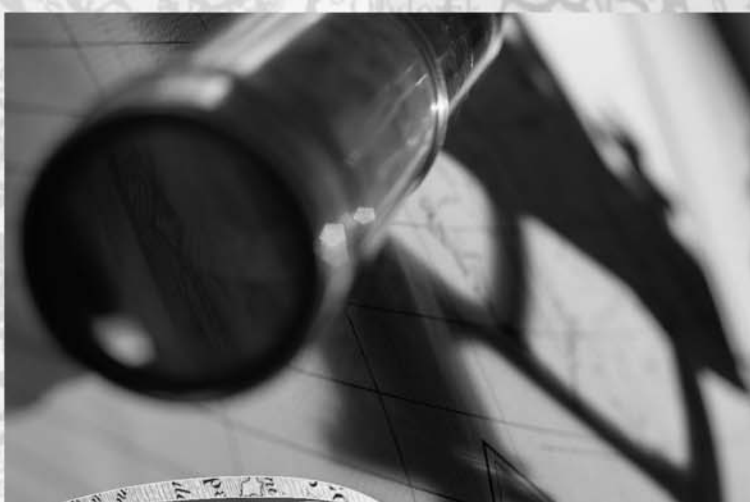

Financial Report

Deloitte & Touche
Auditing and Consulting Ltd.
Nádor u. 21.
H-1051 Budapest
Hungary
P.O. Box 503
H-1397 Budapest
Hungary

Tel: +36 (1) 428-6800
Fax: +36 (1) 428-6801
www.deloittece.com

Deloitte & Touche

INDEPENDENT AUDITORS' REPORT

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

We have audited, in accordance with Hungarian National Standards on Auditing, the unconsolidated financial statements of National Savings and Commercial Bank Ltd. (", the "Bank") for the year ended December 31, 2002, prepared in accordance with Hungarian accounting regulations, from which the accompanying summarized unconsolidated financial statements (balance sheet and profit and loss account), include on pages 67 to 69 of this Annual Report, were derived. In our independent auditors' report dated March 17, 2003, we expressed an unqualified opinion on the unconsolidated financial statements, prepared in accordance with Hungarian accounting regulations, from which the accompanying summarized unconsolidated financial statements we derived.

In our opinion, the accompanying summarized unconsolidated financial statements are consistent, in all material respects, with the unconsolidated financial statements, prepared in accordance with Hungarian accounting regulations, from which they were derived.

For a better understanding of the Bank's unconsolidated financial position as at December 31, 2002 and the unconsolidated results of its operations for the year then ended, prepared in accordance with the Hungarian accounting regulations and of the scope of our audit, the accompanying summarized unconsolidated financial statements should be read in conjunction with the unconsolidated financial statements and the related notes from which the summarized unconsolidated financial statements were derived and our audit independent auditors' report thereon.

Budapest, May 30, 2003

Deloitte & Touche

Deloitte & Touche

Deloitte
Touche
Tohmatsu

BALANCE SHEET

(unconsolidated, based on HAR) as at 31 December 2002 in HUF mn

ASSETS		2001	2002
1.	CASH IN HAND, BALANCES WITH CENTRAL BANKS	372,593	346,963
2.	TREASURY BILLS	481,079	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	263,157
	a) repayable on demand	6,415	5,317
	b) other receivables from financial services	323,363	257,840
4.	LOANS AND ADVANCES TO CUSTOMERS	765,998	1,010,197
	a) receivables from financial services	765,364	1,007,900
	aa) maturity not more than one year	326,797	367,659
	ab) maturity more than one year	438,567	631,241
	b) receivables from investment services	634	2,297
5.	DEBT SECURITIES INCLUDING FIXED-INCOME SECURITIES	17,636	153,188
	a) securities issued by local self-governing bodies and by other public bodies	0	0
	b) securities issued by other bodies	17,636	153,188
6.	SHARES AND OTHER VARIABLE-YIELD SECURITIES	7,262	5,682
	a) shares and participations for trade	5,579	92
	b) other variable-yield securities	1,683	5,590
7.	SHARES AND PARTICIPATING INTEREST AS FINANCIAL FIXED ASSETS	877	622
8.	SHARES AND PARTICIPATING INTEREST IN AFFILIATED UNDERTAKINGS	28,815	42,908
9.	INTANGIBLE ASSETS	11,866	13,793
10.	TANGIBLE ASSETS	42,380	49,886
	a) tangible assets for financial and investment services	39,914	47,027
	b) tangible assets not directly for financial and investment services	2,466	2,859
	c) revaluation surplus on tangible assets	0	0
11.	OWN SHARES	17,750	16,883
12.	OTHER ASSETS	19,595	50,371
13.	PREPAYMENTS AND ACCRUED INCOME	31,529	34,615
TOTAL ASSETS		**2,127,158**	**2,390,120**
	From this:		
	– CURRENT ASSETS	1,189,094	1,154,361
	– FIXED ASSETS	906,535	1,201,144

