Change HUF mn	%
Gross loans	134,581	189,940	55,359	41.1
Retail	25,214	43,827	18,613	73.8
Corporate	108,333	142,566	34,233	31.6
Municipal	1,033	3,547	2,514	243.4
Deposits	139,929	151,851	11,922	8.5
Retail	61,316	59,636	(1,680)	(2.7)
Corporate	59,178	71,063	11,885	20.1
Municipal	19,434	21,152	1,718	8.8
Shareholders' equity	14,954	17,128	2,174	14.5
Subscribed capital	11,831	11,831	(0)	(0.0)
Total assets	214,887	262,858	47,971	22.3
Profit before tax	512	1,373	861	168.1
Profit after tax	512	1,373	861	168.1

- The balance sheet total of OBS was HUF 262.9 billion as at the end of 2005, which represents a 22.3 per cent. rise compared to year-end 2004, giving it a 2.8 per cent. share of the Slovak banking market.
- In 2005, OBS's credit portfolio rose by 41.1 per cent., to HUF 189.9 billion, representing a 5.3 per cent. market share at year-end. Its deposit portfolio rose by 8.5 per cent., to HUF 151.9 billion, in 2005 and its market share was 3.2 per cent. as at 31 December 2005.
- OBS's shareholders' equity rose by 14.5 per cent., to HUF 17.1 billion, in the reporting period.
- OBS's net interest income increased from HUF 4,954 million in 2004 to HUF 5,401 million in 2005. OBS's non-interest income, compared with the previous year's figure, grew by over 130 per cent., to HUF 6.3 billion by the end of 2005. Non-interest expenses increased by 24.1 per cent. and amounted to HUF 9.3 billion in 2005. OBS's cost-to-income ratio, having dropped by 19 basis points, improved to 78.7 per cent. in 2005.
- OBS's after-tax profit for 2005 according to IFRS amounted to HUF 1.4 billion, compared to HUF 512 million in the previous year. OBS's ROAA was 0.57 per cent. at the end of 2005, and its ROAE 8.6 per cent.
- OBS will pay HUF 1,116 million in dividend on its after-tax profits in 2005 to the Bank.

MAIN INDICATORS OF OTP BANK ROMANIA S.A.

OTP Bank Romania

	2004	2005	Change %
ROAA %	–	(4.25)	–
ROAE %	–	(19.8)	–
Cost/income ratio %	80.6	142.2	61.6

MAIN FINANCIAL DATA OF OTP BANK ROMANIA S.A.

	31/12/2004 HUF mn	31/12/2005 HUF mn	Change HUF mn	%
Gross loans	16,345	24,565	8,220	50.3
Retail	258	2,396	2,138	827.9
Corporate	16,087	22,169	6,082	37.8
Municipal	–	–	–	–
Provisions	(276)	(463)	(188)	68.2
Net loans	16,069	24,102	8,033	50.0
Deposits	28,703	25,329	(3,374)	(11.8)
Retail	12,764	9,294	(3,470)	(27.2)
Corporate	15,939	15,279	(660)	(4.1)
Municipal	-	756	756	-
Liabilities to credit institutions	7,572	15,482	7,910	104.5
Shareholders' equity	7,692	13,731	6,039	78.5
Subscribed capital	5,104	12,577	7,473	146.4
Total assets	**44,565**	**55,225**	**10,660**	**23.9**
Profit before tax	84	(2,182)	(2,266)	–
Profit after tax	50	(2,122)	(2,172)	–

- OTP Bank Romania's balance sheet total exceeded HUF 55.2 billion as at 31 December 2005, which exceeded the year-end 2004 figure by 23.9 per cent. OTP Bank Romania's market share based on balance sheet total was 0.64 per cent. at year-end 2005.
- OTP Bank Romania's shareholders' equity – due mainly to a capital increase of EUR 30 million in September 2005 – amounted to HUF 13.7 billion (representing a 78.5 per cent. rise) as at 31 December 2005.
- OTP Bank Romania's net interest income (before provisioning) grew by 39.7 per cent., to HUF 1.6 billion, while non-interest income (net fees and commissions included) rose by 164.9 per cent. to HUF 1.7 billion.
- OTP Bank Romania closed the 2005 business year with a loss of HUF 2.1 billion, suffered mainly as a result of the high incidence of non-performing loans and the implementation of the branch network expansion plan.
- OTP Bank Romania is not expected to make a profit until the 2008 financial year due to extension of existing operations.

ASSET-LIABILITY MANAGEMENT

Liquidity and market risk management

In 2005, the Group continued to implement a centralised market risk-management system (including human resources, hardware and software), as is generally used internationally. The group-level regulation on market risk management, approved by the Board of Directors of the Bank, specifies the minimum methodological, limit setting and reporting requirements that each group member must meet. It also stipulates the maximum acceptable level of market risk exposure applicable to the group as a whole.

With the help of a computer system, the Bank monitors, in real time, the position of foreign and domestic group members with the largest risk exposure. This means that dealing room liquidity and the utilisation of limits related to market positions can be checked at any time during the day, and the managers concerned receive an automatically generated report regarding any potential limit overruns. In 2005 the automated measurement of the Group's banking-book interest and medium-term liquidity risk exposure was commenced.

At the Bank, the supreme forum for asset liability and market risk management is the Asset-Liability Committee. Every year the Committee reviews, at group and bank level, the measurement methods and the established limits, the basis of which is the maximum acceptable level of loss. The Committee receives a report each quarter on the liquidity, interest rate and market risk exposure of the Bank and the Group, while the senior management of the Bank receives a copy each month.

OTP Group's liquidity and market risk exposure

Pursuant to Government Decree no. 244/2000., the capital requirement for trading book positions, counterparty risks and exchange rate risks must be consolidated in the case of OTP Mortgage Bank Ltd., OTP Building Society Ltd., Merkantil Bank Ltd., OBS, DSK, OBR and OBH. As at end-2005, the consolidated capital requirement was HUF 12.2 billion, which was attributable mainly to foreign exchange positions.

The exposure of the group members' foreign exchange positions is restricted by the imposing of individual and global open position (overnight and intraday) as well as loss limits. In 2005 group-level average net exposure was HUF 35.7 billion.

In 2005 the Group's liquidity declined as a result of the dynamic growth in lending activity. Due to the substantial demand for foreign currency loans, the bulk of the group's foreign currency placements are financed by loans taken up by OTP Bank and the securities issued by it. The Mortgage Bank raises funds through the issue of securities, which are purchased by institutional and retail investors.

In 2005 the interest rate exposure of the Group was essentially determined by the positions of the Bank, OTP Mortgage Bank Ltd. and DKS Bank. Since the mortgage bonds issued by the Mortgage Bank to fund its loans were purchased by the Bank, the funding source for the loans on the Mortgage Bank's books were in effect the Bank's customer deposits. On group level, the volume of liabilities that can be repriced within one year or less exceeds that of assets that can be repriced within one year or less. Such a position is beneficial to the Group in the event that market rates continue to decrease.

Developments in the Bank's liquidity

The Bank's liquidity policy: bearing profitability in mind, the Bank should be able to honour its payment obligations when they fall due and execute the necessary transactions. In order to measure liquidity risk exposure, the Bank checks the balance of the mandatory reserve account and the treasury portfolio on a daily basis, and cash flow eight days in advance. It prepares a gap analysis in the form of a maturity balance sheet and, based on the plans, determines the treasury's placement possibilities and/or its fund raising requirement. The business areas and executive officers concerned receive reports on risk exposure and limit utilisation.

At the end of 2005, the value of the cumulative net base position in the five-year-or-less categories of the Bank's maturity balance sheet – compiled through a structuring performed on the basis of the scheduled maturity date of deposits – showed a considerable positive balance. The long-term liquidity position was affected greatly by the fact that in 2005 the Bank, in order to finance foreign currency loans and the subsidiaries of the Group, issued foreign currency bonds of a nominal value of EUR 800 million and a maturity of five years and subordinated debenture bonds of a nominal value of EUR 125 million and a maturity of 10 years. The value of loans taken up by the Bank on the capital market for purposes other than re-financing rose to EUR 1,396, 96.3 per cent. (EUR 1,344 million) of which had been drawn down in euro or Swiss francs as of year-end 2005. The excess forint liquidity meant the Bank could also raise EUR- and CHF-denominated funds in the form of FX swaps.

