OTP BANK LTD.

DOCUMENTATION FOR THE COMPANY’S ANNUAL GENERAL MEETING

(ENGLISH TRANSLATION)

APRIL 25, 2003

AGENDA OF THE AGM

THE AGENDA OF THE GENERAL MEETING:

1. Report presented by the Board of Directors concerning the Company's 2002 business activities; acceptance of the 2002 Financial Reports (non consolidated and consolidated) prepared according to HAR; decision on the distribution of after tax profits.

2. Report of the Supervisory Commission concerning its activity in 2002 and the 2002 Financial Reports (non consolidated and consolidated) prepared according to HAR and on the proposal of the Board of Directors regarding the distribution of after tax profits.

3. Report of the Bank's auditor concerning the results of the audit of the 2002 Financial Reports (non consolidated and consolidated) prepared according to HAR.

4. Report of the Board of Directors on the Bank's Business Policy for 2003.

5. Election of the Company's auditor, approval of the appointment of official responsible for auditing, setting the remuneration.

6. Election of a member of the Supervisory Board.

7. Establishing the remuneration of the members of the Board of Directors and Supervisory Board.

8. Modification of part 5., 9., 14., 16. of the By-Laws. (The amendment of the By-Laws requires ¾th majority of votes.)

9. Decision concerning the acquisition of own shares, specifying the maximum number and the purchase price thereof.

THE 2002 BUSINESS REPORT OF THE BOARD OF DIRECTORS OF OTP BANK LTD.

(BASED ON NON-CONSOLIDATED AND CONSOLIDATED AUDITED HAR FINANCIAL STATEMENTS)

THE 2002 BUSINESS REPORT OF OTP BANK LTD.

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The National Savings and Commercial Bank Ltd. (hereinafter: the Bank) closed an outstandingly successful year in 2002: besides substantially increasing the intensity of its business activity and its level of profitability, it succeeded in further strengthening its market-leading position.

As of 31 December 2002, the **consolidated balance sheet total** of the Bank was HUF 2,734 billion; 17.8%, or HUF 413 billion higher, than that of the previous year, and 14.4% higher than the balance sheet total of the parent company in the same period.

The 2002 **consolidated pre-tax profit** of the Bank was HUF 68.2 billion; 19% higher than in the previous year and 17.4% higher than the pre-tax profit of the parent company in the year under review. The Bank’s consolidated return on average assets (ROAA) was 2.18% in 2002, and its return on average equity (ROAE) was 26.2% (2001: 2.11% and 28.5% respectively).

The parent company, which made the largest contribution to both the consolidated balance sheet total and profits, may look back with satisfaction on what was a successful year based on its non-consolidated profits, too. The profitability and performance indicators of the Bank continued to improve in 2002. This was achieved through a dynamic increase in non-interest income and total income, which grew by 50.7% and 18.5% respectively, and by an improvement in the expense/revenue ratio. On the basis of the absolute size of its profits, the Bank retained its leading position among the banks, with its pre-tax profit accounting for about 35% of the estimated aggregate total pre-tax profit of the banking sector, and in terms of return on both assets and equity the Bank is in the front rank of the Hungarian banks.

The Bank’s outstanding performance was reflected in the positive development of its share price and also in the number of both Hungarian and international awards that it received. In 2002, a number of renowned international business and financial journals, such as Global Finance, Euromoney and The Banker, awarded it the title of “Best Hungarian Bank”. The reasons for OTP’s receiving these international awards included the successful integration of the Slovak IRB (from August of 2002, OTP Banka Slovensko), the launch of OTP Mortgage Bank Ltd. and the dynamic sales of mortgage-backed housing loans, as well as the retention of the Bank’s dominant role in the retail and municipality banking sectors. In a competition organised by Index.hu, the Bank was awarded the special title of “Mobile Bank of the Year,” in recognition of its success in the development of electronic services. In addition to these international and Hungarian awards, the Bank was voted “Best Issuer” for the second year running by the members of the Budapest Stock Exchange. Trading in OTP shares accounted for 35.6% of the total 2002 equities trading turnover on the Budapest Stock Exchange.

The price of OTP Bank’s shares grew 34% in 2002 (66% in USD terms), reaching HUF 2,210, while in the same one-year period the share index of the Budapest Stock Exchange, the BUX, increased 9.4%, from 7,131 points to 7,798 points. These changes are precisely in line with the price trends experienced in previous years: Between year-end 1995 and the end of December 2002, the price of OTP stock grew nearly twenty-fold (an average annual increase of 57%), while in the same period – largely thanks to the Bank – the BUX grew just over five-fold (an average annual increase of 26%).

THE FINANCIAL PERFORMANCE OF OTP BANK LTD IN 2002[1]

BALANCE SHEET

The Bank is still the largest in the Hungarian banking sector: its **balance sheet total** of HUF 2,390.1 billion represents 22.1% of the total assets of the banking sector and is twice as high as the balance sheet of the second largest bank. The HUF 263-billion, or 12.4%, growth in the Bank’s balance sheet

[1] Non-consolidated HAS results.

during 2002 represents a significant, 7.6%, growth in real terms (Dec./Dec. inflation: 4.8%), and is only slightly lower than the Hungarian banking sector average (13.8%). At the end of 2002 the Bank had a 30% share of the total deposits of the banking sector, and a 16% share of total loans. If we include the market share of the Bank's fully owned subsidiaries carrying on credit-institution activities, at the end of 2002 the Bank had a 31% share of the total deposits of the banking sector, and a 20% share of total loans. The Bank Group managed 36% of the savings of households including investment fund units and excluding securities issued by organisations other than banks.

Again in 2002, the Bank's growth resulted from the increase in collected funds, but besides this, a substantial favourable change occurred in the loan/deposit and the loan/balance-sheet-total ratios. The major part of the Bank's **sources** continued to be customer deposits, which accounted for 84.1% of the Bank's total liabilities as at year-end 2002. Total customer deposits reached HUF 2,011 billion, surpassing the previous year's figure by HUF 199.8 billion, or 11%. With an increase of 18.3%, or HUF 265.6 billion, in forint deposits, exceeding the rate of increase of all other forms of customer funding, these deposits represented 85.4% of the customer-deposit total as at the end of 2002. Foreign currency deposits decreased substantially, by HUF 65.8 billion, while their share of total customer deposits decreased to 14.6%, due to the strengthening of the forint exchange rate and more favourable interest rates on forint savings. Compared to the previous year, there was a slight change in the distribution of customer deposits by customer group. Owing to a volume increase of 34.8%, the share of corporate deposits within total customer deposits increased from 14% in 2001 to 17% in 2002. Retail deposits grew 8.4% and accounted for 75.8% of total customer deposits (in 2002: 77.6%). Owing to a 4.3% volume decrease, the share of municipality deposits decreased slightly, from 8.4% to 7.2%.

Within total liabilities, the volume of provisions increased from HUF 14.6 billion in 2001 to HUF 21 billion in 2002. Pursuant to the provisions of the Act on Credit Institutions, by 31 December 2002 the Bank had completed the accumulation of the general risk reserve, its balance reaching HUF 14.3 billion, which represents an increase of 30.4% over the previous year. By year-end 2002, the provisions set aside for contingent and future liabilities had grown by a substantial 83.7%, reaching HUF 3.7 billion. The balance of other provisions grew HUF 1.4 billion, reaching HUF 3 billion at year-end. Some HUF 1 billion of this amount was set aside for early retirement and severance payments.

In line with the Bank's business policy, in the year 2002, due to a volume increase of HUF 182 billion, or 23.6%, **the proportion of loans within total assets** increased from 36.2% to 39.8%. Within customer lending, loan placements to municipalities and the retail sector displayed an increase well above the average. The balance of retail loans grew by HUF 71.6 billion to total HUF 329.8 billion as of year-end 2002; a 27.7% increase over the previous year. The main part, 86%, of this increase originated from the change in the volume of housing loans. The increase in state subsidies for housing loans had a favourable impact on mortgage-based lending growth, which had been accelerating rapidly as early as in 2001. During 2002, the balance of housing loans grew by 40.8%, reaching HUF 212.4 billion by year-end, which corresponds to an increase of HUF 61.6 billion over the previous year. The rate of growth in consumer loans was 9.3%. Loans to the corporate sector grew by 20.2%, with the balance of such loans standing at HUF 558.6 billion on 31 December 2002. The volume of loans granted to municipalities grew 35.6% during 2002. Within total customer placements, the share of corporate loans dropped from 60.4% to 58.7%, while that of retail loans grew from 33.5% to 34.7%. As at year-end 2002, municipality loans accounted for 6.7% of total customer placements.

Receivables from banks represented 11% of the Bank's total assets as at year-end 2002, having decreased in volume by 20.2% over the year.

Compared with the previous year, the share of **government securities** within the Bank's portfolio decreased slightly (down from 22.6% to 16.8%). On 31 December 2002, this portfolio amounted to HUF 401.9 billion, representing a HUF 79.2 billion, or 16.5%, decrease against the previous year. No significant change occurred in the distribution of government securities. The balance of trading securities dropped by more than HUF 25 billion, or 18.5%, and consequently, as at year-end 2002 the value of trading securities was HUF 111.1 billion, representing 27.6% of the total government securities portfolio (2001: 28.3%). The total value of investment securities grew by 15.7%, or HUF 54 billion, and the share of this type of security within the total government securities portfolio was 72.4% (2001:

71.4%). Simultaneously with the drop in the balance of government securities, both the balance and the share of securities embodying other lending relationships increased, reaching a balance of HUF 153.2 billion and a share within the total government securities portfolio of 6.4% as of year-end 2002. The majority of the HUF 135.6 billion growth in securities embodying other lending relationships was due to the fact that the mortgage notes of OTP Mortgage Bank, which have a more favourable yield than government securities, came to be included in the portfolio. Partly in response to the change in reserve regulations, the balance of **liquid assets** decreased by HUF 25.6 billion, amounting to HUF 347 billion, or 14.5% of total assets, on 31 December 2002.

PROFIT AND LOSS ACCOUNT

The Bank's **pre-tax profit** for 2002 was HUF 58.1 billion, which was HUF 10.7 billion, or 22.6%, higher than in 2001. This pre-tax profit results from HUF 71.6 billion in operating profits, and from the combined amount of HUF 13.5 billion in provisions, value losses and loan losses. Relative to the base period, operating profits grew by HUF 15.7 billion, or 28.1%, while provisions and value losses increased by HUF 5 billion, or 56.5%, compared to the previous year.

Helped by a slight fall in the tax rate compared to 2001 (from 18.9% to 18.7%), the Bank's **after-tax profit** was HUF 47.2 billion in 2002, representing a HUF 8.8 billion, or 22.9%, increase over the previous year.

After setting aside HUF 4.7 billion for general risk provisions, **the balance sheet profit** of OTP Bank Ltd. for the year 2002 amounts to HUF 42.5 billion.

Undiluted earnings per share (EPS)[2] in 2002 was HUF 178.98, while the diluted[3] figure was HUF 168.56, respectively 22.8% and 22.9% higher than in 2001.

The Bank's average return on assets **(ROAA)** in 2002 was **2.09%,** while the average return on equity **(ROAE)** was **25.9%** (in 2001: 1.89% and 26.9% respectively). The ROAE in real terms[4] amounted to 20.6% in contrast to 17.7% in 2001. Both the ROAA and the ROAE, in real terms, are in line with the Bank's plans.

Net interest income of the Bank in 2002 amounted to HUF 102.7 billion, representing an increase of 4.4% over the previous year. Under conditions of a general decline in interest rates, the net increase in interest income originates from an interest revenue figure of HUF 188.8 billion (representing a 2.6% decline from the previous year) and an interest expense figure of HUF 86.1 billion (representing a 9.8% decline from the previous year).

In the year 2001 the interest differential (i.e. the net interest margin) computed on the average total assets and liabilities (HUF 2,187.1 billion) was 4.70%, or 38 basis points higher than in 2001.

Interest income from interbank placements – despite a HUF 6.3 billion increase in the income from swap deals – fell by 25.1% owing to the 15.6% decrease in the average value of interbank placements and a 104 basis-point drop in the interbank interest rate. (Without the results of swap deals the decrease would have been 19.3%.) As a consequence, the ratio of interbank interest income within total interest income dropped to 18.6%. Due to the 51.8% increase in the average volume of retail deposits, and despite the significant interest margin reduction of over 4 percentage points, the net interest income realised on retail accounts increased by 19.3%, reaching 25.7% of total interest income. As a consequence of the over 30% increase in corporate and municipal lending, the net interest income realised on these accounts grew by 11.4% and 5.5% respectively, reaching a proportion of 25.4% and 3.3% within the total interest income. Compared to 2001, the interest earned

[2] The method for calculating undiluted earnings per share: adjusted after-tax profit/ (ordinary shares - own shares)

[3] Calculation method: (adjusted after-tax profit + preference dividend)/ (ordinary shares + preference shares)

[4]Calculation method: ROAE – inflation (%)

from securities decreased by 14.6%, or over HUF 7 billion, reflecting the drop in the average portfolio size and declining yields on government securities. Interest on securities accounted for 22.7% of total interest income. In 2002, the yields on total average interest-bearing assets in forint and foreign currency reached 9.69%, which is 124 basis points lower than in 2001.

With the exception of interbank and corporate accounts, **interest expenses** decreased in all the account groups. Interest paid on corporate accounts increased by 9.2% due to a to a significant, more than 25%, increase in the average total balance of these accounts. Primarily due to the increase in forint liabilities, interest paid on interbank accounts increased by 18.3% over the previous year, but this was partly due to the higher losses that were recorded here owing to the increased volume of swap deals. The largest decrease was shown by the interest paid on securities and retail accounts (51.6% and 12.2% respectively). Interest paid on municipality funding decreased by 8.1%, while the average total balance of these accounts increased by 21.5%. The share of interest paid on retail funding within the total of interest expense was 76.3%, which is in harmony with the Bank's funding structure. In 2002, the cost of funds calculated on average interest-bearing forint and foreign currency funding amounted to 4.54%, or 1 percentage point less than the 2001 figure. The interest spread calculated on the total interest-bearing assets and liabilities was 5.15% in 2002, or 25 basis points lower than in 2001.

In 2002 non-interest income increased by 50.7% to HUF 64.4 billion. A decisive role in the dynamic growth of non-interest income was played by the HUF 16.8 billion increase in net fees and commissions. As a consequence of slower growth in net interest income and a dynamic increase in non-interest income, the portion of non-interest income within total income increased from 30.6% to 38.6%. From among the various types of non-interest income, **net commission and fee income increased by 42%,** from HUF 40 billion to HUF 56.8 billion. Compared to the previous year, in the course of 2002 commissions and fees received rose by 39.2%, while the increase in commissions and fees paid was 21.3%. Among the commissions and fees received, income from the bankcard business rose by a significant 29.9%, totalling more than HUF 18 billion. The over HUF 4 billion increase in card fee revenues primarily originated from ATM cash withdrawal transaction fees and – due to an increase in the number of card-based purchases – from commission revenues from merchants. Owing to the dynamic growth in lending activities, commission revenues on loans showed a particularly high increase of 191%. Commissions on money transactions increased by 13.9%. Commission revenues on retail current accounts increased 16.2% during 2002, while commission revenue related to other types of deposit decreased by 13.4%. Commission revenue from securities trading during 2002 was by 34.1% up on the previous year's figure. The **net result of securities trading** showed a loss of HUF 0.6 billion compared to a loss of HUF 1.6 billion in 2001. The net gain from **FX trading** was HUF 3.6 billion in 2002, or 18.4% higher than that of the previous year. Other non-interest revenues increased significantly in 2002 to HUF 4.6 billion, which is three times higher than the figure for the previous year.

The Bank's **total income** in 2002 amounted to HUF 167.2 billion, which, compared with last year, represents an increase of 18.5%.

In 2001 the Bank's **non-interest expenses** increased 12.1%, reaching HUF 95.6 billion. Due to various IT and branch network development projects, this cost increase exceeded the rate of inflation, but remained well below the rate of revenue increase.
Personnel expenses were 15.4% higher in 2002 than in the previous year. Besides the 10% employee salary rise at the start of 2002, this increase is attributable to an increase in the headcount and to option and bonus schemes. In 2002 the Bank's personnel expenses absorbed 22.5% of its total income, compared to 23.1% in 2001. At the end of 2002, the Bank's total **headcount** was 8,770, i.e. 477, or 5.8%, more than in 2001. The average headcount for the period increased by 376 persons, or 4.6%.

Depreciation amounted to HUF 11.1 billion, while the ratio of depreciation to total income was 6.6%, compared to 7.9% a year earlier. Other non-interest expenses were 12.9% higher than in 2001.

As a result of the 18.5% rise in total income and a 12.1% increase in non-interest income, the Bank's **expense/income ratio** improved by 3.2% percentage points, from 60.4%. to 57.2%.

The **quality of the Bank's receivables** deteriorated in comparison to the previous year. As of 31 December 2002, qualified loans accounted for only 4.2% of total outstanding loans, whereas the same figure for year-end 2001 was 4%. The distribution of qualified loans by the various categories of qualification underwent a major transformation during 2002. While there was a substantial increase in the "doubtful" and "below average" categories (138% and 150.3% respectively), the volume of receivables in the "to be monitored" category essentially did not change (an increase of 1.4%), and receivables in the "bad" category decreased substantially, by HUF 7.8 billion, or 46.6%.

While total receivables grew by 10.4% in 2002 (and within this, customer receivables by 23%), the volume of qualified receivables (99.7% of which were due from customers) increased by 15.2%. Within the total of receivables neither the share of qualified receivables from customer receivables (5.6%) nor the qualified portion of receivables due from banks saw any significant change (0.1%), while the share of customer receivables with a higher credit rating increased. Within customer receivables, the portion of qualified receivables in the corporate division increased from 6.3% in 2001 to 6.9% in 2002. The share of qualified receivables within the retail portfolio decreased from 5.7% to 3.3%, while there was a slight increase in this ratio (from 0.5% to 2.2%) in the municipality division.

On the qualified portfolio of HUF 51.4 billion, the Bank set aside a loan risk provision of HUF 20.6 billion, which represents a coverage ratio of 40.1%.

Within the total amount of qualified loans, the share of corporate loans was 74.6% and the share of retail loans 21.4%. Of the total combined balance of value loss and provision the Bank set aside 67.2% for the corporate and 31.3% for the retail businesses. The quality of municipality loans continues to be excellent. Within this line of business, the proportion of qualified loans was just 2.2% of the total loan portfolio.

The value losses, risk provisions and loan losses that were recorded in connection with the Bank's customer receivables represented a charge of HUF 8.8 billion to the profit and loss account in 2002, with this amount representing 0.95% of the average loan balance for the year, i.e. somewhat exceeding the 2001 level (0.84%). The Bank also set aside, in accordance with the provisions of the Act on Credit Institutions, a general risk reserve (HUF 3.3 billion). Provisions set aside for contingent and future liabilities grew by HUF 1.7 billion. The setting aside of other provisions decreased the Bank's profit by HUF 1.4 billion, of which HUF 1 billion was set aside for early retirement and severance payments.

As of 31 December 2002, the **equity** of OTP Bank amounted to HUF 205.8 billion, representing a growth of 29.9% year on year. The increase of HUF 47.3 billion represents the net result of the HUF 4.7-billion growth in the general reserves, the increase of HUF 28.3 billion in the profit reserve, the 0.9 decrease in tied down reserves and a balance sheet profit of HUF 42.5 billion. The equity per share, with a nominal value of HUF 100, was HUF 735.2.

As of year-end 2002, the balance of repurchased own shares was HUF 16.9 billion, down by HUF 0.9 billion from the end of the previous year.

The **adjusted capital** of the Bank on 31 December 2002 was HUF 153 billion.

As of 31 December 2002, the **capital adequacy ratio** calculated according to Hungarian regulations was 13.40%; well in excess of the 8% required by the Act on Credit Institutions.

INSTITUTIONAL ACHIEVEMENTS, BUSINESS LINE RESULTS

INFORMATION TECHNOLOGY, CAPITAL PROJECTS

In 2002 the Bank continued to carry out major capital projects in order to strengthen its competitiveness, to rationalise and streamline operations, to cut costs and to improve the standard of services.

The introduction of the SAP system continued, the aim of which is to modernise the Bank's management and managerial decision-support systems, to improve the quality of information generation and processing, rationalise and centralise financial processes, and ensure strict cost control.

The year 2002 saw the start of the implementation of a data warehouse to support sales activities; the completion of the Bank's data model, and the selection of the systems and information that will provide the basis for the data warehouse.