LIABILITIES	2001	2002
1. LIABILITIES TO CREDIT INSTITUTIONS	25,133	28,220
a) repayable on demand	2,595	1,701
b) liabilities from financial services with maturity dates or periods of notice	22,538	26,519
2. LIABILITIES TO CUSTOMERS	1,778,685	1,992,081
a) saving deposits	363,961	353,303
b) other liabilities from financial services	1,413,015	1,638,276
c) liabilities from investment services	1,709	502
3. LIABILITIES FROM ISSUED DEBT SECURITIES	73,734	62,689
a) issued bond	1	2,015
b) issued other debt securities	554	338
c) issued debt securities according to act on accounting, but the act on securities not qualifies that certificates as securities	73,179	60,336
4. OTHER LIABILITIES	36,911	41,694
a) maturity not more than one year	36,911	41,694
b) maturity more than one year	0	0
5. ACCRUALS AND DEFERRED INCOME	22,288	23,108
a) accrued liabilities	385	1,340
b) accrued costs and expenses	21,903	18,525
c) deferred income	0	3,243
6. PROVISIONS	14,598	20,974
a) provisions for pensions and similar obligations	0	1,000
b) risk provision for off-balance sheet items (for pending and future liabilities)	2,032	3,732
c) general risk provision	10,930	14,254
d) other provision	1,636	1,988
7. SUBORDINATED LIABILITIES	17,293	15,511
a) subordinated loan capital	17,293	15,511
8. SUBSCRIBED CAPITAL	28,000	28,000
From this: repurchased own shares at face value	1,542	1,543
9. SUBSCRIBED BUT UNPAID CAPITAL (–)	0	0
10. CAPITAL RESERVES	52	52
a) premium (from share issue)	0	0
b) other	52	52
11. GENERAL RESERVES	29,450	34,169
12. RETAINED EARNINGS (ACCUMULATED PROFIT RESERVE) (+)	55,981	84,261
13. LEGAL RESERVES	17,750	16,883
14. REVALUATION RESERVE	0	0
15. PROFIT OR LOSS FOR THE FINANCIAL YEAR ACCORDING TO THE BALANCE SHEET (+)	27,283	42,478
TOTAL LIABILITIES	**2,127,158**	**2,390,120**
From this:		
– SHORT-TERM LIABILITIES	1,884,245	2,104,797
– LONG-TERM LIABILITIES	47,511	35,398
– EQUITY (CAPITAL AND RESERVES)	158,516	205,843
OFF BALANCE SHEET LIABILITIES	**507,800**	**787,613**
CONTINGENT LIABILITIES	318,713	551,870
FUTURE LIABILITIES	189,087	235,743
OFF BALANCE SHEET ASSETS	**216,278**	**442,268**

PROFIT AND LOSS ACCOUNT

(unconsolidated, based on HAR) for the year ended 31 December 2002 in HUF mn

	2001	2002
1. Interest received and interest-type income	193,802	188,780
a) interest received on securities with fixed-interest signifying a creditor relationship	50,189	42,879
b) other interest received and interest-type income	143,613	145,901
2. Interest paid and interest-type expenses	95,460	86,065
INTEREST DIFFERENCE	**98,342**	**102,715**
3. Incomes from securities	127	332
4. Fees and commission received	45,684	63,545
5. Fees and commission paid	6,414	7,780
6. Profit or loss from financial transactions	– 5,555	1,748
a) revenues from other financial services	26,897	34,592
b) expenses on other financial services	29,778	31,304
c) revenues from investment services (revenues from trading activities)	3,732	6,328
b) expenses on investment services (expenses on trading activities)	6,406	7,868
7. Other incomes from business	15,766	211,587
8. General administration expenses	60,063	67,824
a) personnel expenses	32,551	36,188
b) other administration expenses	27,512	31,636
9. Depreciation and amortization	11,129	11,088
10. Other expenses from business	33,712	231,335
11. Write-off of loans and provision for contingent and future liabilities	12,577	15,134
a) write-off of loans	11,280	12,737
b) provision for contingent and future liabilities	1,297	2,397
12. Reversal of write-off of loans and credit for contingent and future liabilities	13,293	13,306
a) reversal of write-off of loans	12,841	12,672
b) credit for contingent and future liabilities	452	634
13. Write-off of securities for investing purposes, signifying a creditor relationship and equity investments in associated or other company	272	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	1,349
15. Result of ordinary business activities	**47,588**	**59,429**
Including:		
– RESULT OF FINANCIAL AND INVESTMENT SERVICES	46,616	57,904
– RESULT OF NON-FINANCIAL AND INVESTMENT SERVICES	972	1,525
16. Extraordinary revenues	214	39
17. Extraordinary expenses	433	1,386
18. Extraordinary profit or loss	– 219	– 1,347
19. Profit or loss before taxation	**47,369**	**58,082**
20. Tax liabilities	8,971	10,885
21. After-tax profit or loss	**38,398**	**47,197**
22. Formation and utilization of general reserves (±)	– 3,840	– 4,719
23. Use of accumulated profit reserve for dividends and profit-sharing	0	0
24. Dividends and profit-sharing paid (approved)	7,275	0
25. Balance-sheet profit or loss figure	**27,283**	**42,478**