By the end of 2005, the volume of foreign currency loans had grown by over 57 per cent. of the year-end 2004 figure. The growth in foreign currency loans was attributable to the business activity of both the Bank and its subsidiaries. A major part of the loans were extended by the Bank to its affiliates, mainly for vehicle financing. The coverage of foreign currency loans by foreign currency deposits from customers fell from 58 per cent. to 41 per cent. over the year, and in the case of the euro, from 55 per cent. to 40 per cent. In the wake of the foreign bank acquisitions, an increasingly large portion –two thirds – of assets are denominated in foreign currency. In 2005, the value of foreign currency deposits from customers expressed in euro rose by close to 10 per cent., while their forint value, due to the 2.8 per cent. weakening of the forint exchange rate, was 11 per cent. higher. In 2005, the growth in the share of euro-denominated deposits within foreign currency deposits ceased, and then declined, from 63.6 per cent. previously to 61.6 per cent.

Applying stricter rules than the law, which stipulates that a large deposit is one that exceeds 15 per cent. of the guarantee capital, the Bank deems any deposit in excess of HUF 2 billion as large. The portfolio of the Bank's cash, negotiable securities and short-term central bank and placements with other banks is over 7.45 times higher than the aggregate portfolio of the individual large deposits. Similarly to the year-end 2004 proportion, the Bank's cash securities held for trading and deposits held with the central bank and other commercial banks accounted for 19 per cent. of the balance sheet total as at year-end 2005.

The Bank's interest rate exposure

The Bank aims to contain all potential loss arising from an adverse shift in market rates and manifesting itself in a fall in net interest income or the market value of the portfolio, within certain specified limits. To this end, the Bank measures its interest rate exposure on a continuous basis and notifies the management in the event of any limit overrun.

In 2005 the intra-year gap of the combined forint repricing balance of the banking and trading book portfolio (i.e. the value of the receivables belonging to the given time category less the liabilities belonging to the same time category) was, similarly to the previous years, short, that is, it revealed a substantial excess of liabilities. The Bank's interest rate exposure is largely determined by the fact that almost its entire deposit portfolio is repriced within 3 months, partly since deposits are placed only for short periods and partly because their interest rates are not fixed and are also not tied to money-market instruments, but may, depending on market conditions, be repriced by the Bank entirely at its own discretion, and at the same time, the portfolio of fixed-rated securities held for investment purposes exceeded HUF 600 billion. The share of the Bank's long-maturity fixed-rated mortgage bonds within the Bank's portfolio did not change substantially, and therefore the average remaining period to maturity (duration) of the aggregate portfolio of mortgage bonds fell by half a year, to 3.25 years, over the course of the year under review. The short-term discount securities issued by OTP Mortgage Bank expired, and were effectively renewed through the subscription of newly issued short-term fixed rate mortgage bonds.

The interest rate exposure of the foreign currency denominated portfolio is not material.

The Bank's exchange rate exposure

The Asset Liability Committee contains foreign exchange rate exposure through individual and global net open position (overnight and intraday) as well as loss limits.

The Bank is present in both the domestic and foreign FX spot and derivatives markets. In 2005, the average size of the Bank's net open position was HUF 35.7 billion, which was due, almost in its entirety, to its foreign interests (in the reporting year OTP banka Hrvatska, formerly Nova banka, joined the group). The average net open position held by the dealing room was HUF 3.7 billion.

In 2005, the forint weakened by 2 per cent. against the euro. The US dollar strengthened significantly against the euro, which – due to the relative stability of the HUF/EUR cross-rate – strengthened the dollar by 18 per cent. against the forint. The Bank made the most of the opportunities offered by the movements in the market. The profit of the Arbitrage Division was HUF 1.2 billion in 2005.

Capital requirement for the Bank's market risk exposure

Since the second quarter of 2001, in conformity with Government Decree no. 244/2000, the Bank has been preparing daily reports for the Supervisory Authority on the capital requirement for the interest rate, counterparty and foreign exchange rate risk, determined in accordance with the 'standard method', of the Bank's trading book positions. The average capital requirement was HUF 3.3 billion higher in 2005 than in 2004, and reached HUF 8.3, of which HUF 1.1 billion was allocated to position risk, HUF 0.3 billion to counterparty risk and HUF 7 billion to exchange rate risk. It was exchange rate risk that rose the most, due mainly to the increase in open foreign exchange positions caused by the acquisitions.

The Bank determines the capital requirement each day, also using the internal model (VaR). Average (overall) capital requirement calculated with the VaR model was HUF 5.5 billion in 2005. As from April 1, 2006, based on the approval of the Board of Directors and the Hungarian Supervisory Authority, the Bank uses the internal model to calculate the capital requirement for its exchange rate risk.

FINANCIAL SUMMARY

Consolidated IFRS data

BALANCE SHEET (in HUF bn)

As at 31 December	2004*	2005*
Cash, due from banks and balances with the National Bank of Hungary	465.9	483.2
Placements with other banks, net of allowance for placement losses	286.2	438.8
Financial assets at fair value through statements of operations	70.6	48.1
Securities available-for-sale	295.8	409.9
Gross loans	2,586.1	3,297.2
Retail	1,547.4	1,965.8
Corporate	920.6	1,195.4
Municipal	118.1	136.0
Allowance for loan losses	79.3	105.9
Net loans	2,506.8	3,191.3
Equity investments	9.4	12.4
Securities held-to-maturity	247.3	289.8
Premises, equipment and intangible assets, net	174.8	233.2
Other assets	105.6	109.2
TOTAL ASSETS	**4,162.4**	**5,215.9**
Due to banks and deposits from the National Bank of Hungary and other banks	254.1	364.1
Deposits from customers	2,902.2	3,428.2
Retail	2,155.8	2,562.9
Corporate	549.8	662.2
Municipal	196.5	203.1
Liabilities from issued securities	317.2	543.5
Other liabilities	240.8	285.6
Subordinated bonds and loans	14.3	47.0
TOTAL LIABILITIES	3,728.7	4,668.4
TOTAL SHAREHOLDERS' EQUITY	433.7	547.5
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	**4,162.4**	**5,215.9**
Net assets per share (NAV) ** (HUF, diluted)	1,486.6	1,862.8

PROFIT AND LOSS ACCOUNT (in HUF bn)

For the years ended 31 December	2004*	2005*
Net interest income	260.9	297.2
Provision for loan and placement losses	16.0	28.0
Net interest income after provision for loan and placement losses	244.8	269.2
Fees and commissions income	91.6	118.9
Foreign exchange gains, net	1.3	3.9
Gains and losses on securities, net	6.5	9.7
Gains on real estate transactions, net	1.8	0.1
Dividend income and gains and losses of associated companies	0.6	0.7
Insurance premiums	49.3	69.8
Other	10.7	13.5
Total Non-Interest Income	161.8	216.5
Fees and commissions expense	20.6	19.9
Personnel expenses	79.5	95.2
Depreciation and amortisation	29.2	21.9
Insurance expenses	40.3	58.5
Other	81.0	98.1
Total Non-Interest Expense	250.6	293.6
Profit before tax	**156.0**	**192.1**
Profit after tax	**131.5**	**158.2**
Earnings per share (EPS) **		
Base	HUF501	HUF603
Diluted	HUF499	HUF599

Key Ratios	2004*	2005*
Loan to deposit ratio %	69.4	70.6
Cost/income ratio %	**57.2**	**55.4**
Capital adequacy ratio %	11.19	10.56
ROAA %	3.45	3.38
ROAE %	**35.3**	**32.3**
Dividend per share %	146	197
Per capita profit after tax (in HUF mn)	**7.7**	**8.8**

* Due to the changes of the accounting standards figures are not comparable with previous years' data.

** From 11 March 2002 each ordinary share with a face value of HUF 1,000 was split into 10 ordinary shares with a face value of HUF 100 each., For this NAV and EPS ratios of previous years were corrected.