A project, launched in 2002, to comprehensively streamline back-office processes, will redefine the Bank's operational processes based on cost/benefit analysis and concentrate, in one central back office, those activities that can be most effectively performed in a centralised manner. As a result, the branch network will also be relieved of a portion of its workload, enabling a transformation in its scope of duties.

As a key project, the central office building at Babér utca was constructed in 2002. The office building, which covers an area of approximately 32,000 square metres, provides premises for 1,000 employees. During the course of 2003, most of the Bank's central units will relocate to this building.

A total of 27 of the branch office development projects were completed in 2002. Most of these projects involved the refurbishment of small branches (with an area of 100-400 square meters), while 7 new branches were built in shopping malls. Under the technical development program, 178 ATMs were installed and/or relocated, and 2 customs branches were set up, and the frontage signs of 51 key branch offices were replaced. Some 370 smaller technical projects with a value of less than HUF 10 million each were completed, and video surveillance systems were installed in 85 branches.

RETAIL BANKING

OTP Bank continues to be the largest player in Hungary's retail banking market. It manages 38.4% of household savings and over 23% of household loans.

Retail deposits

By year-end 2002 the volume of retail deposits managed by the Bank had reached HUF 1,523.7 billion, representing an 8.4% increase over last year's figure. Within retail deposits, forint deposits increased by HUF 181.8 or by 16.9%, far outstripping the rate of inflation, while the volume of foreign currency accounts decreased by 19.4%. As of year-end 2002, 82.6% of all the Bank's retail deposits were in forints. The Bank had a 39.2% share of the forint retail deposit market, and a 35.4% share of the retail foreign currency market.

Within the HUF 1,258.6 billion of forint deposits, the balance of retail current account deposits saw the greatest increase – of HUF 204.2 billion, or 32.4% – and their share of total retail forint deposits increased from 58.5% in 2001 to 66.3% in 2002. Within this, the volume of time deposits held on current accounts was 28.8% higher than a year previously. By the end of 2002 the number of retail current accounts had increased by 4.6%, reaching 2.7 million.

Following a slight, 4.6%, decline over the year, the total balance of passbook deposits amounted to HUF 389.7 billion as of 31 December 2002, and consequently, their share within total deposits dropped from 38% in the previous year to 31% in 2002.

One of the Bank's leading new products in 2002 was the Retail Savings Account, which represents a flexibly accessible facility for customers with relatively large savings. By year-end 2002, customers had deposited a total of close to HUF 20 billion in 8,033 of these accounts, partly thanks to last autumn's advantageous interest rate promotion, which primarily affected volumes.

In line with the law on the prevention money laundering, the process of assigning the names of account holders to anonymous accounts has continued apace. By 31 December 2002, 1.46 million deposit-holders with total deposits of HUF 290 billion had been named, and as a result only 2% of OTP Bank's total retail savings are now held in anonymous accounts (HUF 29.7 billion in 797,000 deposits). The average balance of anonymous deposits is HUF 40,000.

The volume of foreign currency deposits grew by 19.4%, to HUF 265.1 billion, which was accompanied by an even more pronounced reduction, of 21.1%, in the number of foreign currency accounts available on demand, and a decrease of only 16.6% in the number of time deposits held on foreign currency accounts. The main reason for the fall in the volume of foreign currency deposits is the impact of foreign currency liberalisation, the strengthening of the forint against other currencies and the increasingly favourable interest rates on forint deposits.

As of year-end 2001 the volume of securities and deposit certificates was HUF 7.4 billion, down 50.2% from the previous year, which is in line with the Bank's objectives. Of the CDs issued by the Bank, Deposit Notes represented the largest share (95.4%), with the volume of these notes standing at HUF 7.1 billion as at year-end, down 50.6% from the previous year.

Retail loans

The latest change to the system of housing subsidies had a major impact on the retail lending market in 2002. Due to these changes, housing loans subsidised on the liabilities side, i.e. loans that can be extended by mortgage banks, have been available under even more favourable conditions since 1 March 2002. As a result, the demand for housing loans grew swiftly, and by year-end 2002 the volume of housing loans provided by the Hungarian banking industry had increased by more than 138%, reaching close to HUF 787 billion.

In response to the changed market circumstances, OTP Bank has made it possible for its customers to take advantage of subsidised housing loans offered under favourable conditions: The Bank's fully owned subsidiary, OTP Mortgage Bank Ltd., began operating in February 2002, and since 11 April has been offering Forrás hitelek (Source Loans), subsidised on the liabilities side, in a consortium through OTP Bank's branch network. By 31 December 2002, the volume of Source Loans had exceeded HUF 400 billion, of which HUF 187.1 billion was transferred to OTP Mortgage Bank Ltd. By year-end 2002, the volume of housing loans in OTP Bank's own balance sheet had reached HUF 212.4 billion, giving the Bank a 27.3% market share of the housing loans market at year-end 2002, while the total market share held by OTP Bank Group – including the loans of OTP Mortgage Bank Ltd. and OTP Building Society Ltd. – exceeded 52%.

In 2002, the trends of previous years prevailed on the market for consumer loans, with the combined volume of consumer loans provided by the Hungarian banking sector growing at a more modest rate than in the previous year, but dynamically nonetheless, to exceed HUF 695 billion by the end of the year. The volume of OTP Bank's consumer loans reached HUF 117.4 billion by year's end, representing an increase of 9.3% over the previous year, and consequently, the Bank had an 18.3% market share of the consumer loans market as of 31 December 2002.

Within consumer loans the volume of mortgage-backed loans decreased slightly, by 1.9%, which can be attributed to a growth in demand for housing loans and a broadening of the range of loan purposes that can be financed through subsidised housing loans. In contrast to this, the volume of A, B, and C-hitel overdraft facilities on retail current accounts grew dynamically, by 23.3%, to approximately HUF 70 billion.

At the end of 2002, the Bank relaunched its improved consumer credit service, and it expects the volume of consumer credit, which totalled HUF 1.4 billion on 31 December 2002, to increase dynamically in 2003.

INVESTMENT SERVICES

Securities trading and securities account management

In 2002, OTP Bank managed about 30% of household securities investments and served more than 300,000 customers.

In the course of 2002, the Bank traded investment fund units in a total value of HUF 101 billion (amounting to 89.6% of the total turnover), government securities totalling HUF 11.1 billion and shares worth HUF 625 million.

Two new products were added to the range of securities products sold through the branch network:

- The "OTP International Equities – UBS Fund of Funds" investment fund, created through a cooperation between OTP Bank and UBS, allowing customers to directly access foreign investment funds while simultaneously attaining a higher level of diversification.
- The "OTP Real Estate Investment Fund" which makes it easier for investors to follow the trends of the real estate market.

The Bank launched both these products in response to existing market demand.

Private banking services

In the course of 2002, OTP Bank repositioned its private banking services, offering its customers more clearly defined services and more attractive value propositions. Thanks to this, at the end of 2002, the Bank was serving almost 7,500 private banking customers, which is a 9.7% increase on the previous year's figure of 6,800 customers. At the same time, the assets held by private banking customers grew by 26%, from HUF 96.2 billion to HUF 121.7 billion. The average size of asset portfolio per customer rose from HUF 14.1 million to HUF 16.3 million, an increase of almost 15%.

In 2002 this line of business earned HUF 1.67 billion in net commission and interest revenue from its clients.

Private banking customers held 50% of their assets in traditional banking products, while the remaining 50% was held in securities-type investments, with 45% of this latter amount in investment funds and 30% in government securities.

BANKCARD BUSINESS

At year-end 2002, the number of bankcards issued was 3,323,000, a 7.4% increase over the previous year's figure. The Bank's estimated share in terms of bankcards issued exceeded 60%. Compared to 3,016,000 cards at the end of 2001, the number of bank cards issued in conjunction with retail current accounts exceeded 3,243,000 as of year-end 2002. Within this, by the end of the year, the number of cards used purely for customer identification purposes, issued to current-account holders, had decreased to 73,000, the number of B-overdraft cards was 177,000 and the number of cards associated with C-overdraft facilities was 109,000. The number of cards issued for company accounts was 74,000.

Compared to the previous year, by year-end 2002, the number of OTP-operated ATMs increased from 1,091 to 1,168, which means that OTP Bank now owns more than 40% of all the ATMs operating in Hungary, and nearly 50% of the ATMs operated by banks. The number of transactions carried out on OTP Bank's own ATMs was 66.7 million in 2002, and the transacted volume was HUF 1,530.1 billion, representing an increase of 8.1% and 22.7% respectively over the previous year.

By 31 December 2002, the number of POS terminals had reached 18,041, representing an increase of 1,711 compared to the previous year. The Bank operated 2,657 of these terminals in its own branch offices, and 10,647 were operated at commercial outlets. In 2002 the number of cash withdrawal transactions made in OTP Bank's own POS network was 2.9 million, and the transacted volume was close to HUF 813.6 billion. In 2002 the number of cash withdrawal transactions made in OTP Bank's own POS network was 2.9 million, and the volume was close to HUF 813.6 billion. The turnover transacted via commercial POS terminals continued to grow dynamically in 2002, with 31.9 million purchases transacted (a 43.6% increase) at a value of HUF 262 billion. These purchases accounted for 10.4% of the Bank's total acceptance turnover in 2002.

More than 70% of Hungarian cash withdrawals and nearly the half of the turnover transacted at commercial card acceptance sites are transacted through OTP Bank's network.

ELECTRONIC SERVICES

The number of contracts for electronic banking services increased dynamically in 2002 (telephone banking services: 26%, internet services: 60%, mobile telebank: 55%), with the result that the Bank retained its market-leading position with regard to all electronic banking channels. In 2002, 435,000 customers used the telephone banking services, making a total of over 841,000 phone calls. The 210,000 users of the internet banking service initiated 4.8 million transactions via the internet, while mobile phone-based services were used by 152,000 customers. Customer terminals located in the branches were used by 10,900 of the Bank's SME customers, and 3,638 of its municipality customers.

A fundamental change was brought about by the commissioning of middleware, incorporated in 2002, that uses new technology to accelerate the flow of information. Thanks to the renewed internet-based, OTPdirekt and the newly introduced, mobile phone-based WAP and Aktív SMS services, OTP Bank is the first – and currently the only – bank in the Hungarian market that enables its customers to carry out active transactions through all banking channels. The launch of these services contributed to the fact that the Bank was awarded the title of "Mobile Bank of the Year".

COMMERCIAL BANKING

Corporate banking division

In 2002, OTP Bank further strengthened its position in the corporate banking market. Taking into account the new divisional breakdown of the market sectors introduced by the National Bank of Hungary, the Bank's share of the market for corporate deposits grew by 1.6 percentage points to 13.3%, while the Bank's share of the corporate loans market increased by 0.9 percentage points to 12.7%.

Total corporate deposits stood at HUF 341.9 billion at the end of 2002, representing a 34.8% increase over the previous year. The share of foreign currency deposits within total corporate deposits was 6%. Some 42% of the corporate deposit total came from corporations constituting legal persons, 12.8% from small and medium-sized enterprises (SMEs), 14.7% from non-profit organisations, and 10.7% from investment funds. The volume of deposits from SME customers reached HUF 20.6 billion, 20.7% up on the previous year's figure.

Total corporate loans stood at HUF 558.6 billion at the end of 2002, representing an increase of 20.2% over the previous year. The share of FCY loans within the total of corporate loans was 36%, and the volume of these loans was 44.5% up on the previous year's figure.

The total value of loans to companies constituting a legal person amounted to HUF 455 billion, representing an increase of 17.9% compared to the previous year, within which the volume of FCY loans grew by 32.2%, the volume of current account loans by 39.4% and loans for constructing homes for sale by 25.6%.

As of year-end 2002, the total value of loans granted to SME customers was HUF 16.8 billion, a 5.8% year-on-year increase. Within this figure, loans to private entrepreneurs attained a volume of HUF 9.2 billion, corresponding to an increase of 4.2%.

As of year-end 2002, loan placements to financial, investment and insurance service providers exceeded HUF 64 billion, representing an increase of 81.9%, while loan placements to non-profit organisations amounted to HUF 22.7 billion.

As of 31 December 2002, the highest percentage of the corporate loan portfolio, 18.4%, had been lent to companies from the real estate and business services sector, 18.1% went to companies in the manufacturing sector and 17% to construction industry companies. The share of the agricultural sector in the corporate portfolio amounted to 5.1%.

In the course of 2002, the most dynamic growth in loan placements was seen in the construction industry (HUF 35.8 billion), but there was also a notable increase in loans to the electricity, gas, heat and water supply sector, as well as to companies in the manufacturing sector (HUF 20.5 billion and 12 billion respectively).

The most successful corporate product of 2002 was the Megtakarítási számla (Savings Account). As of year-end, the number of these accounts exceeded 1,000 and their combined balance was HUF 20 billion.

The loan product Medicin-plusz plays an important role in providing the fullest possible range of services to physicians, who the Bank treats as a key customer group.

OTP Bank also participated in the issue of Széchenyi Cards to small and medium-sized enterprises. Outperforming its competitors, by the end of 2002 the Bank had issued more than 700 cards of this type, with this result at the same time providing a clear indication of the effectiveness of the new small business credit scoring system. This newly introduced scoring system allows for a creditworthiness appraisal that is more suited to the characteristics of small business customers, and is also faster.

Municipality banking

OTP once again retained its leading position in the municipality banking market. In 2002, close to 81% of this customer group, i.e. 2,620 municipalities, together with the institutions that they financed, held their current accounts at OTP Bank.

At year-end 2002, total deposits held by the municipalities and their institutions was HUF 145.4 billion, 4.3% down on the previous year. The Bank's market share of municipality deposits dropped to 66.2% owing to a decrease in the volume of deposits and intensive market acquisition campaigns by competitors. The Bank's portfolio of municipality loans, which has been continuously increasing since the end of 2001, grew by 35.6% in 2002, reaching HUF 63,3 billion. Although the total volume of placements increased, the Bank's share of the municipality loan market fell to around 55%.

The year 2002 saw a steady increase in the number of municipality customers using the customer terminals, from 3,357 customers at year-end 2001 to 3,638 customers at year-end 2002, and this was also accompanied by an increase in the number of customers using the treasury and the cash management systems.

In 2002 the Bank further expanded its range of project loans available to municipality customers, under which framework the Bank, in co-operation with OTP Building Society Ltd., developed a new project loan for road and pavement construction as well as a public utility construction loan which, in addition to OTP Building Society Ltd., requires financing from a third party (e.g. a foundation).

Customs services

OTP's customs services division leads its sector of the market, and continues to strengthen its position through the constant development of its products and services. By year-end 2002, the division's services were available at 172 locations throughout Hungary, which represents an 11% increase in the number of outlets. By year-end 2002, the number of Automated Customs Cashier System units had increased by 30.9%, to 72.

In 2002, the Bank realised HUF 312 million in commission on the handling of customs payments and duties totalling HUF 144.8 billion in value. Compared to the previous year, total turnover increased by 20.6% and commission revenue by 19.7%, which is primarily attributable to increased import activity at the beginning of 2002 and a program to train specialised staff to sell customs-related products.

The use of Customs Cards, launched by the Bank in 1998, grew in popularity. By the end of 2002 their number had grown by 24.6% to nearly 2,500, and during 2002, 49.5% of the total payment turnover was transacted using these cards. This is in line with the Bank's objective of increasing the frequency of product use and promoting funds transfer turnover as opposed to the use of cash.

International banking

In 2002, OTP Bank transacted a total of HUF 3,027.6 billion-worth of international payments, over 3.5 times the previous year's figure. A significant part of the turnover came from international forint payments, which saw a sharp increase due to the fact that in 2002 OTP Bank opened 35 loro accounts for its foreign bank partners, for the settlement and clearing of the HUF transactions of these partners.

In compliance with EU standards, the Bank provided its international payments customers with International Bank Account Numbers (IBAN).

For customers engaged in foreign trade, as well as those referred to OTP by its foreign partner banks without a subsidiary or branch office in Hungary, the Bank formulated tailor-made and individual conditions, offered in conjunction with advisory services.

In 2002 the Bank's revenue from international payment transactions reached HUF 828.4 million.

Treasury

The year 2002 brought further changes in this field, as the 2001 integration into OTP Bank of the securities trading operations of OTP Securities Ltd. was followed by the integration of its equities trading activities.

In 2002, the average balance of the investment portfolio managed by Treasury was HUF 516.3 billion, which represents 21.6% of the Bank's total assets. Treasury made interest income of HUF 41 billion on its total portfolio.

The average 2002 balance of the trading securities portfolio was HUF 26 billion, which represents a decrease of 23.5% compared to 2001. The profit (exchange rate and interest rate margin and commission revenue) from the trading portfolio amounted to HUF 3.1 billion.

Treasury's profit from own-account and customer-account derivatives deals (stock exchange and forward deals, FX swap and FX option deals) amounted to HUF 4.3 billion.

In 2002, Treasury's profit from FX trading amounted to HUF 781 million, and OTP Bank maintained its position among the 10 largest FX traders in the Hungarian spot FX market.

The recorded 2002 profit from sales activities, including the trading margin realised on securities trading, repo and forward deals concluded with the customers, was HUF 459 million.

Structured finance

Following the absorption of OTP Securities Ltd., the Bank provides its investment services through its Capital Market Transactions Department, and in addition to organising share and bond issues, it also provides capital market advisory services.

The Bank retained its market-leading position in the Hungarian syndicated lending market. It participated in 13 syndicated loan transactions (e.g. Dunaferr, ÁÉB, Borsodchem etc.), heading the consortium in seven of these transactions.

THIS DIVISION WAS THE FIRST IN HUNGARY TO MAKE A USD 30 MILLION BOND INVESTMENT SECURED BY INTERNATIONAL CORPORATE ASSETS.

The volume of new structured finance deals was HUF 46.5 billion in 2002, while net interest revenue amounted to HUF 2.6 billion, the net interest margin was 1.42% and commission revenue was HUF 609 million.

The department achieved outstanding results in the field of corporate bond issues. In the area of corporate finance, four bond issue programs (MOL, MFB, OTP Bank, OTP Mortgage Bank) were organised. The first capital-protected share-index-linked bond was issued to institutional investors, in a value of HUF 2.1 billion. The volume of mortgage notes issued for OTP Mortgage Bank exceeded HUF 177 billion. Most of these mortgage notes were subscribed by OTP Bank, in a value of HUF 135.9 billion.

Project finance

The number of project financing and special deals increased considerably in 2002 also. The volume of (signed) contracts increased from HUF 122.7 billion at year-end 2001 to HUF 188.9 billion, which represents an increase of 53.9%. In the same period, the outstanding loan portfolio grew by 46.7%, from HUF 86.4 billion to HUF 126.8 billion.

In 2002 the Bank participated in a number of important project financing deals, including the Cultural Block (Modern Hungarian Art Museum, House of Traditions, National Concert Hall) under construction in the Millennium City Centre, Kispest Power Station, the Westend Hilton Hotel and the TVK Power Station.

CAPITAL INVESTMENTS

In 2002 the gross book value of the Bank’s investments in various companies grew from HUF 40.5 billion to HUF 58.4 billion. The growth in the investment portfolio is primarily attributable to capital increases in existing strategic investments and to the foundation of new companies. As of 31 December 2002, OTP group investments, which constitute the bulk of the Bank’s strategic investments, totalled HUF 54.8 billion in value.

OTP Bank’s medium-term strategy places special emphasis on international expansion, increasing shareholder value, maintaining the Bank’s medium-term profitability and improving its regional position. As the first step in the implementation of its acquisition strategy, OTP Bank bought the Slovakian bank IRB and incorporated it into the OTP group under the name OTP Banka Slovensko a. s. In the coming period, OTP Bank plans to acquire other banks of the region, and from December 2002, a special organisational unit was set up to deal with the preparation and implementation of these deals.

THE OTP BANK GROUP

In the course of 2002, significant changes occurred with regard to the subsidiaries of the OTP Bank group, with the addition of the following companies:

- The purchase of Investicna a Rozvojová Banka (IRB) as the first stage of OTP's international expansion strategy
- The subsidiaries of OBS – renamed as OTP Faktoring Slovensko a.s. and OTP Leasing a.s. – also became members of the bank group
- OTP Real Estate Fund Management Ltd., which aims to attain a leading position in the Hungarian real estate fund market
- Merkantil Real Estate Leasing Ltd., which represents the Merkantil Group's debut on the real estate financing market
- OTP Health Care Services Ltd., which supports the activities of the OTP National Health Fund, whose task in turn is to implement OTP's Health Program

CONSOLIDATED FINANCIAL STATEMENTS

Consolidated balance sheet

As of 31 December 2002, the **consolidated balance sheet total** of the concern was HUF 2,734.1 billion; 17.8%, or HUF 413 billion, higher than that of the previous year, and 14.4% higher than the Bank's non-consolidated balance sheet total for 2002.