Deloitte & Touche
Auditing and Consulting Ltd.
Nádor u. 21.
H-1051 Budapest
Hungary
P.O. Box 503
H-1397 Budapest
Hungary

Tel: +36 (1) 428-6800
Fax: +36 (1) 428-6801
www.deloittece.com

Deloitte & Touche

INDEPENDENT AUDITORS' REPORT

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

We have audited, in accordance with Hungarian National Standards on Auditing, the consolidated financial statements of National Savings and Commercial Bank Ltd. (the "Bank") for the year ended December 31, 2002, prepared in accordance with Hungarian accounting regulations, from which the accompanying summarized consolidated financial statements (balance sheet and profit and loss account), included on pages 71 to 77 of this Annual Report, were derived. In our independent auditors' report dated March 24, 2003 we expressed an unqualified opinion on the consolidated financial statements, prepared in accordance with the Hungarian accounting regulations, from which the accompanying summarized consolidation financial statements were derived.

In our opinion, the accompanying summarized consolidated financial statements are consistent, in all material respects, with the consolidated financial statements, prepared in accordance with the Hungarian accounting regulations, from which they were derived.

For a better understanding of the Bank's consolidated financial position as at December 31, 2002 and the consolidated results of its operations for the year then ended, prepared in accordance with the Hungarian accounting regulations and of the scope of our audit, the accompanying summarized consolidated financial statements should be read in conjunction with the consolidated financial statements and the related notes from which the summarized consolidated financial statements were derived and our audit independent auditors' report thereon.

Budapest, May 30, 2003

Deloitte & Touche

Deloitte & Touche

Deloitte
Touche
Tohmatsu

BALANCE SHEET

(consolidated, based on HAR) as at 31 December 2002 in HUF mn

ASSETS	2001	2002
1. CASH IN HAND, BALANCES WITH CENTRAL BANKS	378,826	353,980
2. TREASURY BILLS	580,781	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	281,400
a) repayable on demand	6,418	5,319
b) other receivables from financial services	328,597	276,081
ba) maturity not more than one year	308,827	261,925
From this: – by affiliated undertaking	0	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 Hungarian National Bank	1,731	434
4. LOANS AND ADVANCES TO CUSTOMERS	824,696	1,322,587
a) receivables from financial services	823,333	1,320,264
aa) maturity not more than one year	329,963	377,148
From this: – by affiliated undertaking	2,077	1,520
– by undertaking with which the credit institution is linked by virtue of participating	114	0
ab) maturity more than one year	493,370	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	2,323
From this: – by affiliated undertaking	4	843
bc) receivables from clients for investment service activities	170	2,323
bd) receivables from clearing houses	1,193	0
5. DEBT SECURITIES INCLUDING FIXED-INCOME SECURITIES	18,698	21,108
a) securities issued by local governing bodies and other public bodies (excluding state bonds)	0	0
b) securities issued by other bodies	18,698	21,108
ba) held for trade	115	1,368
bb) held as financial fixed assets (for long term investment)	18,583	19,740
From this: – by affiliated undertaking	0	182
6. SHARES AND OTHER VARIABLE-YIELD SECURITIES	9,768	11,578
a) shares and participations for trade	5,679	101
– by undertaking with which the credit institution is linked by virtue of participating	5,510	1
b) other variable-yield securities	4,089	11,477
ba) held for trade	2,362	5,387
bb) held as financial fixed assets (for long term investment)	1,727	6,090