*** The Bank non-consolidated, according to HAR.

Non-consolidated IFRS data

BALANCE SHEET (in HUF bn)

As at 31 December	2004*	2005*
Cash, due from banks and balances with the National Bank of Hungary	399.4	379.2
Placements with other banks, net of allowance for placement losses	200.1	393.7
Financial assets at fair value through statements of operations	22.1	34.1
Securities available-for-sale	324.1	371.4
Gross loans	1,296.1	1,497.7
Retail	374.1	463.9
Corporate	805.8	902.7
Municipal	116.2	131.1
Allowance for loan losses	-19.8	-22.2
Net loans	1,276.2	1,475.5
Equity investments	154.3	223.9
Securities held-to-maturity	507.5	521.8
Premises, equipment and intangible assets, net	96.5	105.6
Other assets	74.2	87.7
TOTAL ASSETS	**3,054.5**	**3,592.9**
Due to banks and deposits from the National Bank of Hungary and other banks	203.8	255.2
Deposits from customers	2,340.9	2,506.5
Retail	1,738.6	1,870.4
Corporate	431.9	474.1
Municipal	170.4	162.0
Liabilities from issued securities	2.0	202.3
Other liabilities	104.4	108.6
Subordinated bonds and loans	14.3	47.0
TOTAL LIABILITIES	2,665.4	3,119.6
TOTAL SHAREHOLDERS' EQUITY	389.1	473.3
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	**3,054.5**	**3,592.9**
Net assets per share (NAV) (HUF, diluted)	1,389.6	1,690.4

PROFIT AND LOSS ACCOUNT (in HUF bn)

For the years ended 31 December	2004*	2005*
Net interest income	151.1	168.6
Provision for loan and placement losses	8.6	16.4
Net interest income after provision for loan and placement losses	142.5	152.2
Fees and commissions income	113.3	136.3
Foreign exchange gains, net	0.9	1.6
Gains and losses on securities, net	1.1	3.1
Gains on real estate transactions, net	-0.1	0.0
Dividend income and gains and losses of associated companies	8.5	13.9
Insurance premiums	2.7	3.5
Total Non-Interest Income	126.3	158.4
Fees and commissions expense	9.7	13.8
Personnel expenses	54.3	62.4
Depreciation and amortisation	13.4	15.2
Insurance expenses	59.0	63.3
Total Non-Interest Expense	136.4	154.8
Profit before tax	**132.4**	**155.8**
Profit after tax	**113.5**	**132.8**
Earnings per share (EPS) **		
Base (HUF)	420	492
Diluted (HUF)	418	488

Key Ratios	2004*	2005*
Loan to deposit ratio %	55.4	59.8
Cost/income ratio %	**47.3**	**45.0**
Capital adequacy ratio %	11.19	10.56
ROAA %	3.92	4.00
ROAE %	34.1	30.8
PER CAPITA PROFIT AFTER TAX (IN HUF MN)	146	197

* Due to the changes of the accounting standards figures are not comparable with previous years' data

** From 11 March 2002 each ordinary share with a face value of HUF 1,000 was split into 10 ordinary shares with a face value of HUF 100 each, for this NAV and EPS ratios of previous years were corrected.

*** The Bank non-consolidated, according to HAR

MATERIAL CONTRACTS

The Bank is not aware of any material contracts that are not entered into in the ordinary course of its business, which could result in any Group member being under an obligation or entitlement that is material to its ability to meet its obligation to security holders in respect of the securities being issued.

THE HUNGARIAN BANKING SYSTEM

Structure

The Republic of Hungary has one of the most developed financial systems among Central and Eastern European countries. Under Act CXII of 1996 on credit institutions and financial enterprises (the **Credit Institutions Act**), banks, specialised credit institutions or co-operative credit institutions may act as credit institutions. As the Republic of Hungary has a "universal banking system", in addition to providing financial and banking services, Hungarian credit institutions are allowed to carry out investment services. The provision of investment services by credit institutions is regulated by Act CXX of 2001 on the capital markets (the **Capital Markets Act**). Among the three types of credit institutions only banks are entitled to provide the full range of banking and investment services.

EU membership

The Republic of Hungary became a member of the European Union (**EU**) on 1 May 2004. Membership of the EU has resulted in the Republic of Hungary adopting and implementing various EU directives. Changes have therefore been made to Hungarian banking law and accounting rules in order to harmonise them with EU directives. EU accession has greatly enhanced the international integration of the domestic money market and has strengthened the close relationship between credit institutions and their foreign parent banks, the majority of Hungarian banks being owned by foreign credit institutions.

Legal and institutional environment and supervision

The legal framework of the present banking system is based on the Credit Institutions Act and the Capital Markets Act and decrees of the Minister of Finance and the government of the Republic of Hungary (the **Government**). Regulation of the Hungarian banking system is generally in line with the relevant EU banking standards.

The Credit Institutions Act contains the regulatory framework for most of the essential regulations in respect of financial undertakings and credit institutions. Banks are classified as credit institutions. The Credit Institutions Act imposes various requirements, restrictions and regulations on credit institutions, including, *inter alia*, reporting and liquidity requirements, restrictions on investments, limits on exposure, regulations regarding internal controls and internal audits, deposit guarantees, money laundering, capital adequacy requirements and customer protection.

Since 1991, the Republic of Hungary's banking system has been subject to a regulatory and supervisory framework based on the principles and guidelines of the Bank for International Settlements (**BIS**).

Supervision of the Hungarian banking system

Since 1 April 2000, supervision of the banking sector has been carried out by the Hungarian Financial Supervisory Authority (**HFSA**), which is the successor of the Hungarian Banking and Capital Market Supervisory Authority, the State Insurance Supervisory Authority and the State Pension Fund Supervisory Authority. The HFSA's establishment, status and activity are regulated by Act CXXIV of 1999 on the Hungarian Financial Supervisory Authority.

The HFSA is an administrative agency of the Government and has national jurisdiction. It is headed by a council consisting of up to five members and it is managed by the director. The chairman of the council is elected by the Hungarian Parliament and the director and deputy directors are appointed by the prime minister of the Republic of Hungary. The chairman of the council reports directly to the Minister of Finance.

The HFSA's wide ranging powers under the Credit Institutions Act and the Capital Markets Act include the licensing and supervision of the operation of credit institutions. Supervision of banking activities in the Republic of Hungary has strengthened as the banking system has developed. Bank supervisory responsibilities have largely been transferred to the HFSA, with the National Bank of Hungary (**NBH**) retaining a more limited supervisory role (mainly related to the circulation of currency).

As of 1 January 2006, the supervisory role of the HFSA has been harmonised with the relevant EU Directives on insider dealing and market manipulation.

The role of the NBH

Act LVIII of 2001 on the National Bank of Hungary regulates the NBH and its current position in the system of European Central Banks.

Although the NBH has no legal obligation to support Hungary's credit institutions, it may serve as a lender of last resort to a credit institution if the credit institution faces temporary liquidity difficulties. However, the NBH is not permitted to grant any financial aid to the Government. Any loans granted by the NBH in its capacity as lender of last resort to Hungary's credit institutions qualify as general unsecured obligations of the credit institutions concerned.

The NBH reviews reports filed by banks and maintains a publicly available database on the Hungarian banking system. Furthermore, it continuously evaluates the status and publishes information regarding the financial position and condition of Hungarian credit institutions and of the Republic of Hungary itself. The NBH also monitors compliance of credit institutions with the provisions of the Credit Institutions Act and the decrees issued by the governor of the NBH.

The European Central Bank and the NBH

The Republic of Hungary expects to become a member of, and to participate in, the Economic and Monetary Union (**EMU**) by 2011, at which point the value of the Hungarian forint against the euro will be irrevocably fixed, although certain financial analysts have expressed their doubts concerning the above date. Prior to joining the EMU, the Republic of Hungary will accede to the ERM-II system.