On the liabilities side, the major contributing factor to the 2002 increase in the consolidated balance sheet total were the HUF 332 billion increase in liabilities, and within this a HUF 273 billion increase in liabilities to customers, a HUF 55 billion increase in equity and a HUF 26 billion increase in provisions. Compared to the previous year, liabilities increased by 16.3%, and within this figure, long-term liabilities saw the most dynamic increase, with 40.5% year-on-year volume growth. This means that although the share of short-term liabilities within total liabilities decreased slightly in 2002, it nevertheless remained close to 94%. Liabilities to customers accounted for over 90% of total liabilities, with a volume of over HUF 2,140 billion. Funds originating from credit institutions increased by HUF 24 billion, or close to 70%. However, their share within total liabilities was just 2.6%. Among the consolidated balance sheet liabilities, the balance of provisions grew by HUF 26 billion to HUF 96.6 billion. In the course of 2002, equity increased by HUF 55.4 billion, or 30.4%, and, at year-end 2002, represented 8.7% of liabilities, in contrast to 7.8% at the end of 2001.

The most significant change in the asset side of the consolidated balance sheet was the almost HUF 500 billion, or 60%, increase in receivables from customers, with the result that their weighting in the balance sheet rose from 35.5% in 2001 to 48.4%. Among customer receivables, the largest increase, of almost HUF 450 billion, was in long-term receivables, accompanied by a decrease in the volume of receivables from credit institutions, government securities and liquid assets. The receivables from credit institutions showed the greatest decline, of HUF 54 billion or 16%, and as at year-end, their volume stood at HUF 281 billion. Owing to a volume decrease in excess of 8%, government securities represented 19.5% of total assets at year-end 2002, while their volume amounted to HUF 532 billion. More than 66% of government securities were investment securities. The total of liquid assets decreased by 6.6% to HUF 354 billion, from HUF 379 billion at the end of 2001.

Consolidated profit

The Bank's **consolidated pre-tax profit** was HUF 68.2 billion in 2002; 19% higher than in the previous year and 17.4% higher than the pre-tax profit of the parent company in the year under review. The consolidated pre-tax profit is the combined result of HUF 81 billion operating income and a combined provision, value loss and lending loss of HUF 12.9 billion. Compared to the base period, operating profit increased 19.3%, while provision and value loss were 21.0% up on the previous year's figure.

In 2002, the concern's net interest income was HUF 123.4 billion, 11.2% up on the previous year. The increase in net interest income is the result of HUF 221 billion (+4.5%) in interest revenue and HUF 97.6 billion (-3%) in interest expenses. Non-interest type income grew dynamically, by 34.1%, to reach HUF 126.7 billion. The most important items within this figure are the increase in net fees and commissions, insurance premium revenue and other non-interest type income. Consequently, the concern's total income grew from HUF 205.4 billion to HUF 250.1 billion in 2002, corresponding to an increase of 21.8%. Within the total income, the share of non-interest income was 50.7%, compared to 46% in 2001. The concern's non-interest expenses increased 23%, in excess of the inflation rate, which points to a slight deterioration in the expense/income ratio, from 66.9% to 67.6%. The one-off costs that were incurred in connection with the integration of OTP Banka Slovensko (OBS) into the OTP Group had an impact on expenses.

Alongside a slight increase in the tax rate, from 18% in 2001 to 19.3% in 2003, **consolidated after-tax profit** was HUF 55 billion, which corresponds to an increase of HUF 8.6 billion, or 18.5%, compared to 2001.

Consolidated undiluted earnings per share (EPS)[5] were HUF 214.64 in 2002, while the diluted figure[6] was HUF 196.37; respectively 18.4%, and 18.5% higher than in the previous year.

The 2002 Bank's consolidated return on average assets **(ROAA)** was **2.18%,** while its return on average equity **(ROAE)** was **26.2%** (2001: 2.11% and 28.5% respectively). The ROAE in real terms[7] was 20.9% in contrast to 19.3% in 2001.

RESULTS OF THE MOST IMPORTANT SUBSIDIARIES

In the course of 2002, the activities of OTP Bank's subsidiaries were fundamentally in line with the Bank's targets and the owners' expectations. The combined balance sheet totals of the fully consolidated members of the OTP Group amounted to HUF 658 billion, while preliminary consolidated pre-tax profits were HUF 10 billion in 2002.

Merkantil Bank Ltd.

The Merkantil Group continues to retain its market-leading position in its core business, the car financing market, and further strengthened its relationships with dealers in 2002. Mekantil Bank Ltd. closed the year with a balance sheet total of HUF 60.9 billion and a pre-tax profit of HUF 2,375 million; 23.4% higher than in the previous year. Vehicle loans accounted for 72.1% of the company's assets, while dealer financing accounted for 9.3%.

In the course of 2002, Merkantil Group concluded more than 49,000 car financing contracts. The number of contracts grew 24% compared to the previous year, while the volume of loan placements also increased, by HUF 15 billion. The average loan per car amounted to HUF 1,377,000; 3.6% up on the base year.

According to data estimates, the number of cars financed by the group amounted to 13.2% of Hungary's total new car sales, which represents a 0.3%-point increase over the previous year. Based on the assumption that 50-60% of total car sales in Hungary are financed, the Group acquired an estimated 25-30% share of the car financing market.

Merkantil Bank's return on average assets (ROAA) was 3.1%, and its return on average equity (ROAE) was 23.1% at the end of 2002.

[5]The method for calculating undiluted earnings per share: adjusted after-tax profit/ (ordinary shares – own shares)
[6] Calculation method: (adjusted after-tax profit + preference dividend)/ (ordinary shares + preference shares)
[7] Calculation method: ROAE – inflation (%)

Merkantil Car Ltd.

In 2002, the car market expanded at the substantially higher-than-forecasted rate of 15%. While car purchase financing was strictly limited to financial leasing in 2001, the beginning of 2002 saw the introduction of FX-based loans which, in less than a year became the leading product, pushing financial leasing into the background.

As of year-end 2002, the Company's balance sheet total was HUF 62.2 billion, which corresponds to an increase of 82.3% in the company's assets. The volume of receivables grew from HUF 33.4 billion to HUF 61.3 billion. The Company's 2002 pre-tax profit was HUF 629 million.

Until the end of 2002, the total volume of production tool financing deals recorded in Merkantil Car's books had grown by 185.2%, reaching HUF 5.4 billion.

Merkantil Lease Ltd.

Merkantil Leasing Ltd., a member of the Merkantil Group, conducts the administration of long-term leasing deals. The recording of these deals in a separate company was made necessary pursuant to the provisions of the Act on Credit Institutions.

As of 31 December 2002, the balance sheet total of Merkantil Leasing Ltd. was HUF 5.7 billion. In 2002, the Company's pre-tax profit reached HUF 82 million.

OTP Building Society Ltd.

The Company maintained its market-leading position in 2002, which it has held for several years now. In the course of 2002 OTP Building Society Ltd. concluded close to 70,000 contracts, and disbursements in a total value of HUF 35.6 billion were made on approximately 41,000 contracts. As a result of these disbursements, OTP Building Society Ltd.'s deposit portfolio decreased by 11% to HUF 42.6 billion, while the loan portfolio increased to HUF 8 billion.

As of 31 December 2002, OTP Building Society Ltd. had a 46% share of the building society savings market, while its market share in terms of the number of contracts was 41% and in terms of contractual volumes, 36%.

OTP Building Society Ltd. closed 2002 with a balance sheet total of HUF 49.8 billion and pre-tax profits of HUF 1,604 million, while its return on assets (ROA) was 2.53% and its return on equity (ROE) was 43.0%.

OTP Mortgage Bank Ltd.

OTP Mortgage Bank Ltd. launched its operation on 1 February 2002, and since 11 April has been granting loans, subsidised on the liabilities side, in the form of a consortium through OTP Bank's branch network. OTP founded OTP Mortgage Bank Ltd. in pursuit of its objective of making the full range of home-purchase subsidies available to its customers, and in order to fully exploit the business opportunities offered by the system of government housing subsidies.

The volume of financing loan placements made through OTP Bank's network increased steadily throughout the year, and – thanks to developments in the IT infrastructure – by the end of the year the speed at which loans were transferred from OTP Bank to the Mortgage Bank also accelerated. In the course of 2002, OTP Mortgage Bank took over more than 49,000 loans from OTP Bank, representing a total portfolio of HUF 189.7 billion. As of year-end 2002, OTP Mortgage Bank, with a portfolio of HUF 186.7 billion, had an almost 24% share of the bank sector's total housing-loan portfolio, and a 60% share of the market for mortgage-based housing loans.

In line with its plans, OTP Mortgage Bank issued mortgage notes in a total value of HUF 177.1 billion, and –gaining a 61.4% market share – it achieved the leading position in the mortgage-note issuing market.

As of 31 December 2002, the balance sheet total of OTP Mortgage Bank was HUF 213.4 billion, while its pre-tax profit amounted to HUF 651 million. The Company's return on assets (ROA) was 0.50%, while its return on equity (ROE) was 12.3%.

OTP Banka Slovensko, a. s.

As a result of its acquisition activities, in April 2002 the OTP Bank group gained a new member in the form of Bratislava-based universal bank, Banka Slovensko, a. s., in which it acquired a 95.74% stake.

After the privatisation of the Slovakian Bank, OTP Bank, as a strategic investor, carried out substantial changes throughout the course of the year. As a first step, OTP Banka Slovensko (OBS) underwent a corporate logo change, which was followed by the start of the reorganisation of the retail banking division, the launch of new products and the addition of mortgage-based loans to its lending products.

In order to meet the demands of the Slovakian financial markets, at the end of the year OBS also started to form the OBS Group. It transformed its fully-owned subsidiary, IRB Credit (new name: OTP Factoring Slovensko a. s.) into a company that specialises exclusively in factoring, and founded OTP Leasing a. s.[8] together with Merkantil Bank Ltd.

As of 31 December 2002, the balance sheet total of OBS was HUF 110.1 billion, giving it a 2.1% share of the Slovakian market. The Company closed 2002 with a loss of HUF 3,504 million, which originates from the one-off settlement of the costs incurred by the take-over, the revaluation of real estate properties and the provisions set aside for customer receivables.

OTP Garancia Insurance Ltd.

In 2002, OTP Garancia Insurance Ltd. achieved premium revenue of HUF 53.9 billion, 27.7% up on the previous year's figure. Owing to growth in excess of the overall market, the Company's share of the total insurance premium market grew from 10.2% to 10.9%. Premium revenue from life and bank insurance increased by 25.6%, reaching HUF 27 billion, raising the Company's share of the life insurance market to 13.3%. Revenue from the non-life insurance business was HUF 26.9 billion, which is the result of an outstanding growth rate of 29.8%. Due to this, the Company's share of the non-life insurance market grew from 8.5% to 9.2% in 2002, making the Company the third largest player in this market.

In 2002, the value of gross damages was HUF 24.8 billion. Damage payments amounted to 49.3% of premium revenues in the non-life insurance business, while together with the change in reserves, the damage ratio was 58.7%. Reserves increased by HUF 16.6 billion, or 31.9%, compared to the previous year, to stand at HUF 68.6 billion as at 31 December 2002.

Compared to the previous year, by year-end 2002, the Company's balance sheet total had grown 30.3%, reaching HUF 80.4 billion, while equity capital grew 50.7%, reaching HUF 8.5 billion. The HUF 1.5 billion increase in subscribed capital and the balance sheet profit contributed to a HUF 2.9 billion increase in the Company's equity capital. The Company's pre-tax profit increased by 27.8%, to HUF 1,602 million, in 2002, while return on assets (ROA) reached 1.91% and return on equity (ROE) 19.2%.

[8] OTP Leasing a. s. is mainly concerned with the financing of vehicle purchases. Its range of activities will be further expanded in 2003.

OTP Fund Management Ltd.

As of year-end 2002, the total value of assets under the management of OTP Fund Management Ltd. was HUF 634.1 billion, 35% up on the previous year's figure, giving the Company an estimated 25% share of Hungary's professionally managed assets (investment funds, pension funds, insurance-company reserves and other portfolios).

Within this, in the course of 2002 assets managed in investment funds increased to HUF 474.4 billion (a growth of 28.9%), giving the Company a 51% share of the investment fund market by the end of 2002. Pursuant to the Capital Market Act, the dematerialization of all OTP funds was carried out in December 2002.

In 2002 the Company transformed the Platina International Equities Fund – which was already under its management – into a new fund named "OTP International Equities – UBS Fund of Funds." Consequently, this fund no longer invests directly in foreign shares, but in the investment fund managed by UBS Global Asset Management, which in turn invests in the equity markets of OECD countries.

Having obtained the relevant license from the State Financial Supervisory Authority, in the fourth quarter of 2002 OTP Fund Management Ltd. began offering other types of individual portfolio management services. After winning an asset management tender organised by the National Deposit Insurance Fund, OTP Fund Management Ltd.'s largest and most important client, at the end of the year the Company was commissioned to manage 40% of the Insurance Fund's assets in a total value of HUF 15 billion. Having obtained this new licence, OTP Fund Management Ltd. is authorised to provide fully comprehensive asset management services for investment funds, pension funds and other clients.

As of year-end 2002, pension fund assets under the management of OTP Fund Management Ltd. amounted to HUF 144.8 billion (an increase of 42.3%), giving the Company an estimated 17-18% share of the pension fund market.

OTP Fund Management Ltd.'s pre-tax profit was HUF 3.5 billion, which represents an increase of 45.1% over the previous year's HUF 2.4 billion. The Company's return on average assets (ROAA) was 30.3% (2001: 27.8%), return on average equity (ROAE) was 32.8% (2001: 30.5%) and the expense/income ratio was 13% (2001: 17.9%). Compared to 2001, pre-tax profit per employee increased by 21.4% and after-tax profit per employee by 24.1%, to reach HUF 318.3 million and 263.1 million respectively.

In the course of 2002, OTP Fund Management Ltd. paid HUF 2.6 billion to OTP Bank for its services, of which 82.4% consisted of distribution fees, 17.1% of custodian fees and 0.5% was performance based commission. The distribution of investment fund units resulted in additional income of HUF 228.6 million for OTP Bank.

Hungarian International Finance Ltd.

The performance of the London-based HIF Ltd. in 2002 was, in most respects, in line with its business plan. Compared to 2001, the total volume of turnover in receivables increased by almost 40%. This means that the Company realised HUF 155 million (GBP 403,000) in profits on purchased receivables, which is 14% up on the previous year's figure. In spite of narrowing interest margins, HIF Ltd. attained interest and interest-type revenue of HUF 759 million (GBP 2,053,000) alongside an interest expense of just HUF 280 million (GBP 756,000), which was 33% lower than in the previous year, due to lower costs on borrowed capital and a smaller overall portfolio.

At year-end 2002, the Company's equity reached HUF 1,816 million (GBP 5 million), its pre-tax profit amounted to HUF 236 million (643,000 GBP), a 43% increase on the previous year's figure. The Company's business strategy continues to focus on the markets of Central and Eastern Europe: 67.7% of the total asset and liability assumption deals and guarantees originated from this region. Within this, instruments from EU accession candidates accounted for 12% of the portfolio, while deals from

Romania accounted for 27.4%. By the end of the period under review, deals concluded in the Middle East and North Africa had increased to 19% of the total portfolio.

OTP Real Estate Ltd.

OTP Real Estate Ltd.'s pre-tax profit was HUF 1,076 million, which represents an increase of 25.7% compared to 2001. Return on assets (ROA) was 6.2%, while return on equity (ROE) was 19.2%.

The Company's net sales revenue was HUF 10,619 million. Some 30% of the net sales revenue originated from the fulfilment of contracts concluded with members of the OTP Group, while 70% came from sales to external markets. The largest share of the net sales revenue originated from real estate investments and sales (HUF 5,203.9 million) and real estate appraisal activities (HUF 2,246.2 million).

As of year-end 2002, the Company's balance sheet total was HUF 16.5 billion, the largest part of which, on the asset side, consisted of current assets worth HUF 14.8 billion, and, on the liability side, of short-term liabilities in a value of HUF 8.7 billion and equity capital in a value of close to HUF 5 billion.

The Company places considerable emphasis on the continuous management of new market risk, and aims to stabilise its market share. Based on this, and in line with market demand, the new priority in 2002 was the construction of smaller-sized and less expensive flats. One of the more important branch network investment projects was the construction of a new office building for OTP Bank in Babér utca.

OTP Factoring Receivables Management Ltd.

During 2002, the processes involved in the purchasing by OTP Factoring Ltd. of receivables from OTP Bank, and their subsequent recovery, changed significantly in response to a survey carried out by consulting firm McKinsey aimed at improving the effectiveness of these activities at group level. Following the recommendations of this survey, overdue and cancelled receivables of less than HUF 10 million are automatically transferred to OTP Factoring Ltd. This means that, in the course of 2002, the Company bought nearly 113,000 qualified receivables in a value of approximately HUF 21 billion, while the gross value of receivables purchased from outside sources approached HUF 4 billion.

Thanks to an increased collection capacity, which was strengthened in order to cope with the increased recovery workload, the net 2002 revenue from debt recovery increased by 39.6% year on year. By the end of 2002 the Company's balance sheet total had doubled to more than HUF 8 billion, while pre-tax profits increased 38.5% year on year, to reach HUF 880 million.

OTP Factoring Asset Management Ltd.

OTP Factoring Asset Management Ltd. is engaged in the purchase, repossession and sale of real estate as well as – primarily as a service provided for members of the OTP Group – the appraisal and the value estimation of assets pledged as loan collateral. The Company also manages and monitors overdue housing loans, which in 2002 mainly consisted of the tasks related to municipality schemes to aid insolvent debtors with housing loans offered under the previous system of mortgage lending.

As a result of the Company's activities, by year-end 2002, revenues were 10.6% up on the previous year's figure, while the pre-tax profit had reached HUF 177 million.

OTP Fund Services Ltd.

In 2002 OTP Fund Services Ltd. retained its dominant market position in terms of the number of individual accounts and the value of the assets in the funds it managed. At year-end 2002, the Company was managing 780,000 individual accounts and total fund assets of HUF 142.8 billion, which corresponds to an increase of 40% over the previous year. The Company closed the year with profit of close to HUF 18.7 million, and a balance sheet total of HUF 1,506.1 million.

In 2002 the assets of the OTP Voluntary Private Pension Fund grew 29.1%, from HUF 31 billion to HUF 40 billion, with the number of its members increasing from 149,000 to 162,000. At the end of 2002, the Company's market share in terms of membership reached 13.6%, while its market share in terms of assets was 10.8%. In 2002, the assets under the management of OTP Private Pension Fund saw extremely dynamic growth of 45.3%, reaching HUF 101.1 billion, while membership dropped from 609,000 to 606,000 persons, owing to legislative changes. At year-end 2002, the Company's market share in terms of membership numbers was 27.4%, and 24.4% in terms of its managed assets.

OTP Health Care Services Ltd.

OTP Health Care Services Ltd. launched its activities in April 2002. The Company's most important challenge during the year, in addition to its foundation and market entry, was the setting up of a service system and the development of preventive healthcare programs. Within this framework the Company commenced development of a service system that differs greatly from other systems currently present in the market, in that the services it offers extend to all the three levels of healthcare.

As of 31 December 2002, OTP Health Care Fund had a membership of 7,735, giving the Company an almost 5% share of this market.

The Company closed the year with a loss of HUF 28.4 million.

OTP Travel Ltd.

In 2002, OTP Travel Ltd.'s pre-tax profit amounted to HUF 21.7 million, an increase of close to 67% year on year.

The air ticket sales business fulfilled its target, as set out in the 2002 business plan, of attaining a revenue increase of approximately 20%, which reflects outstandingly good performance considering that at national level air ticket sales remained at the year-2000 level. The Company's market share in this line of business grew from 5% in the previous year to 6.7% in 2002.

Similarly to previous years, the Company maintains a close relationship with the OTP Group, and a substantial part of the travel insurance policies it sold were products of OTP Garancia Insurance Ltd. The cross-selling of OTP Travel's services through the branch offices further strengthened, reaching a volume of close to HUF 135.3 billion in 2002.

In 2002, OTP Travel set up its new website, through which it now offers an online airline ticket booking service.