The Republic of Hungary is presently at the second stage of monetary integration, therefore, it still retains the discretion to set its own monetary policy. Nevertheless, pursuant to the treaty of Maastricht, it is bound to follow a strategy of convergence. On 1 September 2006 the Hungarian government submitted the Convergence Programme of Hungary to the European Union which was approved by the European Commission on 26 September 2006 and adopted by the EU Council of Finance Ministers (**ECOFIN**) on 10 October 2006.

The role of the HFSA

A credit institution must obtain a licence from the HFSA before it is allowed, among other things, to become established, commence operations, establish a representative office or a subsidiary abroad, elect its management, acquire shares of a non-resident entity representing a qualifying holding or terminate its operations.

The HFSA monitors compliance with the Credit Institutions Act and Capital Markets Act and other relevant legislation and regulations applicable to Hungarian banks and other financial institutions.

The HFSA is entitled to impose various sanctions on credit institutions, including issuing warnings of non-compliance, withdrawing of licences, instituting liquidation proceedings and imposing fines on credit institutions and their managers.

Hungarian banking regulations and regulatory provisions regarding the licensing and supervision of Hungarian branches of credit institutions registered in another member state of the European Economic Area are in accordance with the relevant EU Directives.

Banking regulations

Main features

The Credit Institutions Act and the Capital Markets Act set out the regulatory framework for the Hungarian banking system. Specific rules not regulated in detail under these Acts are set out in Government decrees or decrees issued by the Minister of Finance. The HFSA does not have the power to issue regulatory decrees, or any other legally binding regulation.

Capital adequacy

According to the Credit Institutions Act and in line with European regulations, banks must have a registered capital of at least HUF 2 billion (approximately EUR 8 million). The amount of a credit institution's equity may not be less than the minimum amount of its registered capital. If the amount of a credit institution's equity falls below the registered capital, the HFSA will give the credit institution a maximum of 18 months to bring its equity to the required level.

In order to maintain solvency and its ability to satisfy its liabilities, a credit institution must at all times have own funds equal to the amount of the risk of the financial and investment activities it performs, and its own funds may not be less in any event than the minimum amount of its registered capital.

Trading book

In order to ascertain a credit institution's capital requirements, a trading book must be kept to record the investment instruments in the trading portfolio that are exposed to the market risks fundamentally connected with investment and financial services and the risks undertaken in connection with these.

General reserves

A credit institution must create general reserves from its after-tax profits prior to paying dividends or sharing respectively to offset the losses incurred during its activities. A credit institution must place 10 per cent. of its annual after-tax profits into the general reserve. (Upon request, a credit institution may be exempted by HFSA from the obligation to create general reserves if its solvency ratio is above 12 per cent. and it has no negative profit reserves.)

Solvency ratio

Pursuant to its authority under the Credit Institutions Act, the Minister of Finance has issued Decree No. 23/2003 (X.3.) on the calculation of the solvency ratio on a consolidated basis (the **Decree**). The Credit Institutions Act and the Decree adopts the standards of the BIS, which prescribes that the ratio of a bank's own funds and such bank's risk-weighted assets (on- and off-balance sheet items) may not be less than 8 per cent. In addition, the Minister of Finance has issued decrees requiring credit institutions to create provisions based both on the quality of their assets (which includes loans, investments and off-balance sheet items) and on certain foreign country risks present in their assets.

Own funds

The own funds of a credit institution consist of core, ancillary and supplementary capital (in accordance with the BIS standards).

As of 1 January 2006, core capital has been supplemented by a new component called core loan capital (*alapvető kölcsöntőke*) (Tier 1). A loan is considered as core loan capital if it satisfies all of the following requirements: (i) it is actually available and immediately accessible to the user credit institution without any legal dispute or seniority requirement and is shown in the balance sheet of the user credit institution; (ii) the agreement providing the loan includes the lender's agreement that the loan provided by it may be used for settling the credit institution's debts and the lender's claim must be in the last place immediately preceding the claim of the shareholders; (iii) the term of the loan (including debt securities) is indefinite and may only be terminated with the approval of the HFSA; (iv) repayment of the principal is not possible prior to the termination date stipulated in the agreement, except if so approved by the HFSA; (v) the loan agreement or the agreement for the sale of the securities does not contain any clause that would increase the interest and other payment obligations, except for the case of floating rate interest as a result of the increase of the reference rate; (vi) interest or any other payment under the loan (except repayment of principal) may only be made from the credit institution's after tax profits, as specified in the credit institution's annual report for the respective business year and completed with the credit institution's available retained earnings, subsequent to the credit institution's recording of its general reserves but preceding the payment of any dividends; (vii) if in the respective year it is not possible to make any interest or any other payments pursuant to the rules set out in (vi) above, the lender may not claim such unpaid amount in the following years; (viii) if the credit institution does not fulfil any of its payment obligations under the loan agreement, the lender may not initiate the credit institution's liquidation for this reason; and (ix) the lender of the loan does not have any set-off rights against the borrower in connection with the loan.

As of 1 January 2006, a new component has been incorporated into the ancillary capital elements by the amendment of the Credit Institutions Act. This new component is called ancillary loan capital (*járulékos kölcsöntŒke*) (Upper Tier 2).

A loan is considered as ancillary loan capital if it satisfies the following requirements: (a) it fulfils all the requirements set forth for core loan capital with the exception of point (vii) as set out above; and (b) if, pursuant to point (vi) above, in any financial year any interest or other payments cannot be made, the lender may only claim in the following years this overdue and unpaid amount if the payment is possible in accordance with point (vi) above. The lender cannot claim any default interest in respect of this overdue and unpaid amount.

Subordinated loan capital (*alárendelt kölcsöntőke*) (Lower Tier 2) also qualifies as part of the ancillary capital of credit institutions. A loan is only considered as subordinated loan capital if it satisfies all of the following requirements: (i) it is actually available and immediately accessible to the user credit institution without any legal dispute or seniority requirement and is shown in the balance sheet of the user credit institution; (ii) the agreement for providing the subordinated loan capital includes the lender's agreement that the loan provided by it may be used for settling the credit institution's debts and the lender's claim must be in the last place immediately preceding the claim of the shareholders; (iii) the original term of the loan (including debt securities) exceeds five years and it may only be repaid after a minimum of five years or, if the loan is for an indefinite term, it may only be repaid on a date stipulated in the agreement, which must be at least five years after the termination of the agreement, unless the HFSA authorises an earlier repayment; (iv) the loan agreement or the agreement for the sale of the securities does not contain any clause that would increase the interest and other payment obligations, except for the case of floating rate interest as a result of the increase of the reference rate; (v) unless it is authorised by HFSA, no repayment of principal may be made prior to the original maturity date or the notice period stipulated in the agreement; and (vi) the lender does not have any set-off rights against the borrower in connection with the subordinated loan capital.

Risk provisions

Pursuant to its authority under the Credit Institutions Act, the Minister of Finance issued Decree No. 14/2001 (III.9.) on asset-ranking of credit institutions. Pursuant to this decree, portfolio risk provisions are calculated by ranking the assets of a credit institution into the following categories: standard, watch, substandard, doubtful and bad. Assets are placed in the categories based on the performance of the asset and the financial condition of the debtor. Provisions are made based on the asset category as follows: 0 per cent. for standard assets, 0 per cent. to 10 per cent. for watch assets, 11 per cent. to 30 per cent. for substandard assets, 31 per cent. to 70 per cent. for doubtful assets and 71 per cent. to 100 per cent. for bad assets.

The value of any collateral held against an asset may be offset against the need to make provisions. The decree requiring provisions does not provide guidelines on the extent to which collateral may be used for this purpose. Individual banks, in co-operation with their auditors, are required to create their own guidelines.

Country risk provisions are determined by using a table that sets out the amount of provision required, based on the nationalities of the debtors in a credit institution's portfolio. Decree No. 16/2001 (III.9) of the Minister of Finance also provides absolute limits on the proportion of a credit institution's total assets that may be held in respect of a particular country.

In 2001, the Republic of Hungary harmonised its guidelines on capital adequacy requirements for investment firms and credit institutions with Council Directive 93/6/EEC.

Limitations on transactions

The Credit Institutions Act also contains limits on large exposures and the exposures related to acquisition of ownership, as well as real estate and other sorts of investment restrictions.

Deposit Insurance Fund

Hungarian law requires that any bank that accepts deposits must join the mandatory Deposit Insurance Fund (O*rszágos Betétbiztosítási Alap*). Simultaneously upon submitting an application for authorisation to engage in deposit-taking activities, the credit institution must also send a declaration on joining the deposit insurance funds and attach a copy of such declaration to the application for authorisation to perform business activities. If a credit institution fails to make its due payments to the fund, it may lose its licence to conduct deposit-taking business in the Republic of Hungary.

Payments made by the deposit insurance fund to restore guaranteed deposits are met by contributions from each member credit institution. The deposit insurance fund pays compensation to persons entitled to benefit from principal and interest on frozen deposits up to a maximum amount of HUF 6 million (approximately EUR 24,000) per person and per credit institution.

Recent amendments to the Credit Institutions Act modified the role of the Deposit Insurance Fund. The amendment has abolished its function to help credit institutions to overcome a financial crisis. This task is transferred to the strategic investors of a credit institution. However, the Deposit Insurance Fund remains to fulfil its pay-box function by collecting contributions from its members and providing compensation for account holders. Further, certain tasks regarding the supervision of the due payment of the membership contributions from the credit institutions has been taken over by the HFSA.

Further recent developments in the Hungarian banking regulation

As of 1 January 2006, Hungary has implemented Commission Directive 2003/6/EC on insider dealing and market manipulation and Commission Directive 2004/72/EC implementing directive 2003/6/EC as regards accepted market practices, the definition of insider information in relation to derivatives and commodities, the drawing up of lists of insiders, the notification of manager's transactions and the notification of suspicious transactions.

In the framework of the harmonisation of the financial regulatory system, the Credit Institutions Act was amended by new rules regarding the Hungarian central credit information system. As a result, the new rules aim to broaden the rights of individuals to receive information from the database on their registered data and to seek legal redress in case of incorrectly or unlawfully registered personal data.

The amendment to the regulation on the Hungarian central credit information system has enlarged the scope of persons that are subject to registration therewith, in this way enhancing the safety of investment credit and securities lending activities and financial stability.

On the basis of the recommendations of the European Central Bank, the current financial laws amendment have separated the central depositary and the clearing house functions of KELER Zrt. (the Hungarian central depositary and clearing house). Further, a new task is also undertaken by KELER Zrt., namely that it will also act as Central Counter Party (CCP) in respect of those transactions which it clears.

Financial Overview of the Hungarian Banking Sector*

Banking Assets

The Hungarian banking sector achieved a significant growth in 2005. As a result of the growth of foreign currency lending, the growth rate of the consolidated total assets of the sector even exceeded the previous year's solid performance. At the end of 2005, the consolidated total assets of the sector were almost 18 per cent. above the preceding year's level.

Main assets of the banking sector

Description	December 2003	December 2004	December 2005
		(HUF billion)	
Total assets	12,860.7	14,911.9	17,565.9
HUF assets	8,703.8	9,907.8	10,825.8
F/C assets	4,156.9	5,004.1	6,740.1
Of that: cash and current accounts	452.2	725.8	696.9
Securities	2,155.0	2,099.9	2,189.0
Central bank and interbank deposits	1,286.8	1,613.9	2,179.4
Of that: central bank deposits	423.9	541.0	1,290.7
Loans (net)	8,124.9	9,482.6	11,369.1
Of that: corporate loans (net)	3,955.8	4,513.5	5,140.2
retail loans (net)	1,970.2	2,558.4	3,318.2

As a result of the upswing of foreign currency lending, almost one-third of the households' bank loans and almost half of the businesses' loans were denominated in foreign currencies at the end of 2005, compared to the figures of less than 4 per cent. and 41 per cent. respectively at the end of 2003. A constantly growing part of the sector's assets, foreign currency denominated loans formed almost 40 per cent. of total assets at the end of 2005. Borrowers are mainly exposed to the foreign exchange and interest-rate risks that are part of foreign currency borrowing. In response, the HFSA warned retail customers of these potential risks by a series of consumer protection measures and of the importance of a prudent approach of borrowing after gathering adequate information through press conferences, the HFSA's website or a credit calculator.

* The figures about the banking sector are based on the "Flash Report on the Development of the Financial Sector in 2005" by the Hungarian Financial Supervisory Authority.

Banking Liabilities

At more than 43 per cent. per year, the extraordinary growth of foreign liabilities made the expansion of such activities possible. Already, more than one-fifth of the sector's liabilities are from abroad. The growth rate of foreign currency liabilities was almost three times more than in the preceding year.

Main liabilities of the banking sector

Description	December 2003	December 2004	December 2005
		(HUF billion)	
Total liabilities	12,860.7	14,911.9	17,565.9
HUF liabilities	9,268.9	10,815.8	12,015.5
FX liabilities	3,591.8	4,096.1	5,550.5
Of that Foreign liabilities	2,277.4	2,847.7	4,001.7
Domestic deposits	6,729.1	7,406.8	8,230.5
Domestic interbank funds and credits	959.6	1,234.5	1,111.5
Domestic securities liabilities in domestic hands	1,036.8	1,136.8	1,165.6
of that Mortgage bonds	922.0	1,006.0	1,020.9
Own capital	1,071.1	1,262.3	1,525.3

The increasing weight of foreign liabilities inevitably results in the diminishing of the role of domestic liabilities. The weight of domestic customer deposits, interbank deposits and securities also decreased.

Profitability of the Banking Sector

The dynamic growth of the sector was coupled with the 20.4 per cent. increase in pre-tax profits. The consolidated pre-tax profits of the sector reached HUF 387.6 billion. Only two small banks did not share in the generally high level of profitability that characterised the sector -their aggregate loss amounted to HUF 433 million.

Key profit items of the banking sector

Description	2003	2004	2005
		(HUF billion)	
Interest income	1049.7	1438.9	1388.1
Interest expenditure	597.1	889.3	764.7
Profit from interest	452.6	549.6	623.4
Profit from other than interest	145.5	190.1	227.0
of that Commission income	168.8	181.0	207.8
Dividends	21.7	19.1	19.8
Profit from FX trade and exchange gain	54.8	89.0	36.0
Income from other than interest	–99.8	–99.0	–36.6
of that Net loss of value and provision creation	–83.7	–81.3	–69.9
Overheads	389.7	417.9	465.3
Extraordinary profit	3.7	0.2	2.5
Pre-tax profit	212.2	322.0	387.6
After tax profit	**174.4**	**275.1**	**319.6**

Despite declining interest rates, banks maintained their profitability, which was significant compared to international standards. Exceeding last year's figure, the average return on assets (ROA) lagged 2 per cent. and while the return on equity (ROE) remained slightly behind the 2004 value, it was still high (22.67 per cent.).

The maintenance of interest margin, the improvement of operating efficiency, the relative reduction of the expenditures on net loss of value and the overall increase of non-interest revenue contributed to the continued improvement of profitability.

Despite the significant decrease of the central bank base rate, the sector managed to keep the level of interest margin. Together with the declining interest rate trend, interest received and interest paid on assets fell almost by the same percentage point compared to the previous year - by 1.64 and 1.60 percentage points, thus, the interest margin (the difference between the two) did not decrease much - it dropped from 3.94 per cent. in 2004 to 3.89 per cent..

Quality of the Banking Portfolio

While classifiable items on the balance sheet grew by 15.7 per cent. (an increase of HUF 1,871 billion) and off-balance sheet items increased by almost 32 per cent. (an increase of HUF 2,777 billion) compared to the end of the preceding year, the qualified portfolio's share in the balance sheet grew by only 10 per cent. Moreover, the qualified portfolio has decreased among the off-balance sheet items by close to 24 per cent. Therefore, the overall quality of the balance sheet and off-balance sheet items improved.