In 2002, OTP Travel's revenue per employee was HUF 81.1 million, 16.8% up on the previous year's figure, while the profit margin per employee increased 30.9% to reach HUF 7.3 billion at the end of 2002.

KEY 2002 FINANCIAL DATA OF OTP BANK LTD. [9]

	Non-consolidated			Consolidated		
	2001 Audited HUF million	**2002 Audited HUF million**	**Change**	**2001 Audited HUF million**	**2002 Audited HUF million**	**Change**
Interest income from interbank accounts	46,885	35,128	-25.1%	46,934	36,061	-23.2%
Interest income from retail accounts	43,488	51,898	19.3%	51,803	65,331	26.1%
Interest income from corporate accounts	42,960	47,865	11.4%	47,521	59,622	25.5%
Interest income from municipal accounts	5,830	6,152	5.5%	5,830	6,218	6.6%
Interest income from securities	50,189	42,879	-14.6%	54,839	48,775	-11.1%
Interest income from the mandatory reserve	4,450	4,858	9.2%	4,594	4,980	8.4%
Total interest income	193,802	188,780	-2.6%	211,521	220,987	4.5%
Interest expenses on interbank accounts	3,456	4,087	18.3%	3,917	7,061	80.3%
Interest expenses on retail accounts	74,780	65,656	-12.2%	76,128	69,612	-8.6%
Interest expenses on corporate accounts	8,397	9,168	9.2%	8,565	10,572	23.4%
Interest expenses on municipal accounts	5,959	5,476	-8.1%	5,959	5,569	-6.5%
Interest expenses on securities	1,476	714	-51.6%	4,620	3,796	-17.8%
Interest expenses on subordinated loans	1,392	964	-30.7%	1,392	964	-30.7%
Total interest expense	95,460	86,065	-9.8%	100,581	97,574	-3.0%
Net interest income	**98,342**	**102,715**	**4.4%**	**110,940**	**123,413**	**11.2%**
Fees and commissions received	46,436	64,626	39.2%	49,359	63,575	28.8%
Fees and commissions paid	6,414	7,780	21.3%	9,225	12,937	40.2%
Net fees and commissions	40,022	56,846	42.0%	40,134	50,638	26.2%
Net gain from securities trading	-1,642	-617	-62.4%	-1,049	561	-153.5%
Net gain from foreign exchange trading	2,999	3,552	18.4%	3,618	4,342	20.0%
Loss from real estate sales	-168	22	-113.1%	2,076	590	-71.6%
Insurance premium revenue				41,530	53,058	27.8%
Other non-interest income	1,564	4,644	196.9%	8,169	17,506	114.3%
Total non-interest income	**42,775**	**64,447**	**50.7%**	**94,478**	**126,695**	**34.1%**
Share of non-interest income within total income	30.3%	38.6%	27.2%	46.0%	50.7%	10.2%
Total income	**141,117**	**167,162**	**18.5%**	**205,418**	**250,108**	**21.8%**
Personnel expenses	32,551	37,570	15.4%	41,359	50,501	22.1%
Depreciation	11,129	11,088	-0.4%	14,593	16,102	10.3%
Insurance expenses				32,787	41,140	25.5%
Other non-interest expenses	41,534	46,899	12.9%	48,756	61,319	25.8%
Total non-interest expenses	**85,214**	**95,557**	**12.1%**	**137,495**	**169,062**	**23.0%**
Expense/Income	60.4%	57.2%	-5.4%	66.9%	67.6%	1.0%
Operating income	**55,903**	**71,605**	**28.1%**	**67,923**	**81,046**	**19.3%**
Provisions/Value losses and lending losses	8,534	13,523	58.5%	10,633	12,871	21.0%
Profit before taxation	**47,369**	**58,082**	**22.6%**	**57,290**	**68,175**	**19.0%**
Tax liability	8,971	10,885	21.3%	10,938	13,599	24.3%
Corporate tax rate difference originating from consolidation				-52	-409	
Tax rate	18.9%	18.7%	-0.8%	19.0%	19.3%	1.6%
After-tax profit	**38,398**	**47,197**	**22.9%**	**46,404**	**54,985**	**18.5%**

9 Data derived from the Bank's 2002 non-consolidated and consolidated financial statements prepared according to HAS and from the 2000 HAS audited financial statements in a breakdown that approximates international accounting standards.

PROPOSAL FOR THE DISTRIBUTION OF THE 2002 PROFITS OF OTP BANK LTD.

PROPOSAL

for the distribution of the 2002 profits of OTP Bank Ltd.

	HUF million
Profits before tax	58,082
Tax payment liability	10,885
Profits after tax	47,197
General provisions	4,719
Use of accumulated retained earnings for dividends or participation	0
Dividend	0
Balance sheet profit for the financial year	42,478

The Board of Directors of the Bank does not propose the AGM held on 25th of April 2003 to declare divident payment over the ordinary shares for the business year 2002.

BALANCE SHEETS, INCOME STATEMENTS AND CASH FLOW STATEMENT OF OTP BANK LTD.

NON-CONSOLIDATED

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NATIONAL SAVINGS AND COMMERCIAL BANK LTD (OTP BANK)
ASSETS

in HUF million

	31-Dec-2001	Self revision	31-Dec-2002
BALANCE SHEET			
ASSETS:			
1. Cash in hand, balances with central banks	**372,593**	**0**	**346,963**
2. Treasury bills	**481,079**	**0**	**401,855**
a) held for trade	136,325		111,072
b) held as financial fixed assets (for long term investment)	344,754		290,783
3. Loans and advances to credit institutions	**329,778**	**0**	**263,157**
a) repayable on demand	6,415		5,317
b) other receivables from financial services	323,363	0	257,840
ba) maturity not more than one year	303,293		243,385
From this: – by affiliated undertaking	1,650		10,222
– by undertaking with which the credit institution is linked by virtue of participating	29,291		48,300
– by Hungarian National Bank	1,217		1,027
bb) maturity more than one year	20,070		14,455
From this: – by affiliated undertaking	300		300
– by undertaking with which the credit institution is linked by virtue of participating			
– by Hungarian National Bank	1,731		434
c) receivables from investment services			
From this: – by affiliated undertaking			0
– by undertaking with which the credit institution is linked by virtue of participating			
4. Loans and advances to customers	**765,998**	**-28**	**1,010,197**
a) receivables from financial services	765,364	-28	1,007,900
aa) maturity not more than one year	326,797	-15	376,659
From this: – by affiliated undertaking	33,191	-1	60,978
– by undertaking with which the credit institution is linked by virtue of participating	114		
ab) maturity more than one year	438,567	-13	631,241
From this: – by affiliated undertaking	19,654		21,826
– by undertaking with which the credit institution is linked by virtue of participating	473		474
b) receivables from investment services	634	0	2,297
From this: – by affiliated undertaking	533		843
– by undertaking with which the credit institution is linked by virtue of participating			
ba) receivables from investment service activities on the on the stock exchange			
bb) receivables from over-the-counter investment service activities			
bc) receivables from clients for investment service activities	634		2,297
bd) receivables from clearing houses			
be) other receivables from investment service			
5. Debt securities including fixed-income securities	**17,636**	**0**	**153,188**
a) securities issued by local self-governing bodies and by other public bodi (not include the treasury bills issued by Hungarian state and securities issued by Hungarian National Bank)	0	0	0
aa) held for trade			
ab) held as financial fixed assets (for long term investment)	0		0
b) securities issued by other bodies	17,636	0	153,188
ba) held for trade	113		1,322
From this: – by affiliated undertaking			
– by undertaking with which the credit institution is linked by virtue of participating			
– own-debt securities (own issued and repurchased)			
bb) held as financial fixed assets (for long term investment)	17,523		151,866
From this: – by affiliated undertaking			134,005
– by undertaking with which the credit institution is linked by virtue of participating			

in HUF million

	31-Dec-2001	Self revision	31-Dec-2002
6. Shares and other variable-yield securities	**7,262**	**0**	**5,682**
a) shares and participations for trade	5,579		92
From this: – by affiliated undertaking			
– by undertaking with which the credit institution is linked by virtue of participating	5,487		
b) other variable-yield securities	1,683	0	5,590
ba) held for trade			
bb) held as financial fixed assets (for long term investment)	1,683		5,590
7. Sares and participating interest as financial fixed assets	**877**	**0**	**622**
a) shares and participating interest as financial fixed assets	877		622
From this: – shares and participating interest in credit institutions	0		1
b) revaluation surplus on shares and participating interests			
From this: – revaluation surplus on shares and on participating interests in credit institutions			
8. Shares and participating interest in affiliated undertakings	**28,815**	**0**	**42,908**
a) shares and participating interest in affiliated undertakings	28,815		42,908
From this: – shares and participating interest in credit institutions	5,600		13,580
b) revaluation surplus on shares and participating interests			
From this: – revaluation surplus on shares and on participating interests in credit institutions			
9. Intangible assets	**11,866**	**0**	**13,793**
a) intangible assets	11,866	0	13,793
b) revaluation surplus on intangible assets			
10. Tangible assets	**42,380**	**5**	**49,886**
a) tangible assets for financial and investment services	39,914	5	47,027
aa) land and buildings	27,029		29,115
ab) technical equipment, fittings and vehicles	10,036	5	11,026
ac) investment	2,831		6,878
ad) advance payments on investment	18		8
b) tangible assets not for directly financial and investment services	2,466	0	2,859
ba) land and buildings	2,243		2,651
bb) technical equipment, fittings and vehicles	130		143
bc) investment	93		65
bd) advance payments on investment			0
c) revaluation surplus on tangible assets			
11. Own shares	**17,750**		**16,883**
12. Other assets	**19,595**	**229**	**50,371**
a) stocks (inventories)	2,123		1,181
b) other receivables (not from financial and investment securities)	17,472	229	49,190
From this: – by affiliated undertaking	3,895		26,058
– by undertaking with which the credit institution is linked by virtue of participating			
13. Prepayments and accrued income	**31,529**	**-28**	**34,615**
a) accrued income	31,300	-19	33,916
b) prepayments	229	-9	699
c) deffered charges			
TOTAL ASSETS	**2,127,158**	**178**	**2,390,120**
From this:			
- CURRENT ASSETS A102	1,189,094	214	1,154,361
(1+2/a+3/c+3/a+3/ba+4/aa+4/b+5/aa+5/ba+6/a+6/ba+11+12)			
- FIXED ASSETS	906,535	-8	1,201,144
(2/b+3/bb+4/ab+5/ab+5/bb+6/bb+7+8+9+10)			

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NATIONAL SAVINGS AND COMMERCIAL BANK LTD (OTP BANK)
EQUITY AND LIABILITIES

in HUF million

	31-Dec-2001	Self revision	31-Dec-2002
LIABILITIES			
1. Liabilities to credit instiutions	**25,133**	**0**	**28,220**
a) repayable on demand	2,595		1,701
b) liabilities from financial services with maturity dates or periods of notice	22,538	0	26,519
ba) not more than one year	5,609		17,137
From this: – by affiliated undertaking	2		73
– by undertaking with which the credit institution is linked by virtue of participating	400		2,800
– by Hungarian National Bank	1,618		1,208
bb) more than one year			
From this: – by affiliated undertaking	16,929		9,382
– by undertaking with which the credit institution is linked by virtue of participating			
– by Hungarian National Bank			
c) liabilities from investment services	7,804		3,158
From this: – by affiliated undertaking	**1,778,685**	**21**	**1,992,081**
– by undertaking with which the credit institution is linked by virtue of participating	363,961	1	353,303
4. Liabilities to customers	42,831		44,013
a) saving deposits	321,130	1	309,230
aa) repayable on demand	0		60
ab) maturity not more than one year	1,413,015	20	1,638,276
ac) maturity more than one year	561,105	20	644,844
b) other liabilities from financial services	1,844		1,331
ba) repayable on demand	375		136
bb) maturity not more than one year	842,742		989,153
From this: – by affiliated undertaking	3,668		6,897
– by undertaking with which the credit institution is linked by virtue of participating			
bc) maturity more than one year	9,168	0	4,279
From this: – by affiliated undertaking			
– by undertaking with which the credit institution is linked by virtue of participating			
c) liabilities from investment services	1,709	0	502
From this: – by affiliated undertaking			
– by undertaking with which the credit institution is linked by virtue of participating			
ba) liabilities from investment service activities on the on the stock exchange			
bb) liabilities from over-the-counter investment service activities			
bc) liabilities from clients for investment service activities	1,709		502
bd) liabilities from clearing houses			
be) other liabilities from investment service			
3. Liabilities from issued debt securities	**73,734**	**0**	**62,689**
a) issued bond	1	0	2,015
aa) maturity not more than one year			
From this: – by affiliated undertaking			
– by undertaking with which the credit institution is linked by virtue of participating			
ab) maturity more than one year	1		2,015
From this: – by affiliated undertaking			
– by undertaking with which the credit institution is linked by virtue of participating			
b) issued other debt securities	554	0	338
ba) maturity not more than one year	537		338
From this: – by affiliated undertaking			
– by undertaking with which the credit institution is linked by virtue of participating			
bb) maturity more than one year	17		
From this: – by affiliated undertaking			
– by undertaking with which the credit institution is linked by virtue of participating			

in HUF million

	31-Dec-2001	Self revision	31-Dec-2002
c) issued debt securities according to act on accounting, but the act on securities not qualifies	73,179	0	60,336
ca) maturity not more than one year	69,076		56,185
From this: – by affiliated undertaking			
– by undertaking with which the credit institution is linked by virtue of participating			
cb) maturity more than one year	4,103		4,151
From this: – by affiliated undertaking			
– by undertaking with which the credit institution is linked by virtue of participating			
4. Other liabilities	**36,911**	**81**	**41,694**
a) maturity not more than one year	36,911	81	41,694
From this: – by affiliated undertaking	1,398	5	2,890
– by undertaking with which the credit institution is linked by virtue of participating	15		7
– by pecuniary contribution of members at credit institutions operating as credit			
b) maturity more than one year			
From this: – by affiliated undertaking			
– by undertaking with which the credit institution is linked by virtue of participatin			
5. Accruals and deferred income	**22,288**	**-54**	**23,108**
a) accrued liabilities	385		1,340
b) accrued costs and expenses	21,903	-54	18,525
c) deferred income			3,243
6. Provisions	**14,598**	**0**	**20,974**
a) provisions for pensions and similar obligtions			1,000
b) risk provision for off-balance sheet items (for pending and future labilities)	2,032		3,732
c) general risk provision	10,930		14,254
d) other provision	1,636		1,988
7. Subordinated liabilities	**17,293**	**0**	**15,511**
a) subordinated loan capital	17,293		15,511
b) pencuniary contribution of members at credit institutions operating as credit cooperatives			
c) other subordinated liabilities			
From this: – by affiliated undertaking			
– by undertaking with which the credit institution is linked by virtue of participation			
8. Subcribed capital	**28,000**		**28,000**
From this: repurchased own shares at face value	1,542		1,543
9. Subcribed but unpaid capital (-)			
10. Capital reserves	**52**	**0**	**52**
a) premium (from share issue)			
b) other	52		52
11. General reserves	**29,450**		**34,169**
12. Retained earnings (accumulated profit reserve) (±)	**55,981**	**130**	**84,261**
13. Legal reserves	**17,750**		**16,883**
14. Revaluation reserve			
15. Profit or loss for the financial year according to the balance sheet (±)	**27,283**		**42,478**
(balance-sheet profit or loss figure)			
TOTAL LIABILITIES	**2,127,158**	**178**	**2,390,120**
From this:	0	0	0
- SHORT-TERM LIABILITIES	1,884,245	102	2,104,797
(1/a+1/ba+1/c+2/aa+2/ab+2/ba+2/bb+2/c+3/aa+3/ba+3/ca +4/a)			
- LONG-TERM LIABILITIES	47,511	0	35,398
(1/bb+2/ac+2/bc+3/ab+3/bb+3/cb+4/b+7)			
- EQUITY (CAPITAL AND RESERVES) (8-9+10+11 ±12+13+14 ±15)	158,516	130	205,843

OFF-BALANCE SHEET COMMITMENTS	**507,800**	**0**	**787,613**
Contingent liabilities	318,713		551,870
Future liabilities	189,087		235,743

Budapest, 24 March 2003

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NATIONAL SAVINGS AND COMMERCIAL BANK LTD (OTP BANK)

PROFIT AND LOSS ACCOUNT

in HUF million

		31-Dec-2001	Self revision	31-Dec-2002
1.	Interest received and interest-type income	193,802	-55	188,780
	a) interest received on securities with fixed-interest signifying a creditor relationship	50,189	0	42,879
	Including: - from related companies	0	0	1,709
	- from other participation companies	0	0	0
	b) other interest received and interest-type income	143,613	-55	145,901
	Including: - from related companies	2,507	-2	3,039
	- from other participation companies	2,931	0	725
2.	Interest paid and interest-type expenses	95,460	2	86,065
	Including: - to related companies	425	0	745
	- to other participation companies	149	0	180
	Interest difference (1-2)	**98,342**	**-57**	**102,715**
3.	Incomes from securities	127	0	332
	a) from trading securities and participations (dividend, profit participation)	0	0	186
	b) from related companies (dividend, profit participation)	127	0	146
	c) from other participation companies (dividend, profit participation)	0	0	0
4.	Fees and Commission received	45,684	7	63,545
	a) revenues from other financial services	41,441	7	57,872
	Including: - from related companies	1,248	0	6,919
	- from other participation companies	2	0	2
	b) revenues from investment services (except incomes from trading activities)	4,243	0	5,673
	Including: - from related companies	2,381	0	2,891
	- from other participation companies	0	0	0
5.	Fees and Commission paid	6,414	0	7,780
	a) expenses on other financial services	6,189	0	7,442
	Including: - to related companies	1,270	0	1,103
	- to other participation companies	0	0	0
	b) expenses on investment services (except expenses from trading activities)	225	0	338
	Including: - to related companies	32	0	63
	- to other participation companies	0	0	0
6.	Profit or loss from financial transactions (6/a-6/b+6/c-6/d)	-5,555	-20	1,748
	a) revenues from other financial services	26,897	-20	34,592
	Including: - from related companies	51	0	64
	- from other participation companies	12	0	1
	b) expenses on other financial services	29,778	0	31,304
	Including: - from related companies	5,317	0	3,294
	- from other participation companies	30	0	0
	c) revenues from investment services (revenues from trading activities)	3,732	0	6,328
	Including: - from related companies	329	0	85
	- from other participation companies	0	0	0
	Including: - reversal of write-off of trading securities	0	0	0
	b) expenses on investment services (expenses from trading activities)	6,406	0	7,868
	Including: - to related companies	239	0	125
	- to other participation companies	0	0	0
	Including: - write-off of trading securities	0	0	0

in HUF million

		31-Dec-2001	Self revision	31-Dec-2002
7.	Other incomes from business	15,766	545	211,587
	a) incomes from non financial and investment services	4,923	-1	7,681
	Including: - from related companies	1,106	0	2,053
	- from other participation companies	5	0	3
	b) other revenues	10,843	546	203,906
	Including: - from related companies	1,463	0	195,361
	- from other participation companies	0	0	0
	Including: -reversal of write-off of inventory	16	0	66
8.	General administration expenses	60,063	208	67,824
	a) personnel expenses	32,551	-50	36,188
	aa) wage costs	20,100	-31	23,294
	ab) other payments to personnel	3,732	-5	3,405
	Including: - social security expenses	1,756	0	2,179
	- pension related expenses	1,686	0	1,889
	ac) contributions on wages and salaries	8,719	-14	9,489
	Including: - social security expenses	7,738	-12	8,402
	- pension related expenses	4,410	-7	4,381
	b) other administration expenses	27,512	258	31,636
9.	Depreciation and amortization	11,129	7	11,088
10.	Other expenses from business	33,712	337	231,335
	a) expenses from non-financial and investment services	3,951	2	6,156
	Including: - to related companies	731	3	2,949
	- to other participation companies	83	0	24
	b) other expenses	29,761	335	225,179
	Including: - to related companies	7,675	-2	73
	- to other participation companies	0	0	0
	Including: -write-off of inventory	7	0	0
11.	write-off of loans and provision for contingent and future liabilities	12,577	0	15,134
	a) write-off of loans	11,280	0	12,737
	b) provision for contingent and future liabilities	1,297	0	2,397
12.	Reversal of write-off of loans and credit for contingent and future liabilities	13,293	0	13,306
	a) reversal of write-off of loans	12,841	0	12,672
	b) credit for contingent and future liabilities	452	0	634
13.	write-off of securities for investing purposes, signifying a creditor relationship, equity investments in associated or other company	272	0	1,992
14.	Reversal of write-off of securities for investing purposes, signifying a creditor relationship, and equity investments in associated or other company	4,098	0	1,349