Composition of the bank sector's total classifiable portfolio

	Performing			Watch listed			Qualified		
Description	**December 2003**	**December 2004**	**December 2005**	**December 2003**	**December 2004**	**December 2005**	**December 2003**	**December 2004**	**December 2005**
					(per cent.)				
Total balance sheet items	90.70	92.57	88.40	6.26	4.57	8.88	3.05	2.85	2.71
Credit institutions' placements	98.47	99.75	92.12	1.20	0.22	7.83	0.33	0.03	0.05
Corporate loans	85.22	88.76	83.08	11.14	7.33	13.57	3.64	3.91	3.35
Household loans	94.94	94.42	92.31	2.64	3.17	5.18	2.42	2.41	2.51
Foreign placements	82.76	81.15	76.13	14.26	15.92	20.21	2.97	2.93	3.66
Off-balance sheet items total	97.54	97.75	95.91	2.15	1.61	3.72	0.32	0.63	0.37
Total classifiable	93.89	94.79	91.85	4.34	3.31	6.51	1.77	1.90	1.64

At the same time, it is worth noting that the proportion of the watch listed portfolio has almost doubled since the end of the preceding year. In the case of the off-balance sheet items, it approached 9%, while in the case of off-balance sheet items, it reached 3.7 per cent. at the end of 2005. In particular, a few major banks have a rise of corporate loans in the watch listed portfolio. This rise may on the one hand be a reflection of the banks' conservatism and the development of risk management techniques as a result of Basel II, but on the other hand, it may also be attributed to the financial difficulties of large companies.

Capital Adequacy

The sector's overall capital adequacy remained satisfactory. The balance sheet profit generated in 2005 favoured the regulatory capital required to cover the risks. Even if the absence of audits means the improvement in regulatory capital for most of the banks this improvement is not reflected in the preliminary year-end solvency ratios yet, instead it will be reflected in the actual audited figures. The 2005 year-end consolidated regulatory capital of the sector includes only positive audited balance sheet results for four banks, thus, the consolidated solvency ratio of the sector was 10.96 per cent. at the end of 2005. As the activities increased, the solvency ratio fell slightly compared to the end of 2004.

The bank sector's solvency ratio

Description	December 2003 All banks' audited results	December 2004 Six banks' audited results	December 2004 All banks' audited results	December 2005 Four banks' audited results
	(per cent.)			
Regulatory capital partly excluding positive balance sheet profits in case of not audited figures (billion HUF)	1018.2	1114.2	1235.2	1239.3
Regulatory capital calculated with balance sheet profit (billion HUF) (not audited figures are estimates)	1018.2	1180.9	1235.2	1343.3
Risk weighted total assets (billion HUF)	8308.0	9639.5	9645.6	11303.4
Solvency indicator with regulatory capital partly excluding positive balance sheet profits (%)	12.26	11.56	12.81	10.96
Solvency ratio with regulatory capital calculated with balance sheet profit (billion HUF) (not audited figures are estimates)	12.26	12.25	12.81	11.88

TAXATION

Hungarian Taxation

The following is a general discussion of certain Hungarian tax consequences of the acquisition and ownership of Notes. It does not purport to be a comprehensive description of all tax considerations which may be relevant to a decision to purchase Notes, and, in particular, does not consider any specific facts or circumstances that may apply to a particular purchaser. This summary is based on the laws of Hungary currently in force and as applied on the date of this Prospectus. These items are subject to change, possibly with retroactive effect.

Prospective purchasers of Notes are advised to consult their own tax advisers as to the tax consequences of the purchase, ownership and disposition of Notes, including the effect of any state or local taxes, under the tax laws of Hungary and each country of which they are residents. The acquisition of the Notes by non-Hungarian Noteholders, or the payment of interest under the Notes may trigger additional tax payments in the country of residence of the Noteholder, which is not covered by this summary, but where the provisions of the treaties on the avoidance of double taxation should be taken into consideration.

Taxation of corporate Noteholders

Under Act LXXXI of 1996 on Corporate Tax and Dividend Tax (the **Corporation Tax Act**), Hungarian resident taxpayers have a full, all-inclusive tax liability. Generally, resident entities are those established under the laws of Hungary (i.e. having a Hungarian registered seat). Foreign persons having their place of management in Hungary are also considered as Hungarian resident taxpayers.

Hungarian corporate Noteholders and foreign resident corporate Noteholders realising income through a Hungarian permanent establishment are subject to Hungarian corporation tax. The general rate of corporation tax is 16 per cent. Hungarian resident financial institutions falling within the scope of Act CXII of 1996 on Credit Institutions and Financial Enterprises and the permanent establishment of foreign resident financial institutions are subject to bank tax on the basis of the Act CII of 2004 on the Special Tax of Credit Institutions and Financial Enterprises (**Bank Tax Act**). The Bank Tax Act will be effective until 31 December 2006.

According to the provisions of Act LIX of 2006 on special tax and contribution aiming to restore the balance to the state budget (**Special Tax Act**), a new tax (**Solidarity Tax**) will be introduced from 1 September 2006 in the amount of 4 per cent. calculated on the basis of the pre-tax profit. The Solidarity Tax will be payable generally by Hungarian corporations as determined by the Special Tax Act and the Hungarian permanent establishments of foreign corporations.

Pursuant to the Act C of 1990 on Local Taxes (the **Local Taxes Act**), financial institutions, financial enterprises, insurance companies and investment enterprises may be subject to local business tax on the basis of the proceeds realised on the Notes.

Interest on Notes paid to foreign resident corporate Noteholders by resident legal entities and any capital gains realised by a foreign resident Noteholder on the sale of Notes is not subject to tax in Hungary if the foreign resident corporate Noteholder does not have a permanent establishment in Hungary.

If a double taxation convention is in force between Hungary and the country of residence of the Noteholder the provisions of this double tax convention should be considered when assessing the Hungarian tax liabilities of a foreign resident corporate Noteholder.

Taxation of individual Noteholders

The Act CXVII of 1995 on Personal Income Tax (**Personal Income Tax Act**) applies to the tax liability of Hungarian and foreign private individuals. The tax liability of Hungarian resident private individuals covers the worldwide income of such persons, while foreign resident private individuals' tax liability is limited only to their income originating in Hungary or income that is otherwise taxable in Hungary on the basis of international treaties or reciprocity.

In respect of individual Noteholders, the taxation of Notes depends on whether such Notes are publicly placed or privately offered Notes.

Capital gains realised on the sale or redemption of Notes distributed by way of private placement or Notes traded privately is subject to personal income tax in Hungary as 'income realised as capital gains'. The income received as interest payments on the Notes is taxable as 'other income'. 'Other income' constitutes the part of the private individual's consolidated tax base which is taxed progressively according to the tax brackets. Health care contribution is also payable on the basis of 'income realised as capital gains' and 'other income'. Foreign resident individual Noteholders will not be subject to personal income tax in Hungary on the basis of 'other income' or 'income realised as capital gains' provided that such foreign individuals do not have a permanent establishment in Hungary.

In the case of publicly placed Notes, the income paid as interest and the capital gains realised upon the redemption or the sale of publicly placed and publicly traded bonds received by the individual Noteholders shall be deemed as 'interest income'. The withholding tax on such interest income is 20 per cent. as from 1 September 2006.

From 1 September 2006, the "**Payor**" (*kifizetŒ*) is obliged, under particular conditions, to withhold 20 per cent. tax on the interest income realised by individual Noteholders.

Pursuant to Act XCII of 2003 on the Rules of Taxation (**ART**) a Payor means a Hungarian resident legal person, other organization, or private entrepreneur that (who) provides taxable income, irrespective of whether such payment is made directly or through an intermediary (post office, credit institution). In respect of interest, Payor shall mean the issuer of a note. In respect of revenues originating from a transaction concluded with the involvement of a licensed stockbroker, Payor shall mean such stockbroker. In respect of income that is earned in a foreign country and taxable in Hungary, Payor shall mean the "paying agent" (*megbízott*) (legal person, other organization, or private entrepreneur) having tax residency in Hungary, except in cases where the role of a financial institution is limited to performing the bank transfer or payment.

As from 1 September 2006, interest, as defined by Schedule 7. of the ART which implements the Savings Directive, realised by citizens of any other Member States of the European Union is not subject to Hungarian tax in the cases where a payer based in Hungary is obliged to provide data on the basis of Schedule 7 of the ART.