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NATIONAL SAVINGS AND COMMERCIAL BANK LTD (OTP BANK)

PROFIT AND LOSS ACCOUNT

in HUF million

		31-Dec-2001	Self revision	31-Dec-2002
15.	**Result of ordinary business activities**	**47,588**	**-77**	**59,429**
	Icluding: -RESULT OF FINANCIAL AND INVESTMENT SERVICES (1-2+3+4-5±6+7/b-8-9-10/b-11+12-13+14)	46,616	-74	57,904
	- RESULT OF NON-FINANCIAL AND INVESTMENT SERVICES (7/a-10/a)	972	-3	1,525
16.	Extraordinary revenues	214	3	39
17.	Extraordinary expenses	433	2	1,386
18.	Extraordinary profit or loss (16-17)	-219	1	-1,347
19.	**Profit or loss before tax (±15±18)**	**47,369**	**-76**	**58,082**
20.	Tax liabilities	8,971	-206	10,885
21.	**After-tax profit or loss (±19-20)**	**38,398**	**130**	**47,197**
22.	Formation and utilization of general reserves (±)	-3,840	0	-4,719
23.	Use of accumulated profit reserve for dividends and profit-sharings	0	0	0
24.	Dividends and profit-sharings paid (approved)	7,275	0	0
	Including: - to related companies	238	0	0
	- to other participation companies	0	0	0
25.	**Balance-sheet profit or loss figure (±21±22+23-24)**	**27,283**	**130**	**42,478**

Budapest, 24 March 2003

CASH-FLOW STATEMENT

in HUF million

	DESCRIPTION	2001	2002
1.	Interest income	193,802	188,780
2.	+ Revenues from other financial services (except for write back of diminuition of value on securities)	68,119	92,052
3.	+ Other revenues (except for utilization of provisions and re-entry of surplus provisions; losses on inventory; and write back of above planned provisions)	6,450	198,996
4.	+ Revenues from investment services (except for write back of diminuition of value on securities)	7,975	12,001
5.	+ Revenues from non-financial and investment services	4,923	7,681
6.	+ Dividend income	127	332
7.	+ Extraordinary Revenues	214	39
8.	- Interest expenses	-95,460	-86,065
9.	- Expenses on other financial services (except for write back of diminuition of value on securities)	-35,966	-38,746
10.	- Other expenses (except for the formation of provisions ; losses on inventory; and write back of above planned provisions)	-21,891	-216,084
11.	- Expenses on investment services (except for write back of diminuition of value on securities)	-6,631	-8,206
12.	- Expenses on non-financial and investment services	-3,951	-6,156
13.	- General administration expenses	-71,192	-78,912
14.	- Extraordinary expenses (not including the Amount of corporate tax liabilities in the subject year)	-433	-1 386
15.	- Corporate tax liabilities in the subject year	-8,971	-10,885
16.	- Dividends paid	-5,305	-7,109
17.	**OPERATING CASH-FLOW**	**31,810**	**46,332**

	DESCRIPTION	2001	2002
18.	± Change in stock of liabilities (if increase +, if decrease -)	153,309	215,446
19.	± Change in stock of receivables (if increase -, if decrease +)	-234,524	-208,091
20.	± Change in stock of inventories (if increase -, if decrease +)	78	1,009
21.	± Change in stock of securities reported under current assets (if increase -, if decrease +)	44,028	30,398
22.	± Change in stock of securities reported as investment assets (if increase -, if decrease +)	-105,986	-98,734
23.	± Change in stock of investments (including advances) (if increase -, if decrease +)	-1,301	-4,009
24.	± Change in stock of intangible assets (if increase -, if decrease +)	-1,261	-2,085
25.	± Change in the value of tangible assets (except for investments and advances on investments) (if increase -, if decrease +)	844	-3,656
26.	± Change in stock of deferred expenses and accrued income (if increase -, if decrease +)	-2,913	-3,113
27.	± Change in stock of accrued expenses and deferred income (if increase +, if decrease -)	6,159	873
28.	+ Issue of shares at Sales price	0	0
29.	+ Liquid assets received definitively on the basis of legal regulation	0	0
30.	- Liquid assets transferred definitively on the basis of legal regulation	0	0
31.	- Nominal value of shares or share notes withdrawn	0	0
32.	**NET CASH-FLOW**	**-109,757**	**-25,630**
	of which:		
33.	- change in stock of cash on hand (cash in forints and foreign currency, checks)	10,885	-6,140
34.	- change in stock of account cash (HNB forint and foreign exchange clearing and deposit accounts with a maturity of less than one year, as well as current deposit accounts kept in forints with another financial institution on the basis of a separate legal	-120,642	-19,490

BALANCE SHEETS, INCOME STATEMENTS AND CASH FLOW STATEMENT OF OTP BANK LTD.

CONSOLIDATED

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NATIONAL SAVINGS AND COMMERCIAL BANK LTD (OTP BANK)
ASSETS

in HUF million

BALANCE SHEET	31-Dec-2001	Self revision	31-Dec-2002
ASSETS:			
1. Cash in hand, balances with central banks	**378,826**		**353,980**
2. Treasury bills	**580,781**	**0**	**531,896**
a) held for trade	185,203		177,986
b) held as financial fixed assets (for long term investment)	395,578		353,910
3. Loans and advances to credit institutions	**335,015**	**0**	**281,400**
a) repayable on demand	6,418		5,319
b) other receivables from financial services	328,597	0	276,081
ba) maturity not more than one year	308,827		261,925
From this: – by affiliated undertaking			28
– by undertaking with which the credit institution is linked by virtue of participating	29,291		48,300
– by Hungarian National Bank	8,402		12,847
bb) maturity more than one year	19,770		14,156
From this: – by affiliated undertaking			
– by undertaking with which the credit institution is linked by virtue of participating			
– by Hungarian National Bank	1,731		434
c) receivables from investment services			
From this: – by affiliated undertaking			
– by undertaking with which the credit institution is linked by virtue of participating			
4. Loans and advances to customers	**824,696**	**-28**	**1,322,587**
a) receivables from financial services	823,333	-28	1,320,264
aa) maturity not more than one year	329,963	-15	377,148
From this: – by affiliated undertaking	2,077	-1	1,520
– by undertaking with which the credit institution is linked by virtue of participating	114		
ab) maturity more than one year	493,370	-13	943,116
From this: – by affiliated undertaking	14,580		14,121
– by undertaking with which the credit institution is linked by virtue of participating	473		474
b) receivables from investment services	1,363	0	2,323
From this: – by affiliated undertaking	4		843
– by undertaking with which the credit institution is linked by virtue of participating			
ba) receivables from investment service activities on the on the stock exchange			
bb) receivables from over-the-counter investment service activities			
bc) receivables from clients for investment service activities	170		2,323
bd) receivables from clearing houses	1,193		
be) other receivables from investment service			
5. Debt securities including fixed-income securities	**18,698**	**0**	**21,108**
bills issued by Hungarian state and securities issued by Hungarian National Bank)	0	0	0
aa) held for trade			
ab) held as financial fixed assets (for long term investment)			
b) securities issued by other bodies	18,698	0	21,108
ba) held for trade	115		1,368
From this: – by affiliated undertaking			
– by undertaking with which the credit institution is linked by virtue of participating			
– own-debt securities (own issued and repurchased)			
bb) held as financial fixed assets (for long term investment)	18,583		19,740
From this: – by affiliated undertaking			182
– by undertaking with which the credit institution is linked by virtue of participating			
6. Shares and other variable-yield securities	**9,768**	**0**	**11,578**
a) shares and participations for trade	5,679		101
From this: – by affiliated undertaking			
– by undertaking with which the credit institution is linked by virtue of participating	5,510		1
b) other variable-yield securities	4,089	0	11,477
ba) held for trade	2,362		5,387
bb) held as financial fixed assets (for long term investment)	1,727		6,090

in HUF million

	31-Dec-2001	Self revision	31-Dec-2002
7. Sares and participating interest as financial fixed assets	**4,911**	**0**	**5,681**
a) shares and participating interest as financial fixed assets	4,911		5,681
From this: – shares and participating interest in credit institutions	1		1
b) revaluation surplus on shares and participating interests			
From this: – revaluation surplus on shares and on participating interests in credit institutions			
8. Shares and participating interest in affiliated undertakings	**2,456**	**0**	**5,260**
a) shares and participating interest in affiliated undertakings	2,338		5,194
From this: – shares and participating interest in credit institutions			
b) revaluation surplus on shares and participating interests			
From this: – revaluation surplus on shares and on participating interests in credit institutions			
c) capital consolidation difference	118	0	66
- from subsidiaries and joint managed companies	118		66
- from affiliated companies			
9. Intangible assets	**14,270**	**0**	**16,248**
a) intangible assets	14,270		16,248
b) revaluation surplus on intangible assets			
10. Tangible assets	**58,639**	**5**	**74,861**
a) tangible assets for financial and investment services	45,412	5	61,141
aa) land and buildings	32,206		42,154
ab) technical equipment, fittings and vehicles	10,371	5	11,990
ac) investment	2,817		6,986
ad) advance payments on investment	18		11
b) tangible assets not for directly financial and investment services	13,227	0	13,720
ba) land and buildings	5,827		6,580
bb) technical equipment, fittings and vehicles	7,161		6,906
bc) investment	233		192
bd) advance payments on investment	6		42
c) revaluation surplus on tangible assets			
11. Own shares	**26,357**		**27,800**
12. Other assets	**31,125**	**229**	**42,474**
a) stocks (inventories)	10,999		11,340
b) other receivables (not from financial and investment securities)	20,126	229	31,134
From this: – by affiliated undertaking	660		715
– by undertaking with which the credit institution is linked by virtue of participating			15
b1) receivables of consolidated financial and investment service companies	16,146	229	26,484
b2) receivables of consolidated insurance companies	1,656		2,617
b3) receivables of consolidated other companies	2,324		2,033
c) receivables from income tax due to consolidation (calculates)			
13. Prepayments and accrued income	**35,415**	**-28**	**39,209**
a) accrued income	33,970	-19	36,595
b) prepayments	1,445	-9	2,614
c) deffered charges			
TOTAL ASSETS	**2,320,957**	**178**	**2,734,082**
From this:			
- current assets (1+2/a+3/c+3/a+3/ba+4/aa+4/b+5/aa+5/ba+6/a+6/ba+11+12)	1,276,238	214	1,255,811
- FIXED ASSETS (2/b+3/bb+4/ab+5/ab+5/bb+6/bb+7+8+9+10)	1,009,304	-8	1,439,062

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NATIONAL SAVINGS AND COMMERCIAL BANK LTD (OTP BANK)
EQUITY AND LIABILITIES

in HUF million

	31-Dec-2001	Self revision	31-Dec-2002
LIABILITIES			
1. Liabilities to credit instiutions	**36,404**	**0**	**60,832**
a) repayable on demand	2,546		1,610
b) liabilities from financial services with maturity dates or periods of notice	33,858	0	59,222
ba) not more than one year	13,782		37,307
From this: – by affiliated undertaking			1
– by undertaking with which the credit institution is linked by virtue of participating	400		2,800
– by Hungarian National Bank	1,618		1,208
bb) more than one year	20,076		21,915
From this: – by affiliated undertaking	7		
– by undertaking with which the credit institution is linked by virtue of participating			
– by Hungarian National Bank	7,804		3,158
c) liabilities from investment services			
From this: – by affiliated undertaking			
– by undertaking with which the credit institution is linked by virtue of participating			
4. Liabilities to customers	**1,867,298**	**21**	**2,140,397**
a) saving deposits	363,961	1	358,926
aa) repayable on demand	42,831		45,301
ab) maturity not more than one year	321,130	1	313,327
ac) maturity more than one year			298
b) other liabilities from financial services	1,500,890	20	1,780,969
ba) repayable on demand	561,342	20	663,124
From this: – by affiliated undertaking	1,158		92
– by undertaking with which the credit institution is linked by virtue of participating	375		136
bb) maturity not more than one year	877,706		1,060,141
From this: – by affiliated undertaking	33		443
– by undertaking with which the credit institution is linked by virtue of participating			
bc) maturity more than one year	61,842		57,704
From this: – by affiliated undertaking			
– by undertaking with which the credit institution is linked by virtue of participating			
c) liabilities from investment services	2,447	0	502
From this: – by affiliated undertaking			
– by undertaking with which the credit institution is linked by virtue of participating			
ba) liabilities from investment service activities on the on the stock exchange			
bb) liabilities from over-the-counter investment service activities			
bc) liabilities from clients for investment service activities	2,433		502
bd) liabilities from clearing houses	14		
be) other liabilities from investment service			
3. Liabilities from issued debt securities	**73,735**	**0**	**102,689**
a) issued bond	1	0	2,015
aa) maturity not more than one year			
From this: – by affiliated undertaking			
– by undertaking with which the credit institution is linked by virtue of participating			
ab) maturity more than one year	1		2,015
From this: – by affiliated undertaking			
– by undertaking with which the credit institution is linked by virtue of participating			
b) issued other debt securities	555	0	40,338
ba) maturity not more than one year	538		338
From this: – by affiliated undertaking			
– by undertaking with which the credit institution is linked by virtue of participating			
bb) maturity more than one year	17		40,000
From this: – by affiliated undertaking			
– by undertaking with which the credit institution is linked by virtue of participating			
certificates as securities	73,179	0	60,336
ca) maturity not more than one year	69,076		56,185
From this: – by affiliated undertaking			
– by undertaking with which the credit institution is linked by virtue of participating			
cb) maturity more than one year	4,103		4,151
From this: – by affiliated undertaking			
– by undertaking with which the credit institution is linked by virtue of participating			

in HUF million

	31-Dec-2001	Self revision	31-Dec-2002
4. Other liabilities	**45,317**	**81**	**48,988**
a) maturity not more than one year	44,460	81	48,564
From this: – by affiliated undertaking	404	5	778
– by undertaking with which the credit institution is linked by virtue of participating	20		8
a1) liabilities of consolidated financial and investment service companies	38,016	81	41,800
a2) liabilities of consolidated insurance companies	1,903		2,701
a3) liabilities of consolidated other companies	4,541		4,063
b) maturity more than one year	48	0	24
From this: – by affiliated undertaking			
– by undertaking with which the credit institution is linked by virtue of participatin			
b1) liabilities of consolidated financial and investment service companies			
b2) liabilities of consolidated insurance companies			
b3) liabilities of consolidated other companies	48		24
Calculated income tax difference due to consolidation	809		400
5. Accruals and deferred income	**27,917**	**-54**	**27,227**
a) accrued liabilities	1,678		2,560
b) accrued costs and expenses	26,234	-54	24,627
c) deferred income	5		40
6. Provisions	**70,376**	**0**	**96,634**
a) provisions for pensions and similar obligtions			1,000
b) risk provision for off-balance sheet items (for pending and future labilities)	2,531		4,346
c) general risk provision	11,681		15,294
d) other provision	56,164	0	75,994
d1) liabilities of consolidated financial and investment service companies	3,865		7,001
d2) liabilities of consolidated insurance companies	51,914		68,531
d3) liabilities of consolidated other companies	385		462
7. Subordinated liabilities	**17,737**	**0**	**19,779**
a) subordinated loan capital	17,293		15,511
From this: – by affiliated undertaking			
– by undertaking with which the credit institution is linked by virtue of participating			
aa) capital consolidation difference	444	0	4,268
- form subsidiaries and joint management companies	444		4,268
b) pencuniary contribution of members at credit institutions operating as credit cooperatives			
c) other subordinated liabilities			
From this: – by affiliated undertaking			
– by undertaking with which the credit institution is linked by virtue of participatin			
8. Subcribed capital	**28,000**		**28,000**
From this: repurchased own shares at face value	2,217		2,334
9. Subcribed but unpaid capital (-)			
10. Capital reserves	**52**	**0**	**52**
a) premium (from share issue)			
b) other	52		52
11. General reserves	**29,450**		**34,170**
12. Retained earnings (accumulated profit reserve) (±)	**57,276**	**130**	**86,232**
a) retained earnings	56,095	130	84,508
b) changes in eauity of equity consolidated subsidiaries	1,181		1,724
13. Legal reserves	**17,750**		**16,883**
14. Revaluation reserve			
15. Profit or loss for the financial year according to the balance sheet (±)	**35,175**		**49,899**
16 Changes in eauity of subsidiaries and joint managed companies	**11,299**		**19,246**
17. Changes due to consolidation	**3,171**	**0**	**2,770**
- debt consolidation	4,753		4,687
- difference of intermediate results	-1,582		-1,917
18. Shares of other outside owners			**284**
TOTAL LIABILITIES	**2,320,957**	**178**	**2,734,082**
From this: - SHORT-TERM LIABILITIES	1,936,667	102	2,226,799
(1/a+1/ba+1/c+2/aa+2/ab+2/ba+2/bb+2/c+3/aa+3/ba+3/ca +4/a)			
- LONG-TERM LIABILITIES	103,824	0	145,886
(1/bb+2/ac+2/bc+3/ab+3/bb+3/cb+4/b+7)			
- EQUITY (CAPITAL AND RESERVES) (8-9+10+11 ±12+13+14 ±15)	182,173	130	237,536

in HUF million

	31-Dec-2001	Self revision	31-Dec-2002
OFF-BALANCE SHEET COMMITMENTS	**509,918**	**0**	**881,708**
Contingent liabilities	318,775		641,127
Future liabilities	191,143		240,581
OFF-BALANCE SHEET ASSETS	**218,338**	**0**	**444,142**

Budapest, 24 March 2003

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NATIONAL SAVINGS AND COMMERCIAL BANK LTD (OTP BANK)
PROFIT AND LOSS ACCOUNT
consolidated

in HUF million

		31-Dec-2001	Self revision	31-Dec-2002
1.	Interest received and interest-type income	211,521	-55	220,987
	a) interest received on securities with fixed-interest signifying a creditor	54,839		48,775
	Including: - from related companies			
	- from other participation companies			
	b) other interest received and interest-type income	156,682	-55	172,212
	Including: - from related companies	701	-2	976
	- from other participation companies	2,932		725
2.	Interest paid and interest-type expenses	100,581	2	97,574
	Including: - to related companies	159		243
	- to other participation companies	149		180
	Interest difference (1-2)	**110,940**	**-57**	**123,413**
3.	Incomes from securities	504	0	458
	a) from trading securities and participations (dividend, profit participation)	327		279
	b) from related companies (dividend, profit participation)	96		177
	c) from other participation companies (dividend, profit participation)	81		2
4.	Fees and Commission received	44,365	7	55,921
	a) revenues from other financial services	41,151	7	53,005
	Including: - from related companies	37		37
	- from other participation companies	2		2
	b) revenues from investment services (except incomes from trading activities)	3,214		2,916
	Including: - from related companies	4		14
	- from other participation companies			
5.	Fees and Commission paid	7,616	0	10,609
	a) expenses on other financial services	7,199		10,275
	Including: - to related companies	366		445
	- to other participation companies			3
	b) expenses on investment services (except expenses from trading activities)	417		334
	Including: - to related companies	12		46
	- to other participation companies			
6.	Profit or loss from financial transactions (6/a-6/b+6/c-6/d)	-2,347	-20	3,289
	a) revenues from other financial services	27,414	-20	34,226
	Including: - from related companies	7		155
	- from other participation companies	45		1
	b) expenses on other financial services	27,564		29,751
	Including: - from related companies	3,091		1,414
	- from other participation companies	31		1
	c) revenues from investment services (revenues from trading activities)	4,773		6,802
	Including: - from related companies	441		153
	- from other participation companies			
	- reversal of write-off of trading securities			
	b) expenses on investment services (expenses from trading activities)	6,970		7,988
	Including: - to related companies	352		180
	- to other participation companies			10
	- write-off of trading securities			

in HUF million

		31-Dec-2001	Self revision	31-Dec-2002
7.	Other incomes from business	110,624	545	112,271
	a) incomes from non financial and investment services	99,406	-1	94,770
	Including: - from related companies	726		722
	- from other participation companies	25		3
	a1) income of consolidated investment service providers	36,973	-1	20,506
	a2) income of consolidated insurance companies	43,658		55,160
	a3) income of other consolidated companies	18,775		19,104
	b) other revenues	10,630	546	15,327
	Including: - from related companies	35		1,039
	- from other participation companies			
	- reversal of write-off of inventory	16		66
	b1) income of consolidated investment service providers	9,537	546	13,666
	b2) income of consolidated insurance companies	154		97
	b3) income of other consolidated companies	939		1,564
	ba) consolidation difference income due to debtor consolidation			10
	bb) other income due to consolidation	588		2,164
8.	General administration expenses	63,868	208	76,334
	a) personnel expenses	35,237	-50	41,254
	aa) wage costs	21,758	-31	26,670
	ab) other payments to personnel	4,062	-5	4,220
	Including: - social security expenses	1,902		2,312
	- pension related expenses	1,809		2,018
	ac) contributions on wages and salaries	9,417	-14	10,364
	Including: - social security expenses	8,240	-12	8,997
	- pension related expenses	4,719	-7	4,704
	b) other administration expenses	28,631	258	35,080
9.	Depreciation and amortization	11,579	7	12,045
10.	Other expenses from business	122,723	337	122,972
	a) expenses from non-financial and investment services	69,062	2	58,048
	Including: - to related companies	386	3	697
	- to other participation companies	84		24
	a1) expense of consolidated investment service providers	36,591	2	18,353
	a2) expense of consolidated insurance companies	32,187		39,670
	a3) expense of other consolidated companies	284		25
	b) other expenses	30,093	335	37,408
	Including: - to related companies	7,605	-2	319
	- to other participation companies			
	Including: -write-off of inventory	7		
	b1) expense of consolidated investment service providers	28,369	335	34,785
	b2) expense of consolidated insurance companies	300		422
	b3) expense of other consolidated companies	1,424		2,201
	ba) consolidation difference expense due to debtor consolidation	9		
	bb) other expense due to consolidation	90		60
	c) expense of consolidated investment service providers	23,469	0	27,456
	c1) expense of consolidated insurance companies	9,550		12,730
	c2) expense of other consolidated companies	13,919		14,726
11	Write-off of loans and provision for contingent and future liabilities	16,583	0	22,483
	a) write-off of loans	14,640		19,123
	b) provision for contingent and future liabilities	1,943		3,360
12	Reversal of write-off of loans and credit for contingent and future liabilities	14,942	0	19,042
	a) reversal of write-off of loans	14,355		16,872
	b) credit for contingent and future liabilities	587		2,170
13.	Write-off of securities for investing purposes, signifying a creditor relationship, equity investments in associated or other company	233		320
14	Reversal of write-off of securities for investing purposes, signifying a creditor relationship, and equity investments in associated or other company	1,580		60