If a double taxation convention is in force between Hungary and the country of residence of the Noteholder the provisions of this double tax convention should be considered when assessing the Hungarian tax liabilities of a foreign resident individual Noteholder.

Luxembourg Taxation

The following summary is of a general nature and is included herein solely for information purposes. It is based on the laws presently in force in Luxembourg, though it is not intended to be, nor should it be construed to be, legal or tax advice. Prospective investors in the Notes should therefore consult their own professional advisers as to the effects of state, local or foreign laws, including Luxembourg tax law, to which they may be subject.

Withholding Tax

(i) **Non-resident holders of Notes**

Under Luxembourg general tax laws currently in force and subject to the laws of 21 June 2005 (the **Laws**) mentioned below, there is no withholding tax on payments of principal, premium or interest made to non-resident holders of Notes, nor on accrued but unpaid interest in respect of the Notes, nor is any Luxembourg withholding tax payable upon redemption or repurchase of the Notes held by non-resident holders of Notes.

Under the Laws implementing the EC Council Directive 2003/48/EC of 3 June 2003 on taxation of savings income in the form of interest payments and ratifying the treaties entered into by Luxembourg and certain dependent and associated territories of EU Member States (the **Territories**), payments of interest or similar income made or ascribed by a paying agent established in Luxembourg to or for the immediate benefit of an individual beneficial owner or a residual entity, as defined by the Laws, which is a resident of, or established in, an EU Member State (other than Luxembourg) or one of the Territories will be subject to a withholding tax unless the relevant recipient has adequately instructed the relevant paying agent to provide details of the relevant payments of interest or similar income to the fiscal authorities of his/her/its country of residence or establishment, or, in the case of an individual beneficial owner, has provided a tax certificate issued by the fiscal authorities of his/her country of residence in the required format to the relevant paying agent. Where withholding tax is applied, it will be levied at a rate of 15 per cent. during the first three-year period starting 1 July 2005, at a rate of 20 per cent. for the subsequent three-year period and at a rate of 35 per cent. thereafter. Responsibility for the withholding of the tax will be assumed by the Luxembourg paying agent. Payments of interest under the Notes coming within the scope of the Laws would at present be subject to withholding tax of 15 per cent.

(ii) Resident holders of Notes

Under Luxembourg general tax laws currently in force and subject to the law of 23 December 2005 (the **Law**) mentioned below, there is no withholding tax on payments of principal, premium or interest made to Luxembourg resident holders of Notes, nor on accrued but unpaid interest in respect of Notes, nor is any Luxembourg withholding tax payable upon redemption or repurchase of Notes held by Luxembourg resident holders of Notes.

Under the Law payments of interest or similar income made or ascribed by a paying agent established in Luxembourg to or for the immediate benefit of an individual beneficial owner who is a resident of Luxembourg will be subject to a withholding tax of 10 per cent. Such withholding tax will be in full discharge of income tax if the beneficial owner is an individual acting in the course of the management of his/her private wealth. Responsibility for the withholding of the tax will be assumed by the Luxembourg paying agent. Payments of interest under the Notes coming within the scope of the Law would be subject to withholding tax of 10 per cent.

EU Savings Directive

Under EC Council Directive 2003/48 on the taxation of savings income, Member States are required to provide to the tax authorities of another Member State details of payments of interest (or similar income) paid by a person within its jurisdiction to an individual resident in that other Member State. However, for a transitional period, Belgium, Luxembourg and Austria are instead be required (unless during that period they elect otherwise) to operate a withholding system in relation to such payments (the ending of such transitional period being dependent upon the conclusion of certain other agreements relating to information exchange with certain other countries). A number of non-EU countries and territories including Switzerland have agreed to adopt similar measures (a withholding system in the case of Switzerland).

SUBSCRIPTION AND SALE

The Joint Lead Managers have, in a subscription agreement (the **Subscription Agreement**) dated 6 November 2006, jointly and severally agreed, subject to satisfaction of certain conditions, to subscribe or procure subscribers for the Notes, at the issue price of 99.375 per cent. of the principal amount of the Notes, less a combined management, underwriting and selling commission of 0.43 per cent. of the principal amount of the Notes. The Issuer will also reimburse the Joint Lead Managers in respect of certain of their expenses, and has agreed to indemnify the Joint Lead Managers against certain liabilities, incurred in connection with the issue of the Notes. The Subscription Agreement may be terminated on certain circumstances prior to payment of the Issuer.

United States

The Notes have not been and will not be registered under the Securities Act and may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons (as defined in Regulation S under the Securities Act) except in certain transactions exempt from the registration requirements of the Securities Act.

The Notes are subject to U.S. tax law requirements and may not be offered, sold or delivered within the United States or its possessions or to a United States person, except in certain transactions permitted by U.S. tax regulations. Terms used in this paragraph have the meanings given to them by the U.S. Internal Revenue Code of 1986 and regulations thereunder.

Each Joint Lead Manager has represented and agreed that, except as permitted by the Subscription Agreement, it will not offer, sell or deliver Notes (a) as part of their distribution at any time or (b) otherwise until 40 days after the later of the commencement of the offering and the Issue Date within the United States or to, or for the account or benefit of, U.S. persons and that it will have sent to each dealer to which it sells any Notes during the distribution compliance period a confirmation or other notice setting forth the restrictions on offers and sales of the Notes within the United States or to, or for the account or benefit of, U.S. persons. Terms used in this paragraph have the meanings given to them by Regulation S under the Securities Act.

In addition, until 40 days after the commencement of the offering, an offer or sale of Notes within the United States by any dealer that is not participating in the offering may violate the registration requirements of the Securities Act.

Japan

The Notes have not been and will not be registered under the Securities and Exchange Law of Japan (the **Securities and Exchange Law**) and each Joint Lead Manager has agreed that it will not offer or sell the Notes, directly or indirectly, in Japan or to, or for the benefit of, any resident of Japan (which term as used herein means any person resident in Japan, including any corporation or other entity organised under the laws of Japan), or to others for re-offering or resale, directly or indirectly, in Japan or to a resident of Japan, except pursuant to an exemption from the registration requirements of, and otherwise in compliance with, the Securities and Exchange Law and any other applicable laws, regulations and ministerial guidelines of Japan.

Germany

Each Joint Lead Manager has represented and agreed that Notes have not been and will not be offered, sold or publicly promoted or advertised by it in the Federal Republic of Germany other than in compliance with the German Securities Prospectus Act (*Wertpapierprospektgesetz*) as passed by the German Federal Parliament (*Bundestag*) on 21 April 2005 and the German Federal Council (*Bundesrat*) on 27 May 2005, as amended, and any other laws applicable in the Federal Republic of Germany governing the issue, offering and sale of securities.

European Economic Area

In relation to each Member State of the European Economic Area which has implemented the Prospectus Directive (each, a **Relevant Member State**), each Joint Lead Manager has represented, warranted and agreed that with effect from and including the date on which the Prospectus Directive is implemented in that Relevant Member State (the **Relevant Implementation Date**) it has not made and will not make an offer of Notes to the public in that Relevant Member State prior to the publication of a prospectus in relation to the Notes which has been approved by the competent authority in that Relevant Member State or, where appropriate, approved in another Relevant Member State and notified to the competent authority in that Relevant Member State, all in accordance with the Prospectus Directive, except that it may, with effect from and including the Relevant Implementation Date, make an offer of Notes to the public in that Relevant Member State at any time:

(a) to legal entities which are authorised or regulated to operate in the financial markets or, if not so authorised or regulated, whose corporate purpose is solely to invest in securities;

(b) to any legal entity which has two or more of (1) an average of at least 250 employees during the last fiscal year; (2) a total balance sheet of more than EUR 43,000,000 and (3) an annual net turnover of more than EUR 50,000,000, as shown in its last annual or consolidated accounts; or

(c) in any other circumstances which do not require the publication by the Issuer of a prospectus pursuant to Article 3 of the Prospectus Directive.