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NATIONAL SAVINGS AND COMMERCIAL BANK LTD (OTP BANK)
PROFIT AND LOSS ACCOUNT
consolidated

in HUF million

		31-Dec-2001	Self revision	31-Dec-2002
15.	**Result of ordinary business activities**	**58,006**	**-77**	**69,691**
	Icluding: -RESULT OF FINANCIAL AND INVESTMENT SERVICES (1-2+3+4-5±6+7/b-8-9-10/b-11+12-13+14)	51,762	-74	61,387
	- RESULT OF NON-FINANCIAL AND INVESTMENT SERVICES (7/a-10/a)	6,244	-3	8,304
16.	Extraordinary revenues	134	3	53
17.	Extraordinary expenses	850	2	1,569
18.	**Extraordinary profit or loss (16-17)**	**-716**	**1**	**-1,516**
19.	**Profit or loss before tax (±15±18)**	**57,290**	**-76**	**68,175**
20.	Tax liabilities	10,938	-206	13,599
	a) Tax difference due to consolidation	-52		-409
21.	**After-tax profit or loss (±19-20)**	**46,404**	**130**	**54,985**
22.	Formation and utilization of general reserves (±)	-4,140		-5,086
23.	Use of accumulated profit reserve for dividends and profit-sharings			
24.	Dividends and profit-sharings paid (approved)	7,089		
	Including: - to related companies	52		
	- to other participation companies			
25.	**Balance-sheet profit or loss figure (±21±22+23-24)**	**35,175**	**130**	**49,899**

Budapest, 24 March 2003

CASH-FLOW STATEMENT
consolidated

in HUF million

	DESCRIPTION	2001	2002
1.	Interest income	211,521	220,987
2.	+ Revenues from other financial services (except for write back of diminuition of value on securities)	68,346	86,772
3.	+ Other revenues (except for utilization of provisions and re-entry of surplus provisions; losses on inventory; and write back of above planned provisions)	5,701	10,815
4.	+ Revenues from investment services (except for write back of diminuition of value on securities)	7,953	9,701
5.	+ Revenues from non-financial and investment services	100,798	96,407
6.	+ Dividend income	504	458
7.	+ Extraordinary Revenues	133	53
8.	- Interest expenses	-100,580	-97,574
9.	- Expenses on other financial services (except for write back of diminuition of value on securities)	-34,794	-40,099
10.	- Other expenses (except for the formation of provisions ; losses on inventory; and write back of above planned provisions)	-19 906	-22 716
11.	- Expenses on investment services (except for write back of diminuition of value on securities)	-7 373	-8 319
12.	- Expenses on non-financial and investment services	-81,896	-71,318
13.	- General administration expenses	-75,445	-88,379
14.	- Extraordinary expenses (not including the Amount of corporate tax liabilities in the subject year)	-852	-1 569
15.	- Corporate tax liabilities in the subject year	-10,885	-13,190
16.	- Dividends paid	-5,119	-7,109
17.	**OPERATING CASH-FLOW**	**58,106**	**74,920**

	DESCRIPTION	2001	2002
18.	± Change in stock of liabilities (if increase +, if decrease -)	178,473	342,531
19.	± Change in stock of receivables (if increase -, if decrease +)	-257,760	-456,272
20.	± Change in stock of inventories (if increase -, if decrease +)	-1,216	-334
21.	± Change in stock of securities reported under current assets (if increase -, if decrease +)	35,313	7,044
22.	± Change in stock of securities reported as investment assets (if increase -, if decrease +)	-122,016	32,373
23.	± Change in stock of investments (including advances) (if increase -, if decrease +)	-1,328	-4,157
24.	± Change in stock of intangible assets (if increase -, if decrease +)	-1,876	-2,136
25.	± Change in the value of tangible assets (except for investments and advances on investments) (if increase -, if decrease +)	-793	-14,640
26.	± Change in stock of deferred expenses and accrued income (if increase -, if decrease +)	-3,331	-3,823
27.	± Change in stock of accrued expenses and deferred income (if increase +, if decrease -)	7,320	-636
28.	+ Issue of shares at Sales price	0	0
29.	+ Liquid assets received definitively on the basis of legal regulation	0	0
30.	- Liquid assets transferred definitively on the basis of legal regulation	0	0
31.	- Nominal value of shares or share notes withdrawn	0	0
	± Share of outside members (other shareholders) (if increase -, if decrease +)	0	284
33.	**NET CASH-FLOW**	**-109,108**	**-24,846**
	of which:		
34.	- change in stock of cash on hand (cash in forints and foreign currency, checks)	10,937	-3,760
35.	- change in stock of account cash (HNB forint and foreign exchange clearing and deposit accounts with a maturity of less than one year, as well as current deposit accounts kept in forints with another financial institution on the basis of a separate legal	-120,045	-21,086

REPORT OF THE SUPERVISORY BOARD ABOUT THE 2002 BUSINESS AND FINANCIAL REPORTS AND THE PROFIT DISTRIBUTION PROPOSAL

(Verbal Proposal)

REPORT OF THE SUPERVISORY BOARD ABOUT THE 2002 BUSINESS AND FINANCIAL REPORTS AND THE PROFIT DISTRIBUTION PROPOSAL

1. The Supervisory Board of OTP Bank in agreement with those included in the auditors reports, proposes to the AGM that accepts the Report of the Board of Directors on the Performance of the Bank in 2002,; and the financial reports prepared under HAR with the following main figures:

   Unconsolidated balance sheet total of HUF 2,390,120 million
   Consolidated after tax profits of HUF 47,197 million

   Consolidated balance sheet total of HUF 2,734,082 million
   Consolidated after tax profits of HUF 54,985 million

2. The Supervisory Board of OTP Bank proposes to the AGM that accepts the distribution of the HUF 47,197 million after tax profits as proposed by the Management of the Bank

3. The Supervisory Board agrees to the proposal of the Board of Directors of the Bank not to pay dividend after the results of year 2002.

REPORT OF THE AUDITOR ON THE RESULTS OF THE AUDIT OF THE 2002 HAR FINANCIAL REPORTS

NON CONSOLIDATED

FREE TRANSLATION OF THE HUNGARIAN ORIGINAL

INDEPENDENT AUDITORS' REPORT

To the Shareholders and Board of Directors of National Savings and Commercial Bank Ltd.

We have audited the accompanying balance sheet of National Savings and Commercial Bank Ltd. (the "Bank") as at December 31, 2002, which shows total assets of 2,390,120 million HUF and a retained profit for the year of 42,478 million HUF, the related profit and loss account for the year then ended and the supplement (hereinafter the balance sheet, the profit and loss account and the supplement, collectively "the financial statements") included in the Bank's 2002 Annual Report. The Annual Report and the Business Report, is the responsibility of the Bank's management. Our responsibility is to express an opinion on the financial statements based on our audit. In addition, it is our responsibility to assess whether the accounting information in the Business Report is consistent with that contained in the financial statements.

With reference to our auditors' report relating to the 2001 financial statements issued on March 22, 2002, we issued an unqualified auditors' report based on our audit of the previous year.

We conducted our audit in accordance with Hungarian National Standards on Auditing and applicable laws and regulations in Hungary. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statements' presentation. Our work with respect to the Business Report was limited to checking it within the aforementioned scope, and did not include a review of any information other than that drawn from the audited accounting records of the Bank. We believe that our audit provides a reasonable basis for our opinion.

These financial statements have been prepared for the consideration of shareholders at the forthcoming General Meeting and do not reflect the effects, if any, of resolutions that might be adopted at that meeting.

Clause
We have audited National Savings and Commercial Bank Ltd.'s financial statements, including its sections and items and the supporting accounting records and certificates thereof in accordance with the applicable National Standards on Auditing and have obtained reasonable assurance that - except for the effects on the financial statements of the resolutions to be adopted at the forthcoming General Meeting, if any - the financial statements have been prepared pursuant to the Accounting Act and generally accepted accounting principles.

In our opinion, the financial statements give a true and fair view of the financial position of National Savings and Commercial Bank Ltd. as at December 31, 2002 and of the results of its operations for the year then ended. The Business Report corresponds to the figures included in the financial statements.

Budapest, March 17, 2003

Hungarian version has been signed

....	....
Alastair Teare	Köbli Gyula
Deloitte & Touche	registered auditor
Auditing and Consulting Ltd.	005394
000083	

REPORT OF THE AUDITOR ON THE RESULTS OF THE AUDIT OF THE 2002 HAR FINANCIAL REPORTS

CONSOLIDATED

FREE TRANSLATION OF THE HUNGARIAN ORIGINAL

INDEPENDENT AUDITORS' REPORT

To the Shareholders and Board of Directors of National Savings and Commercial Bank Ltd.

We have audited the accompanying consolidated balance sheet of National Savings and Commercial Bank Ltd. and its subsidiaries (the "Bank") as at December 31, 2002, which shows total assets of 2,734,082 million HUF and a consolidated retained profit for the year of 49,899 million HUF, the consolidated related profit and loss account for the year then ended and the consolidated supplement (hereinafter the balance sheet, the profit and loss account and the supplement, collectively "the consolidated financial statements") included in the Bank's 2002 consolidated Annual Report. The consolidated Annual Report and the consolidated Business Report, is the responsibility of the Bank's management. Our responsibility is to express an opinion on the consolidated financial statements based on our audit. In addition, it is our responsibility to assess whether the accounting information in the consolidated Business Report is consistent with that contained in the consolidated financial statements.

With reference to our auditors' report relating to the 2001 consolidated financial statements issued on March 27, 2002, we issued an unqualified auditors' report based on our audit of the previous year.

We conducted our audit in accordance with Hungarian National Standards on Auditing and applicable laws and regulations in Hungary. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidation financial statements' presentation. Our work with respect to the consolidated Business Report was limited to checking it within the aforementioned scope, and did not include a review of any information other than that drawn from the audited accounting records of the Bank. We believe that our audit provides a reasonable basis for our opinion.

These consolidation financial statements have been prepared for the consideration of shareholders at the forthcoming General Meeting and do not reflect the effects, if any, of resolutions that might be adopted at that meeting.

Clause
We have audited National Savings and Commercial Bank Ltd.'s consolidated financial statements, including its sections and items and the supporting accounting records and certificates thereof in accordance with the applicable National Standards on Auditing and have obtained reasonable assurance that - except for the effects on the consolidated financial statements of the resolutions to be adopted at the forthcoming General Meeting, if any - the consolidated financial statements have been prepared pursuant to the Accounting Act and generally accepted accounting principles.

In our opinion, the consolidated financial statements give a true and fair view of the financial position of National Savings and Commercial Bank Ltd. as at December 31, 2002 and of the results of its operations for the year then ended. The consolidated Business Report corresponds to the figures included in the consolidated financial statements.

Budapest, March 24, 2003

Hungarian version has been signed

....	....
Alastair Teare Deloitte & Touche Auditing and Consulting Ltd. 000083	Köbli Gyula registered auditor 005394

REPORT OF THE BOARD OF DIRECTORS CONCERNING THE BANK'S BUSINESS POLICY FOR 2003

The Business Policy Plan of OTP Bank Ltd. for 2003

SUMMARY

In line with its adjusted medium-term strategy, the main business policy objectives of OTP Bank Ltd. in 2003 are as follows:

Financial objectives

In order for the Bank to achieve its main strategic objectives, the key performance ratios in 2003 will need to be:

- real average return on equity (ROAE): 20.4%
- average return on assets (ROAA): 2.31%
- share of non-interest income within total income: 44.3%
- cost/income ratio: 56.6%

Market position

The Bank's strategic objective with regard to market position is to maintain its market share in terms of balance sheet total, which will require a growth in total assets of above the rate of inflation, close to that of the Hungarian banking sector as a whole. Assuming the Bank meets what are realistic targets for expansion on the liabilities side – an expansion that will largely determine the Bank’s asset-side growth potential – the objective is to achieve a market share in 2003 of 21.7% or higher, based on balance sheet total, and to achieve a higher rate of growth in the Bank's consolidated balance sheet total than in the non-consolidated balance sheet total.

Besides the balance sheet total of HUF 2,587 billion required to meet the targets related to market share, the Bank must achieve a pre-tax profit of HUF 70 billion if it is to attain its planned efficiency ratios. Accordingly, the business policy plan has set the aim of at least maintaining, and if possible increasing, the group's share of the consumer savings market, raising the Bank's share – calculated together with that of the mortgage bank – of consumer loans, and increasing its market share in the area of corporate deposits and loans, as well as in international payments and the related services.

Customer-related objectives

In accordance with its medium-term strategy, the Bank aims to maintain the high number of customers it has by virtue of its primarily retail character (with the emphasis being on retaining customers in the profitable market segments or in those segments that can be made profitable), to take maximum advantage of the potential sales opportunities presented by its clientele, and to increase the Bank's/Bank Group's share-of-wallet in terms of the financial products and services purchased by these customers.

Besides retaining and growing its customer base, the Bank must achieve an increase in the number of products used per customer, a significant improvement in the product-usage ratios, an extension of the customer life-cycle, and a major increase in per-customer sales of the group’s products among the clientele of the bank.

Objectives related to operational processes

For the Bank’s strategic objectives to be achieved, it is essential that operational processes be continuously monitored and rationalised in order to increase efficiency and flexibility, and to enhance the quality and speed of information supply as well as the level of customer service. These goals will be implemented primarily through the continuation and successful completion of the development projects set out in the Bank’s medium-term strategy, but also through the ongoing implementation of smaller-scale business-improvement measures.

Due to the gradual increase in the use of electronic channels and to the changes in the role of the branches resulting from the transformation of the bank’s internal processes (i.e. the centralisation of support activities), the activities of the branches must, in the interest of enhanced efficiency, be reviewed, the branch categories must be revised, and a medium-term strategy must be elaborated for the development of the branch network. To this end, it will be necessary to use the SAP branch performance assessment system. At the same time, the range of products and services available through the electronic channels must be further extended (e.g. by creating the possibility for customers to apply for loans or bankcards online).

The Bank's operations, the risks to which it is potentially exposed, and the capital available for respectively funding and covering them, are constantly growing. With the expansion in the range of the subsidiaries' operations, and the establishment of new subsidiaries, significant risks must now be borne and managed by companies in the group other than the bank. All this points to the growing significance of bank and group-level risk management, while underscoring the importance of preparing thoroughly for the expected changes in the relevant regulations.

Objectives related to organisational development and staff training

In order to ensure the full functionality of the SAP HR module, the information in the system's database must be supplemented in line with the requirements of the job description model currently being introduced, and in turn, the training system and the career-planning model must be revised. To improve motivation and raise employee effectiveness, the incentives and performance management system must be developed by extending the use of performance appraisals to the higher echelons of the Bank, and doing so in a manner that renders the system of expectations, objectives, evaluation and remuneration transparent both to individual employees and to the organisation.
In order to improve internal communication, channels must be developed for the effective dissemination of sales information and techniques, respectively gleaned and developed on the basis of practical experience, and such knowledge-sharing made an integral part of the corporate culture. A key task in terms of ensuring an adequate flow of information within the Bank Group, and between head office and the branches, is to develop an intranet-based communication system, and thus create a communication interface and a corporate practice that will facilitate and support teamwork.

Expected Trends in External Conditions

MACROECONOMIC TRENDS IN 2003

The development of the Hungarian economy in 2002 was characterised by a duality of positive and negative trends. The economy is over the worst in terms of the slowdown in growth, inflation is steadily decreasing, while the internal and external accounts are gradually getting worse. GDP growth for 2002 will be lower than that of a year earlier (3.8%) – at around 3.3% according to our estimates.

The global economy in 2003 will be characterised by greater uncertainty due to concerns about the war in Iraq; there will be a rise in oil prices, stock exchange indexes will fall and business confidence will deteriorate. In the developed regions, economic growth, after increasing slightly last year, will slow. The rate of growth, if any, will be determined by the behaviour of consumers, since due to the general uncertainty in the corporate sector, capital spending is not at levels sufficient to stimulate growth, and exports are slack everywhere.

In Hungary, GDP growth in 2003 will remain subdued, and an increase similar to last year's, of between 3.5% and 4%, can be expected, with the lower of these two figures being more likely. Of the various drivers of growth, household consumption will lose some of its momentum, with an expansion of around 5.5% to 6.5% expected. Due to continued economic weakness, the growth rate of the other elements of domestic use of GDP will also be low: last year's increase of approximately 5% in capital investment spending will only be repeated this year if the most favourable of scenarios comes to pass. Export growth will depend on sales conditions abroad. A moderate upswing can be expected in the second half of the year, with the rate of growth for 2003 as a whole expected to reach last year's level, at around 5-7%. Due to the more modest increase in the domestic use of GDP, import growth is expected to be lower than in 2002, at about 6-8% in total.
We expect a decline in the growth of household income in both nominal and inflation-adjusted terms. After increasing 13.6% last year, real wages will grow by about 5% in 2003, mainly due to the protracted effect of wage hikes in 2002. The gross household savings rate (savings + investments) is expected to remain at last year's level, since the costs of investing will grow at a slower rate this year

and the indebtedness ratio will also be lower, and this could result in a slight increase in the net savings rate.
A marked improvement is expected in the sizeable internal and external account deficits of last year. While the budget-deficit-to-GDP ratio will be higher than the planned 4.5% and may even reach 5 or 6%, it will still be much lower than last year's figure of 9.4%. The current account deficit will also decrease; although in nominal terms it will be similar to last year's, as a proportion of GDP, it will be lower.
The consumer price index, which rose by 4.8% (or an average of 5.3%) in 2002, is likely to increase by a similar margin in 2003. According to our estimations, inflation in December is likely to be in the 4.8-5.2% range. The rate will vary significantly during the course of the year: in the first four months, inflation will continue to fall or stagnate; it will rise in the middle of the year, and then, towards the end of the year, it may fall again, or at least stop rising.