For the purposes of this provision, the expression an "**offer of Notes to the public**" in relation to any Notes in any Relevant Member State means the communication in any form and by any means of sufficient information on the terms of the offer and the Notes to be offered so as to enable an investor to decide to purchase or subscribe the Notes, as the same may be varied in that Member State by any measure implementing the Prospectus Directive in that Member State and the expression **Prospectus Directive** means Directive 2003/71/EC and includes any relevant implementing measure in each Relevant Member State.

United Kingdom

Each Joint Lead Manager has represented and agreed that:

(a) it has only communicated or caused to be communicated and will only communicate or cause to be communicated an invitation or inducement to engage in investment activity (within the meaning of Section 21 of the FSMA) received by it in connection with the issue or sale of any Notes in circumstances in which Section 21(1) of the FSMA does not apply to the Issuer; and

(b) it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to any Notes in, from or otherwise involving the United Kingdom.

France

Each of the Joint Lead Managers and the Issuer has represented and agreed that it has not offered or sold and will not offer or sell, directly or indirectly, Notes to the public in France, and it has not distributed or caused to be distributed and will not distribute or cause to be distributed to the public in France, the Prospectus or any other offering material relating to the Notes and such offers, sales and distributions have been and will be made in France only to (a) providers of investment services relating to portfolio management for the account of third parties, and/or (b) qualified investors (*investisseurs qualifiés*) other than individuals, all as defined in, and in accordance with, articles L.411-1, L.411-2 and D.411-1 of the French *Code monétaire et financier*.

Hungary

In addition to the rules applicable to the European Economic Area as described above, in connection with any private placement in Hungary, each Joint Lead Manager has represented and agreed that (i) all written documentation prepared in connection with a private placement in Hungary will clearly indicate that it is a private placement, and (ii) the following standard wording will be included in all such written communication:

"PURSUANT TO SECTION 18 OF ACT CXX OF 2001 ON THE CAPITAL MARKETS, THIS [NAME OF DOCUMENT] WAS PREPARED IN CONNECTION WITH A PRIVATE PLACEMENT IN HUNGARY.

Members of the general public are not eligible to take part in the private placement. This [NAME OF DOCUMENT], in so far as it constitutes an invitation or inducement to participate in the private placement is directed exclusively at

(a) qualified investors as defined in Article 2(1)(e) of 2003/71 EC Directive of the European Parliament and of the Council of 4 November 2003 on the prospectus to be published when securities are offered to the public or admitted to trading;

(b) fewer than 100 natural or legal persons per European Economic Area member state, other than qualified investors; or

(c) investors who each acquire securities for a total consideration of at least EUR 50,000 or equivalent amount (Relevant Persons). This [NAME OF DOCUMENT], in so far as it constitutes an invitation or inducement to participate in the offering, must not be acted on or relied on by persons who are not Relevant Persons. Any investment or investment activity to which this communication relates is available only to Relevant Persons and will be engaged in only with Relevant Persons."

Each Joint Lead Manager has represented and agreed that it will offer the Notes exclusively in accordance with (a) to (c) above.

General

No action has been or will be taken by the Issuer or any of the Joint Lead Managers that would, or is intended to, permit a public offer of the Notes or possession or distribution of this Prospectus or any other offering material relating to the Notes, in any country or jurisdiction where any such action for that purpose is required. Accordingly, each Joint Lead Manager has undertaken that it will not, directly or indirectly, offer or sell any Notes or distribute or publish any offering circular, prospectus, form of application, advertisement or other document or information relating to the Notes in any country or jurisdiction except under circumstances that will, to the best of its knowledge and belief, result in compliance with any applicable laws and regulations and all offers and sales of Notes by it will be made on the same terms.

It is anticipated that the Notes will be offered to institutional investors or, as the case may be, other legal entities only and it is not anticipated that private individuals will purchase the Notes whether at issue or subsequently on any regulated or other market or through an over-the-counter transaction or otherwise.

GENERAL INFORMATION

Authorisation

The issue of the Notes was duly authorised by a resolution of the Board of Directors of the Issuer dated 28 August 2006, No. 129/2006.

Approval, Admission to Trading and Listing of Notes

Application has been made to the CSSF to approve this document as a prospectus. Application has also been made to the Luxembourg Stock Exchange for Notes to be admitted to trading on the Luxembourg Stock Exchange's regulated market and to be listed on the Official List of the Luxembourg Stock Exchange. The Luxembourg Stock Exchange's regulated market is a regulated market for the purposes of Directive 2004/39/EC.

Documents Available

Copies of the following documents will, when published, be available for inspection, and in the case of the documents referred to in paragraphs (b), (c) and (e) below copies may be obtained from the registered office of the Issuer and from the specified office of the Paying Agent for the time being in Luxembourg so long as any of the Notes remains outstanding:

(a) the constitutional documents (with an English translation thereof) of the Issuer;

(b) the consolidated and non-consolidated audited financial statements of the Issuer in respect of the financial years ended 31 December 2005 and 2004 (with an English translation thereof), together with the audit reports prepared in connection therewith. The Issuer currently prepares audited consolidated and non-consolidated accounts on an annual basis;

(c) 2006 Second Quarter Stock Exchange Report, including the unaudited interim financial statement of the Issuer for the 6 months ended 30 June 2006;

(d) the most recently published audited consolidated and non-consolidated annual financial statements of the Issuer and the most recently published unaudited interim financial statements of the Issuer (with an English translation thereof), in each case together with any audit or review reports prepared in connection therewith. The Issuer currently prepares unaudited consolidated and non-consolidated interim accounts on a quarterly basis;

(e) the Subscription Agreement, the Agency Agreement, the Trust Deed and the forms of the Global Notes, the Notes in definitive form, and the Coupons and the Talons; and

(f) a copy of this Prospectus.

In addition, copies of this Prospectus and each document incorporated by reference are available on the Luxembourg Stock Exchange's website at www.bourse.lu.

Clearing Systems

The Notes have been accepted for clearance through Euroclear and Clearstream, Luxembourg (which are the entities in charge of keeping the records). The International Securities Identification Number (**ISIN**) for this issue is XS0274147296 and the Common Code is 027414729.

The address of Euroclear is Euroclear Bank SA/NV, 1 Boulevard Du Roi Albert II, 1210 Brussels, Belgium and the address of Clearstream, Luxembourg is Clearstream Banking, 42 Avenue J.F. Kennedy, 1855 Luxembourg, Luxembourg.

Significant or Material Change

There has been no significant change in the financial or trading position of the Group since 30 June 2006 and there has been no material adverse change in the prospects of the Issuer since 31 December 2005.

Litigation

Neither the Issuer nor any other member of the Group is or has been involved in any governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which the Issuer is aware) in the 12 months preceding the date of this document which may have or have in such period had a significant effect on the financial position or profitability of the Issuer or the Group.

Auditors

The auditors of the Issuer are Deloitte Auditing and Consulting Ltd. of Dózsa György u. 84/c,. 1068, Budapest, Hungary, who have audited the Issuer's consolidated accounts, which have been prepared without qualification, in accordance with International Financial Reporting Standards for each of the two financial years ended on 31 December 2004 and 2005, respectively. Unqualified opinions have been issued on these statements. The auditors of the Issuer have no material interest in the Issuer. Deloitte Auditing and Consulting Ltd. are members of the Chamber of Hungarian Auditors.

Deloitte Auditing and Consulting Ltd. have also audited the Issuer's unconsolidated accounts in accordance with International Financial Reporting Standards for each of the two financial years ended on 31 December 2004 and 2005, respectively. The opinions covering the audit of those accounts are qualified because, and only because, those accounts have been published earlier than the consolidated accounts in accordance with International Financial Reporting Standards for the corresponding periods and as a result could not include consolidated financial information.

The reports of the auditors of the Issuer are included or incorporated in the form and context in which they are included or incorporated, with the consent of the auditors who have authorised the contents of that part of this Prospectus.

Joint Lead Managers transacting with the Issuer

Certain of the Joint Lead Managers and their affiliates have engaged, and may in the future engage, in investment banking and/or commercial banking transactions with, and may perform services to the Issuer and its affiliates in the ordinary course of business.

Yield

The yield of the Notes during the Fixed Rate Interest Period (as defined herein) is equal to 5.960 per cent. per annum.

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