MONETARY POLICY

Financial developments in 2002 were shaped to a large degree by the strict monetary policy of the national bank (MNB). By following a gradual but determined anti-inflationary course planned for the next several years, the central bank aims to achieve the 2% inflation level required for effective price stability. Accordingly, the target set by the MNB for December 2002 is 4.5%, and for year-end 2003, 3.5%, give or take 1%.
With the widening of the forint fluctuation band, the central bank is now able to adjust its benchmark rates, and through this, to influence the exchange rate in a manner that supports the attainment of its inflationary targets. Since 2001, the MNB has maintained the desired exchange rate levels of the rapidly strengthening forint through an active interest rate policy involving frequent and significant cuts in the benchmark rate. We assume that in 2003 the interest rate policy of the central bank will remain the same, and expect to see a slight decrease in the benchmark rates.
No changes are expected in 2003 with regard to the set of policy instruments used by the central bank, and it is likely that the various instruments at the MNB's disposal will continue to further approximate those recommended by the EU.

BANK MARKETS

In 2003, the effect of improving macroeconomic conditions will be felt in the banking sector as elsewhere. We predict a 10% expansion in the balance sheet total of the Hungarian banking industry as a whole. Our forecasts suggest that the increase in the volume of corporate loans will be similar to that of 2002. In the retail banking markets, public-sector wage increases and the surge in home construction and renovation will continue to have an impact in 2003, although losing some of their force – a fact already reflected in the drop in the number of residential building permits issued in 2002.

COMPETITIVE SITUATION

By the end of 2001, the combined market share of the five biggest banks increased from last year's 53.2% to 57.4%, due to the merger of K&H and ABN Amro Bank and to that of HVB and BA/CA. Since then, the Herfindahl index, a measure of market concentration, has grown from 8.8% to 9.3%, showing a reverse tendency compared to the previous years and that the consolidation of Hungary's multi-player banking market has begun in earnest. Privatisations slated for 2003 (Postabank, Konzumbank, FHB) may result in a further reinforcement of bank-market concentration. Market consolidation in other segments of the market of financial services can also be expected, driven partly by a search for greater efficiency and partly by the trend towards the creation of universal financial service providers. As a parallel process, foreign financial service providers are expected to open branches here in the near future, even on a regional level.

The Bank (Bank Group) must reckon on at least an equal degree of (what is already) intense competition in almost all segments, and this is particularly true for the dynamically expanding markets that are at the focus of all banks' attentions at the moment. In the retail lending market, housing loans will continue to play an important role, and their significance will increase further owing to the availability of liabilities-side subsidised housing loans. In the market for liabilities-side subsidised housing loans, the number of OTP Bank's rivals will continue to grow in 2003, with its major competitors being Postabank, K&H, Erste Bank, the savings cooperatives, and FHB, as well as commercial banks that have concluded contracts with the latter. Customers (looking for housing loans) are increasingly likely to choose a bank on the basis of factors such as speed of loan appraisal and disbursement, reliability, and quality of service, and so ensuring these benefits are consistently available for clients is and will remain of vital importance.

Due to the dynamic increase in placement opportunities, banks' need for funding is increasing, and thus – in view of the relative decline in bank savings – increased competition for retail sources is expected.

In 2003, the branch networks of competitors are expected to expand further, and existing branches will probably be moved to higher-traffic locations and their image and outward appearance adapted in line with their changing role. The relative importance of electronic channels will continue to grow, but despite the increase in the use of these channels among customers, they are unlikely to take a significant amount of traffic away from the branch networks.

The banks' increased funding requirement necessitated by the high volume of lending operations, and the continued struggle to acquire and keep retail savings, together with a general strengthening of competition, will provide a further stimulus to product development activity, in which pricing and the organisation of promotional campaigns will continue to play an important role in 2003.

OTP Bank's 2003 Business Policy Objectives and Tasks

MARKET POSITION

The Bank's strategic objective with regard to market position is to maintain its market share in terms of balance sheet total, which will require a growth in total assets of above the rate of inflation, close to that of the Hungarian banking sector as a whole. Assuming the Bank meets what are realistic targets for expansion on the liabilities side – an expansion that will largely determine the Bank's asset-side growth potential – the objective is to achieve a market share of 21.7%, or higher, based on balance sheet total in 2003 (2002: 22.1%), and to achieve a higher rate of growth in the Bank's consolidated balance sheet total than in the non-consolidated balance sheet total.

In line with the approved strategy:

- on the group level, it is necessary to increase the market share of consumer loans;
- the Bank's share of the corporate market must be increased (both on the deposits and loans side; of the various categories of corporate customer, an increase in market share in the area of SME services is required);
- of the various services of the group, the aim is to strengthen the market position of the financial institutions that collect retail savings outside the bank, and to increase their market share (through increased sales of pension-fund savings, life insurance and pension policies, investment funds, etc.), and to do so in a way that ensures that the entire Bank Group's share of retail savings (including bank savings) at least remain at the same level, and preferably increase. In 2003, changes in the regulations will offer a favourable opportunity for the dynamic growth of both life insurance and pension-fund savings;
- we need to increase, through OTP Investment Fund Management Ltd., the Bank's share of the institutional asset management market;
- in the other business areas (retail deposits, municipality deposits and loans), the task is to maintain our market position.

FINANCIAL OBJECTIVES

Based on the requirements specified in the medium-term strategy and in view of the Bank's performance in 2002, the objectives of the 2003 annual business policy plan are as follows:

- Growth of the bank's balance sheet total in an extent necessary for achieving the targeted market share, which means that by 31 December 2003 total assets should exceed the expected inflation rate by 3.2 percentage points, equivalent to a nominal increase of HUF 197 billion. The Bank aims to have a total balance sheet by year-end 2003 of HUF 2,587 billion.
- The growth in 2003 will again be primarily driven by customer deposits, but also partly through the utilisation during the year of the syndicated euro-based loan raised in December 2002 in order to ensure the Bank's foreign exchange liquidity.
- On the assets side of the balance sheet, achieving the target market shares in the loan markets will require customer placements in a value of HUF 1,083 billion (excluding the loans of the mortgage bank). This means that the portfolio of customer placements must be increased by more than 14%, and the ratio of customer placements to total assets must be increased to 41.9%.
- The business policy plan assumes a fall in the Bank's interest margin in an extent close to the value specified in the strategic plan – by 25 basis points – in 2003, from a base higher than planned in the strategy (4.70%).
- With the planned balance sheet total and the projected 4.45% interest margin, the Bank's net interest income (HUF 107 billion) will exceed the volume planned in the strategy (HUF 97 billion). Non-interest income will grow by an estimated 32,1%, a figure significantly in excess of the target set out in the strategy, and this is due to the positive effect of fee income from the mortgage bank and the state subsidy related to the portfolio transfer, which the strategic plan had not reckoned with. Thus the Bank's total planned income (HUF 192 billion) also exceeds the volume set out in the strategy (HUF 158 billion). For the above reasons, the planned ratio of non-interest income to total income (44.3%) exceeds the figure prescribed in the mid-tem strategy for 2003 (38.6%).
- Growth of non interest type expenses should not exceed 14%
- The Bank's pre-tax profit target for 2003 is HUF 70 billion, and the target for after-tax profit HUF 57 billion.
- The planned after-tax profit arrived at in accordance with the above meets expectations in terms of both growth and profitability indicators, resulting in an average return on assets (ROAA) for the Bank of 2.31%, an average return on equity (ROAE) of 25.4%, and real return on equity of 20.4%.
- Based on the projected performance in 2003, the bank is targeting a dividend payout ratio of 30% in harmony with the medium term strategy. In case the bank shall have excess free capiotal above the required to comply with the targeted payout ratio, it plans to compensate shareholders for the lack of dividend after the fiscal year 2002.
- The equity capital of the bank will stand at HUF 246 billion at the end of the year.

CUSTOMER-RELATED GOALS

As set out in its medium-term strategy, the Bank aims to maintain the high number of customers it has by virtue of its primarily retail character (with the emphasis being on retaining customer numbers in the profitable market segments or in those segments that can be made profitable), to take maximum advantage of the potential sales opportunities presented by its clientele, and to increase the Bank's/Bank Group's share-of-wallet in terms of the financial products and services purchased by these customers.

In order to realise these strategic aims, key tasks in 2003 – at least with regard to customers in the target segments – will be to:

- improve the quality of the services provided to existing customers, and enhance the overall value proposition;
- retain existing customers and sell additional new products to them;

- acquire new customers (customers with a large-volume account turnover, a high number of transactions, and high product usage rates, who are typically well-to-do; young people aged between 14 and 24, to ensure replacement customers; and small and mid-size companies), and to thereby increase the Bank's/Bank Group's market share.

It follows from these goals that besides retaining and growing its customer base, the Bank must achieve an increase in the number of products used per customer, a significant improvement in the product-usage ratios, an extension of the customer life-cycle, and a major increase in per-customer sales of the group’s products among the clientele of the bank.

OPERATIONAL PROCESSES

EFFICIENCY, QUALITY AND INFORMATION FLOW

For the Bank’s financial objectives to be achieved, and for its competitiveness to be maintained and increased, it is essential that operational processes be continuously monitored, rationalised and improved. These tasks will be implemented primarily in the framework of strategic projects, but also through the ongoing implementation – subject to priorities and available resources – of smaller-scale business-improvement measures.

In accordance with the medium-term strategy, numerous projects were launched at the Bank in 2001 and 2002 (introduction of SAP, Back-Office Rationalisation Project, setting up of a Transaction Data Storage Centre), most of which will take some time to fully implement. A key task for 2003 is to continue with or to complete these projects. Projects with an impact on operational processes are expected to improve efficiency, including the quality and speed (processing time) of information supply, both with regard to manual and automated processes. Naturally, the current standard of customer service and level of customer satisfaction must not be sacrificed in order to achieve these goals; indeed, depending on the task at hand, the improvement of these should also be set as a goal.

Besides the strategic projects, there are smaller-scale tasks that constantly arise in relation to product development and other business-related requirements. Of these, in 2003 the developments that need to be implemented in connection with the introduction of credit cards deserve particular mention. The launch of credit cards calls for a product-specific development of the URBIS system, as well as for the creation of sales support functions (such as a branch interface).

A key task is the ongoing development of the Bank's IT infrastructure. Hardware and software investments have increased the effectiveness of development work and reduced the costs of operations, and are helping to satisfy the group’s greatly increased information and communication needs. After EU accession, expected to take place in 2004, the Bank will also have to comply with the provisions of the Basel II Accord, and so the implementation of the IT tasks related to these requirements must be commenced in 2003.

RISK MANAGEMENT

As ever more products are introduced and more potential sources of risk appear, so risk management is assuming an increasingly important role in banks' operations. In the coming years, the Basel II requirements, which are expected to take effect in 2007, will have a considerable impact on the Hungarian banking sector, as elsewhere. As the EU will probably incorporate the new capital requirements into its internal regulations with immediate effect, the Hungarian banking industry will also have to swiftly adopt – and adapt to – the new regulations.

OTP Bank's operations, the risks to which it is potentially exposed, and the capital available for respectively funding and covering them, are constantly growing. With the expansion in the range of the subsidiaries' operations, and the establishment of new subsidiaries, significant risks must now be borne and managed by companies in the group other than the bank. All this points to the growing importance of bank and group-level risk management, and raises the issue of return on risk-based (allocated) capital.

Credit risk management

Several important steps were taken in 2002 in relation to credit risk management, and the projects launched in 2002 will determine the tasks for this year.

The Unified Credit Approval and Risk Management System (UCARMS), which is under continuous development, has been created for managing risks and credit records related to the corporate and municipality divisions. The second two modules of UCARMS, the contracting and the monitoring and management information modules, must be introduced and operating by the end of spring 2003. When the UCARMS system is completed, the risk management functions of the commercial banking and municipality divisions will be fully covered.

In the retail division, the introduction and development of a scoring system is underway in the area of durable-goods loans and in relation to credit cards. In the future it will be essential to apply the scoring system to the other retail lending areas, and to introduce comprehensive risk management within the division, which will have to be preceded by the establishment of a unified customer and transaction registration system, or interface.

In 2003, it will be necessary to decide on the precise range of data to be supplied by the subsidiaries, and particular emphasis will have to be placed on ensuring that the Bank has a comprehensive picture of the various risk factors and their combined management. With respect to determining the data-supply obligations of OTP Group members, it is important that information be provided by the subsidiaries on a regular basis, and in the required detail, but that they should only have to provide data that is strictly needed, thus avoiding unnecessarily burdening them with data-provision duties.

Operational risk management

Operational risks refer to the risk of loss resulting from inappropriate, or from a lack of, internal processes or procedures, human or internal system-related errors, or due to external events (irregularities, fraud, misuse, negligence, system errors, physical damage to assets, etc.).

The Basel Committee has called upon banks to measure and manage their operational risks, and has recommended that as a first step, banks should collect and analyse loss data. The development of the methodology and the implementation of the necessary infrastructural support may take 2-3 years at certain institutions. For this reason, OTP Bank – and the Bank Group – must begin investigating this risk area as soon as possible.

Market, country and partner risk management

The growth in the level of lending activity at OTP Bank and its subsidiaries, and the fact that the MNB has ceased accepting two-week deposits, necessitate a different approach to liquidity and interest rate risk management, and this will in turn require a review of the set of instruments used for implementing the risk management policy.

In relation to investment service activities, the Bank's clientele will expand to include professional investors in the money and capital markets. The Bank has not until now undertaken risk with respect to such companies, and therefore it will be necessary to supplement the Customer and Partner Rating Regulations and the Risk Exposure Regulations. At the same time, it will be appropriate in 2003 to commence preparations for ensuring compliance with the guidelines set out in the New (Basel II) Capital Accord in terms of the method for rating countries and professional money and capital market investors.

Investment risk management

The Bank's investment portfolio is steadily increasing and, depending on the business opportunities that present themselves, the Bank plans to establish new subsidiaries and to carry out new acquisitions in the future. As a result, the importance of effective investment risk management is set to increase.

At present there is a separate unit in the Bank that sees to general tasks related to the management of the Bank Group, but matters related to investments, the management of other (non bank-group) investments, and the management of investment risks are not handled separately. In 2003, the task will be to separate these activities, and to ensure the independent management of investment risks.

SALES NETWORK DEVELOPMENT

The role of branches is changing continuously as electronic channels gradually gain ground and support activities are centralised. This makes it necessary to revise the branch categories, and to establish categories that are appropriate for the new operational procedures. For this task, the SAP system's branch performance assessment module will need to be used, and a medium-term network development strategy also needs to be prepared based on the new categories.

The importance of the role of electronic channels in the Bank's sales activities is increasing, and will continue to do so in 2003. In order to maintain its decisive market-making role, it is essential that the Bank implements continuous upgrades, introduces convenience-adding services and functions, and carries out constant developments of its IT and technical support infrastructure. One of the most immediate tasks in this regard is to complete the development of the integrated financial portal, and then to constantly update its content.

TRAINING AND EMPLOYEE DEVELOPMENT

In order to realise strategic goals, the Bank has major tasks to carry out in 2003 in the area of human resource management. The tasks will focus on the full overhaul of the human resource management function and its placement on a new footing, which will make it possible to develop, in a purposeful fashion, an entire human resource "system" that incorporates and addresses the interests of both the Bank and the employees.

In 2002, the methodology of the new job description model was formulated and a competence-management system was set up, and these were then introduced and evaluated in pilot areas. The SAP HR module will commence live operation from January 2003, but in order to ensure full functionality, the project will need to be continued in 2003, involving the introduction of the job description model across the country, while at the same time inputting the relevant information into the system's database and, in accordance with the new job description model, the training system will have to be revised using a process-based approach. In addition to this, it will be necessary to update the career-planning model, and to reformulate it based on the new methods.

The introduction in 2003 of the electronic training system currently under development will allow for a broader application of distance learning than is possible at present, resulting in the improved cost effectiveness of training. Besides transforming the education and training system, it will be necessary to continuously provide professional training for administrators and to develop skills and competencies.

In order to raise motivation and effectiveness, it is essential that the Bank develop its incentive and performance management systems. The attainment of business objectives will be greatly facilitated if individual performance appraisal is extended to as many levels of the Bank's hierarchy as possible. At the same time, it is important that the system of expectations, objectives, evaluation and remuneration be transparent both for individual employees and for the organisation.

To improve internal communication, the implementation of measures intended to foster a "dialogue" between employees and management must be continued in 2003. In the interests of ensuring adequate information flow within the Bank Group and between the branches and head office, a decision was made to develop an intranet-based communication system, which is also suitable for supporting cross-functional work teams and projects involving several units of the Group. The implementation of this system has become urgent, and therefore it will receive particular attention in 2003.

Objectives and Tasks of the Divisions

RETAIL BUSINESS

RETAIL DEPOSITS

The Bank's objective is to maintain its 37.6% market share in retail deposits (household bank savings) in 2003. This will require a 5.9% increase in the volume of the Bank's retail deposits, which will result from the combined effect of a 10% growth in the volume of retail forint deposits and a 14% drop in foreign currency deposits.

Thus, the Bank's market position can be maintained primarily by increasing existing forint deposit volumes and by slowing down the decline in foreign currency deposits. In order to preserve competitiveness, however, the aggressive customer-acquisition activities of rival banks must be counterbalanced by appropriately innovative and consciously planned long-term marketing activities, and through the development of competitive products that represent an attractive alternative to other savings and investment products on the market.

In line with the Bank's objectives, it is also necessary to increase the fee and commission income from retail deposits. In addition to increasing the number of customers, transactions and products, this goal can be achieved by increasing the number of transactions per product and by improving product usage rates. Product profitability must be facilitated through a reduction in costs, re-pricing, and volume growth. Boosting fee and commission income in ways other than simply increasing the number of customers and accounts must not be at the expense of customer satisfaction.

RETAIL LOANS

We expect the dynamic expansion in the retail loan market to continue in 2003, and this will present an excellent opportunity for the Bank to significantly increase the number of retail loan placements. The Bank intends to improve further its market position on the retail loan market.

Due to the specific characteristics of the system of housing subsidies, from 2002 most of the Bank's home-financing operations will be transferred to OTP Mortgage Bank. The overwhelming majority of new disbursements will come from Forrás hitelek (Source Loans), with the bulk of the loan portfolio left at the Bank being in facilities that are in the declining phase of their lifecycle. As a result, the Bank's market share is falling both in the area of housing loans and bank loans, although the Bank may set a goal of improving market share – to 52,6% – on a group level, that is, taking the loans disbursed by OTP Mortgage Bank into account[10].

The most important task with respect to consumer credit is to increase disbursements of durable-goods loans. By the end of 2003, the volume of disbursed loans for the purchase of goods and services will need to have increased to about HUF 12.5 billion. The overall volume of consumer loans will need to be in excess of HUF 136 billion at year-end 2003, a target that takes account of the projected increase in the total volume of A, B and C hitel overdraft facilities, as well as the – somewhat smaller – decline in the volume of mortgage loans.

In order to maintain and preferably improve the Bank's position on the retail lending market, it is necessary to increase the satisfaction of customers applying for and taking up loans, which can be achieved by improving the process of loan assessment and approval. In the case of both housing and consumer loans, the Bank must aim to offer the same quality of customer service throughout its entire network, and the substantial differences in loan-application appraisal time must be eliminated. This can

[10] Indeed, if the credit portfolio of OTP Building Society is also taken into account, the Bank Group's share of the housing loans market was 1 percentage point higher as at year-end 2002, and will be 130 basis points higher at the end of 2003.

be achieved by observing examples of best practice and adopting these practices across the Bank's entire network.

INVESTMENT SERVICES

The single most important task in the Bank's business policy for 2003 is to promote the new value propositions offered by its repositioned and revitalised private banking and "key-client" private banking businesses, and to acquire new customers in these segments. The Bank has set the goal of achieving by year-end a 27% market share in terms of the number of private banking customers, that is, of further strengthening its already powerful market position, and in the medium term, the aim is for the Bank to remain one of the top three market players in the area. OTP Bank has been offering special services to the "key" private banking segment since the second half of 2002, and the Bank's aim is to acquire new customers in this segment and to provide them with exclusive, reliable, and high-quality value-added services in 2003.

The Bank aims to increase the number of its private banking clients to 8,420 by year-end 2003, and the volume of their assets under its management to nearly HUF 140 billion.

BANKCARD BUSINESS

We do not expect to see a major expansion in the bankcard market over the next few years. However, we can expect a dynamic increase in the number of – far lower-volume – credit cards and a growth in the market for other, alternative cards (such as co-branded store cards and sponsorship cards). "Business" cards used by corporate – and to a lesser extent, municipality – clients still have a comparatively high growth potential, although their proportion of overall card numbers is low relative to the number of retail cards.

In order to maintain market share, the Bank plans a 4% increase in the number of bankcards issued. It intends to achieve this goal primarily by increasing the number of retail bankcards by 112,000, but it also plans a significant increase in the number of corporate and municipality cards.

Besides this, the Bank intends to achieve growth in both the number and the volume of card-initiated transactions. In the case of volume, it aims for an increase of 12%, and in terms of the number of transactions, 12%. Accordingly, for the next year OTP Bank has set a target of 20-23% growth in fee and commission income, which will be achieved primarily through an increase in bankcard usage and an improvement in the share of card-initiated purchases within total card transactions.

In 2003, there will be three new products in the card business. One is the Széchenyi card, already launched in 2002, with which the Bank intends to significant increase its market share. The two other new products, to be launched in the middle of 2003, are the "classic" retail credit card and the "prestige" card for private banking customers.

OTP Bank plans to continue expanding its infrastructure in the coming year. It will add 140 new ATMs at various locations around the country and will install 2,000 new POS terminals.

COMMERCIAL BANKING

CORPORATE BANKING DIVISION

The Bank's objective is to further increase its market share in terms of both corporate deposits and loans. The improvement of product usage rates continues to be key to enhancing the profitability of the division, as does increasing the number of products and services per customer.
In this, the increased use of electronic products and services will play a role of growing importance, as will a more purposeful and comprehensive exploitation of cross-selling opportunities. In order to increase product usage, carefully planned sales and marketing campaigns are required.

The main objectives with regard to the four major categories of the division's clientele are as follows:

- For large corporate clients, besides developing relationships with them, the principal goal is to acquire as large a proportion of the account-management business of the client's customer-supplier network as possible.
- In the market for mid-size companies, the Bank must make every effort to increase its presence.
- With regard to the small and micro-enterprise segment, the priorities are to maintain the Bank's dominant market share, and to sell account-management services and the related products, as well as loans, to an increasingly broad circle of clients and prospects.
- As far as non-profit and other organisations are concerned, the goal is to maintain the Bank's position and its traditionally good relations with these customers.

CUSTOMS SERVICES

OTP Bank intends to maintain its present leading role in the area of customs cashier services. The Bank plans to achieve marginally higher growth than in 2002, with planned turnover of HUF 158 billion in 2003. The following tasks will be necessary in 2003 in order to improve the profitability of customs cashier services:

- Increasing product usage and promoting the use of cash-substitute payment methods – primarily the use of bankcards
- Sales activities targeting customers who presently only use cash to make customs payments
- Supporting cross-selling with other divisions and subsidiaries, mutual DM campaigns, identifying and exploiting new customer acquisition opportunities
- Researching and analysing EU customs payment practices, preparing an action plan in readiness for changes to bank tasks as a result of EU accession.

INTERNATIONAL BANKING

In 2003, the Bank intends to increase its market share in the area of foreign-currency and forint international payments. The primary goal is to increase the number of transactions and the volume of transacted turnover, thereby significantly augmenting the commission income generated from the division's activities. This can be achieved by increasing the number of customers as well as the volume of services they use.

Efforts must be made to establish long-term partnerships with foreign banks. The division must continue to place great emphasis on establishing correspondent banking relationships with financial institutions in those countries where this is justified by turnover levels, as well as on concluding individual agreements with foreign banks where necessary. In the interest of achieving group-level goals, the international payment services of OPT Banka Slovensko must be promoted to our foreign partner banks and their customers, and a uniform, group-level image must be created for the international banking division.

MUNICIPALITY BANKING

The volume of municipality deposits continues to be determined by the income that the municipalities receive from the state budget and the volume of local taxes that they collect. The size of the loan portfolio is largely determined by the number and scale of capital projects undertaken by the municipalities. Consequently, we expect only limited real growth in the volume of deposits, accompanied by a greater increase in the volume of loans by the end of 2003.

The promotion and reinforcement of a regional-based approach will play an important role in the retaining of municipal clients in future. The advantage of such an approach is that the bank will have a market-leading role after 2004, and also after 2006, which will enable it to acquire market share in other regions.

From 2003, the municipality division will provide services to public-service institutions (churches, trade unions, chambers, etc.), which will be reclassified on the basis of criteria similar to those used for the classification of municipalities. The banking habits of public-service institutions need to be developed through the promotion of new products (special account management packages, credit extended on the basis of church allowances) as well as services already used by the municipalities (small treasury, cash management).

In order to provide municipality customers with a more comprehensive range of services, and to develop a product structure better suited to their requirements, the range of deposit products will have to be revised in 2003. New types of loan are required to increase lending activity (factoring, loans offered jointly with Building Society (LTP) for the development of roads and walkways). In addition to the above, emphasis will continue to be placed on promoting electronic devices that serve to assist the municipalities in their work (customer terminals, cash management) and to further promoting the use of bankcards.

TREASURY AND STRUCTURED FINANCE

In 2003 the Bank aims to maintain its leading position on the interbank forint and FX markets, and to retain its position among the top three players on the primary securities market. With respect to government securities trading, besides an increase in trading volumes, we expect to see trading-purpose interest rate swaps, which tend to be relatively profitable, taking on increased significance in 2003.

In the sales area, the Bank's goal is to achieve a further growth in turnover and profit in 2003, and more particularly to increase sales of government securities to the "key-client" group, and to strengthen the FX forwards business, where Treasury is the sole point of sale.

In 2003, due to the increased volume of foreign currency placements by group members and the corporate division, it will become increasingly important for Treasury to maintain foreign currency liquidity. The Bank plans to raise a three-year syndicated loan of EUR 200 million on the international market by the end of 2003.

The division is also responsible for underwriting the mortgage notes issued by OTP Mortgage Bank Ltd., and for arranging the private, and subsequently public, offerings of such notes. In the course of 2003, the Bank will underwrite a portfolio of nearly HUF 200 billion from its own funds, and, in the framework of a private issue in the order of HUF 100 billion – in which OTP Fund Management Ltd. and OTP Garancia Insurance Ltd. will also participate – will generate the funds for the activities of the mortgage bank.

On the syndicated loans market, the Bank's goal is to retain its leading position and to closely monitor new opportunities. In addition to the regional, corporate and international (especially foreign corporate) deals, the areas of trade finance and the financing of buyouts could potentially represent new markets.

PROJECT FINANCING AND SPECIAL TRANSACTIONS

The Bank's aim is to remain among the most important players in the project financing market and to maintain its leading position with regard to managed funds. The two most important sectors are real estate financing and the energy sector, but new profitable areas of the market will also have to be found in the coming years. The refinancing of loans, for example, represents one such opportunity. Important business-policy objectives for 2003 include intensifying the Bank's involvement in the financing of industrial parks, logistics centres, transport and infrastructure projects, as well as participation in international deals. Here, too, the main areas are real estate financing and power plant financing, and the main markets – in addition to Slovakia – are Poland and the Czech Republic. The Bank also sees new opportunities in a strengthening of its role in PPP (public private partnership) transactions, which come with a partial state guarantee.

Capital investments

OTP Bank is once again planning to implement purely strategic investments in 2003, while it has no intention of increasing its other shareholdings, i.e. those that do not support or complement the Group's activity. The main target of strategic acquisitions is the purchase of the shareholdings, business lines or business portfolios of domestic and international banks. In addition to this, the Bank is continuously screening opportunities that arise both in Hungary and the neighbouring countries. The Bank will undertake further bank-related acquisitions only if the prospective transaction will not have a negative impact on the Bank's performance ratios in the short term and – in line with the Bank's strategy of increasing the value of its shareholdings in the medium term – if the prospective transaction promises to be sufficiently profitable – e.g. through capitalising on synergies – and if the level of risk involved in the purchase and operation is acceptable to the Bank.

THE OTP BANK GROUP

The Bank's chief goal is to increase group-level market share, preserve its market position in the respective individual markets, or to augment its market share, while producing a consolidated ROAA and ROAE in excess of those of the bank. The primary expectation with respect to each member of the Bank Group continues to be that they achieve a level of profitability that is equal in terms of return on equity, assets and revenues to that of the bank or at least to the average of their respective sectors.

THE MERKANTIL GROUP

The group's primary goal is to maintain and consolidate its position on the vehicle financing market, in addition to increasing the number of asset-items financed. The main growth opportunities in this area lie in new-car dealership networks with whom competitors have not yet concluded contracts, and in the used car market. The Slovakian vehicle financing market, accessible through OBS, the newest member of the OTP Group, also presents excellent opportunities for the Merkantil Group. In the area of financing of manufacturing equipment, the primary objectives are to increase market share and to establish relationships with the multinational companies for whose products there is a demand among our clients.

In order to achieve the profitability targets, it is indispensable to reduce the cost of funds to a minimum, with the primary means for achieving this being the Mobile Deposit marketed through the OTP network. The future expansion of the range of funding sources, both in terms of products and currencies, will require a well-planned strategy.

OTP BUILDING SOCIETY LTD.

In order to ensure a stable operation and to maintain the market position of OTP Building Society, the Bank must conclude at least 62,000 new contracts in 2003 and increase the average value of its contracts. The main target group for home savings schemes consists of persons who wish to save for housing-related purposes other than real-estate purchases (e.g. renovation, modernisation) and for various other projects, such as installation of water utilities.

With regard to existing and maturing contracts, the focus should be on improving the quality of customer services, primarily through a reduction in the time taken to authorise and disburse building-society loans.

OTP MORTGAGE BANK LTD.

The housing loan market is expected to see continued dynamic growth in 2003, although not as dynamic as in 2002. The Bank's goal is to increase the group's share of the market for retail loans, in particular housing loans, in which OTP Mortgage Bank Ltd. plays a special role due to the nature of the system of state housing loan subsidies.

It will only be possible for the mortgage bank to achieve its target market share and ensure its profitability if the transfer of Source Loans within the Bank's sales network takes place as quickly as possible. In order to achieve this it is necessary to develop IT support and to maintain a continuous dialogue with the Bank's network. In addition to speeding up the transfer of loans, special attention must be paid to ensuring that the transferred loans meet the necessary requirements.

OTP BANKA SLOVENSKO A. S.

OTP Bank was able to start exercising its ownership rights over its new acquisition, IRB, in April 2002. After this, a restructuring project was launched with the aim of setting the bank on its new development course as soon as possible. Since 1 August 2002, the re-branded bank has been operating under the name OTP Banka Slovensko.

In 2003, in order to achieve the strategic objectives, a nominal reduction in costs is necessary alongside a substantial increase in revenue. A dynamic increase in the number of both retail and corporate customers is a key requirement, which can only be achieved through the continuous expansion of the bank's range of products and services, taking full advantage of the experience and know-how of OTP Bank and the OTP Group.

OTP-GARANCIA INSURANCE LTD.

The primary goal of OTP-Garancia in 2003 is to increase its market share (to 11.3%). The planned share of the life insurance market is 15% from premiums and 11% or more from life insurance premium reserves by the end of 2003. To achieve the desired market position, the share of life and bank insurance premiums must be increased within total premium revenues, while the proportion of traditional life policies with regular premium payments must be increased within the products sold by the life insurance division.

Garancia Insurance Ltd. plans to establish, together with OBS, a life and non-life insurance company in Slovakia in 2003 and – in order to provide the infrastructural background for the OTP Health Care Fund – it also plans to implement a capital raise in Health Care Services Ltd.

OTP FUND MANAGEMENT LTD. AND OTP REAL ESTATE ASSET MANAGEMENT LTD.

The trend involving an increase in the ratio of investment funds to retail savings and to GDP is likely to continue for a good few years yet, with no significant changes expected in the distribution of invested assets among the top funds. Consequently, the objectives of OTP Fund Management Ltd. are to retain its market-leading position and maintain the profitability levels required by its owners, as well as to increase the volume of customers' assets under its management.

In September 2002, the State Financial Supervisory Authority granted OTP Fund Management Ltd. a licence to manage portfolios other than pension funds, and therefore the funds – previously held by OTP Securities Ltd. – that are currently managed by the Investment Services Department will be transferred to OTP Fund Management Ltd. in the course of 2003. OTP Fund Management Ltd. needs to strengthen its position in the area of institutional fund management.

A new member of the Bank Group, OTP Real Estate Asset Management Ltd., manages the real estate fund created at the end of 2002. In 2003 the most important task related to this fund is to expand the real estate portfolio and to locate and purchase suitable properties.

OTP REAL ESTATE LTD.

The growth of the building and property development sectors will be greatly influenced by the National Housing Project – due for final approval in 2003 – which will focus on the construction and refurbishment of rented apartments (housing-block rehabilitation, project for the refurbishment of prefabricated buildings) and the construction of starter homes, retirement homes and sheltered housing to promote social equality. The work will be carried out by contractors, with participation by municipalities and the government.

OTP Real Estate Ltd. aims to retain its 10% market share, and to participate as general contractor in as many state-subsidised projects as possible. Another important task is to prepare for the construction of rented apartments. The company has set itself the goal of increasing sales revenue in nominal terms and reducing costs by exercising a greater level of care in the formulation of property development proposals and the tendering of contracts, and by preparing plans for spreading the completion and sale of apartments over the year. During the course of its activities, OTP Real Estate Ltd. needs to strengthen its group-oriented approach, especially with regard to the sale of housing loans and property insurance policies, and to cooperate more closely with OTP Garancia Insurance Ltd. in relation to valuation and assessment activities.

OTP Factoring Ltd. and OTP Factoring Asset Management Ltd.

In 2003 the companies will mainly focus on the management and collection of terminated and overdue loans taken over in bulk from the Bank, as well as on a quick and efficient assessment, evaluation and utilisation of the collateral behind the various claims. In addition to these activities, the taking over and management of newly generated bad loans continues unabated, in accordance with the accepted procedures for the selling of claims.

In order to ensure a profitable operation, the primary objective for 2003 is to increase the return on collection activities. In order to reduce risk-related costs and improve lending practices, the Bank must be provided with regular feedback regarding the company's experiences of its collection activities.

OTP Pension Fund Ltd.

Due to expected legislative changes, the pension fund market is likely to grow in 2003, and therefore – in accordance with the strategy – the aims of OTP Pension Fund Ltd. can be expressed in terms of raising its market share. In addition to improving its market position and increasing the number of its members, OTP Pension Fund Ltd. also needs to focus on improving yields.

OTP Health Care Services Ltd.

In 2002, the OTP Bank Group gained a new member in the form of OTP Health Care Services Ltd., which was created for the purpose of exploiting business opportunities arising in the health insurance fund market. The health insurance and health insurance fund markets have great potential for development, and an increase in the number of funds and fund members is expected in 2003. The objectives of the OTP health fund are on the one hand, to increase the number of its members and on the other, to provide services to members and encourage usage of those services, while at the same time expanding the related service network and infrastructural support background.

PROJECTED BALANCE SHEET, INCOME STATEMENT AND MAJOR INDICATORS OF OTP BANK

		31 Dec 2002 Actual	31 Dec 2003 plan	Change HUF bn	Change %
Balance sheet total	HUF bn	2 390	2 587	197	8.2%
Loans	HUF bn	952	1 083	131	13.8%
Deposits	HUF bn	2 011	2 143	132	6.6%
Equity capital	HUF bn	206	246	40	19.5%
Loans/total assets		39.8%	41.9%		
Deposits/funds		84.1%	82.8%		
Loan/deposit		47.3%	50.5%		
Equity capital/balance sheet total		8.6%	9.5%		

		31 Dec 2002 Actual	31 Dec 2003 plan	Change HUF mn	Change %
Net interest income	HUF mn	102 715	107 051	4 336	4.2%
Non-interest income	HUF mn	64 447	85 160	20 713	32.1%
Total income	HUF mn	167 162	192 211	25 049	15.0%
Non-interest expense	HUF mn	95 557	108 824	13 267	13.9%
Operating profit	HUF mn	71 605	83 387	11 782	16.5%
Provisions	HUF mn	13 523	13 569	46	0.3%
Pre-tax profit	HUF mn	58 082	69 818	11 736	20.2%
After-tax profit	HUF mn	47 197	57 391	10 194	21.6%
Inflation		5.3%	5.0%		
ROA (nominal)		2.09%	2.31%		
ROE (nominal)		25.9%	25.4%		
Real ROE		20.6%	20.4%		
Non-interest income/total income		38.6%	44.3%		
Expense/income		57.2%	56.6%		

ELECTION OF THE COMPANY'S AUDITOR, APPROVAL OF THE APPOINTED OFFICIAL RESPONSIBLE FOR AUDITING, SETTING THE REMUNERATION

ELECTION OF THE COMPANY'S AUDITOR, APPROVAL OF THE OFFICIAL APPOINTED FOR BEING RESPONSIBLE FOR AUDITING, SETTING THE REMUNERATION

Based on Section 3 Para 66 of Law CXII of 1996 (Law on Credit Institutions and Financial Enterprises) the Supervisory Board proposes that the General Meeting

1. elects Deloitte & Touche Auditing Ltd. (000083) to be the Company's auditor

   1051 Budapest

   Nádor u. 21.,

   and approves the appointment of Gyula Köbli (005394) chartered auditor, as the individual in charge of auditing

   In the event any circumstance should arise which ultimately precludes the activities of as appointed auditor in this capacity, proposes the appointment of Zoltán Nagy (005027) chartered auditor, to be the individual in charge of auditing

to audit the company's non-consolidated and consolidated 2003. accounts.

2. The General Meeting establishes the total amount of forty-four million nine hundred and forty-nine thousand Hungarian Forints (HUF 44,949,000) + VAT as the auditor's remuneration for the audit of the annual accounts of 2003, prepared pursuant to Hungarian accounting regulations as applicable to credit institutions and the audit of the consolidated annual accounts to be performed in accordance with Act C. of 2000 on Accounting, of which HUF 38,821,000 + VAT shall be paid in consideration of the audit of the non-consolidated annual accounts, and HUF 6,128,000 + VAT shall be the fee payable for the audit of the consolidated annual accounts.

ELECTION OF A MEMBER OF THE SUPERVISORY BOARD

VERBAL PROPOSAL

ESTABLISHING THE REMUNERATION OF THE MEMBERS OF THE BOARD OF DIRECTORS AND SUPERVISORY BOARD

PROPOSAL FOR THE ESTABLISHING THE REMUNERATION OF THE MEMBERS OF THE BOARD OF DIRECTORS AND SUPERVISORY BOARD

The Board of Directors in Agreement with the Supervisory Board proposes to the AGM that the monthly remuneration for the Chairman, the Vice-Chairman and the Members of the Board of Directors be established as of May 1, 2003 as follows:

Chairman	HUF 485,000
Vice-Chairman	HUF 485,000
Member	HUF 420,000

The Board of Directors in Agreement with the Supervisory Board proposes to the AGM that the monthly remuneration for the Chairman and the Members of the Supervisory Board be established as of May 1, 2003 as follows:

Chairman	HUF 350,000
Vice-Chairman	HUF 350,000
Member	HUF 280,000

PROPOSAL FOR AMENDMENTS TO THE BY-LAWS

1) The fifth article of point 5.17 of the By-Laws to be delete

2) The provision of the twelfth indented paragraph of point 9.13 of the By-Laws 'establish the consolidated Balance Sheet of the Company' to be replaced with the wording 'Deleted'.

3) The point 14.4 of the By-Laws to be replaced with the following provision:

'The Board of Directors shall be entitled to increase the Company's equity capital by the offering of new shares amounting to an annual maximum of twenty-five (25) per cent in each calendar year until 25 April, 2008.'

4) The title of the 16^{th} § following provision to be replaced with the following wording:

'The notices of the Company are published in the gazette Magyar Tokepiac and on the website of Budapest Stock Exchange.'

DECISION CONCERNING THE ACQUISITION OF OWN SHARES

DECISION ON THE ACQUISITION OF OWN SHARES

Pursuant to the Companies Act the decision on the acquisition of own shares pertains to the exclusive authority of the General Meeting.

At OTP Bank Ltd., a program of option shares for the management and one of bonus shares for employees, which were approved by the General Meeting, are in operation, based on which OTP Bank managers and employees were and are able to purchase shares from the Bank according to regulations approved by the Board of Directors. An essential element of the system is that in the event that such shareholders wish to sell their shares so purchased, OTP Bank Ltd. shall be entitled to a pre-emptive right.

According to the referenced regulation of the Companies Act, the unimpeded exercise of the pre-emptive right, the creation of demand necessary for the administration of the option and bonus share programs and the prevention of price fluctuations of the shares require that the General Meeting make a decision on the acquisition of these shares by the Company as of now.

The Board of the Bank proposes to the shareholders to authorize the management of the Bank to purchase up to 28,000,000 shares for the treasury of the company where the purchase price of the shares at each transaction shall not be higher than 110% of the average price registered on the BSE one day prior to the transaction.