ASSETS	2001	2002
7. SHARES AND PARTICIPATING INTEREST AS FINANCIAL FIXED ASSETS	4,911	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
8. SHARES AND PARTICIPATING INTEREST IN AFFILIATED UNDERTAKINGS	2,456	5,260
a) shares and participating interest in affiliated undertakings	2,338	5,194
c) capital consolidation difference	118	66
– from subsidiaries and joint managed companies	118	66
9. INTANGIBLE ASSETS	14,270	16,248
10. TANGIBLE ASSETS	58,639	74,861
a) tangible assets for financial and investment services	45,412	61,141
aa) land and building	32,206	42,154
ab) technical equipment, fittings and vehicles	10,371	11,990
ac) investment	2,817	6,986
ad) advance payments on investment	18	11
b) tangible assets not directly for financial and investment services	13,227	13,720
ba) land and building	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
11. OWN SHARES	26,357	27,800
12. OTHER ASSETS	31,125	42,474
a) stocks (inventories)	10,999	11,340
b) other receivables	20,126	31,134
From this: – by affiliated undertaking	660	715
– by undertaking with which the credit institution is linked by virtue of participating	0	15
b.1.) receivables of consolidated financial and investment service companies	16,146	26,484
b.2.) receivables of consolidated insurance companies	1,656	2,617
b.3.) receivables of consolidated other companies	2,324	2,033
13. PREPAYMENTS AND ACCRUED INCOME	35,415	39,209
a) accrued income	33,970	36,595
b) accrued costs and expenses	1,445	2,614
TOTAL ASSETS	**2,320,957**	**2,734,082**
From this:		
– CURRENT ASSETS	1,276,238	1,255,811
– FIXED ASSETS	1,009,304	1,439,062

LIABILITIES	2001	2002
1. LIABILITIES TO CREDIT INSTITUTIONS	36,404	60,832
a) repayable on demand	2,546	1,610
b) liabilities from financial services with maturity dates or periods of notice	33,858	59,222
ba) not more than one year	13,782	37,307
From this: – by affiliated undertaking	0	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	0
– by Hungarian National Bank	7,804	3,158
2. LIABILITIES TO CUSTOMERS	1,867,298	2,140,397
a) saving deposits	363,961	358,926
aa) repayable on demand	42,831	45,301
ab) maturity not more than one year	321,130	313,327
ac) maturity more than one year	0	298
b) other liabilities from financial services	1,500,890	1,780,969
ba) repayable on demand	561,342	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
bc) maturity more than one year	61,842	57,704
c) liabilities from investment services	2,447	502
cc) liabilities from clients for investment service activities	2,433	502
cd) liabilities from clearing house	14	0
3. LIABILITIES FROM ISSUED DEBT SECURITIES	73,735	102,689
a) issued bonds	1	2,015
ab) maturity more than one year	1	2,015
b) issued other debt securities	555	40,338
ba) maturity not more than one year	538	338
bb) maturity more than one year	17	40,000
c) issued debt securities according to act on accounting, but the act on securities not qualifies that certificates as securities	73,179	60,336
ca) maturity not more than one year	69,076	56,185
cb) maturity more than one year	4,103	4,151
4. OTHER LIABILITIES	45,317	48,988
a) maturity not more than one year	44,460	48,564
From this: – by affiliated undertaking	404	778
– by undertaking with which the credit institution is linked by virtue of participating	20	8
a.1.) liabilities of consolidated financial and investment service companies	38,016	41,800
a.2.) liabilities of consolidated insurance companies	1,903	2,701
a.3.) liabilities of consolidated other companies	4,541	4,063
b) maturity more than one year	48	24
b.3.) liabilities of consolidated other companies	48	24
c) (Calculated) Corporate tax difference due to consolidation	809	400

LIABILITIES	2001	2002
5. ACCRUALS AND DEFERRED INCOME	27,917	27,227
a) accrued liabilities	1,678	2,560
b) accrued costs and expenses	26,234	24,627
c) deferred income	5	40
6. PROVISIONS	70,376	96,634
a) provisions for pensions and similar obligations	0	1,000
b) risk provision for off-balance sheet items (for pending and future liabilities)	2,531	4,346
c) general risk provision	11,681	15,294
d) other provision	56,164	75,994
d.1.) other provision of consolidated financial and investment service companies	3,865	7,001
d.2.) other provision of consolidated insurance companies	51,914	68,531
d.3.) other provision of consolidated other companies	385	462
7. SUBORDINATED LIABILITIES	17,737	19,779
a) subordinated loan capital	17,293	15,511
aa) equity consolidation difference	444	4,268
8. SUBSCRIBED CAPITAL	28,000	28,000
From this: repurchased own shares at face value	2,217	2,334
9. SUBSCRIBED BUT UNPAID CAPITAL (–)	0	0
10. CAPITAL RESERVES	52	52
11. GENERAL RESERVES	29,450	34,170
12. RETAINED EARNINGS (ACCUMULATED PROFIT RESERVE) (±)	57,276	86,232
a) retained earnings	56,095	84,508
b) equity change of equity consolidated subsidiaries	1,181	1,724
13. LEGAL RESERVES	17,750	16,883
14. REVALUATION RESERVE	0	0
15. PROFIT OR LOSS FOR THE FINANCIAL YEAR ACCORDING TO THE BALANCE SHEET (±)	35,175	49,899
16. SUBSIDIARIES' EQUITY INCREASES/DECREASES (±)	11,299	19,246
17. INCREASES/DECREASES DUE TO CONSOLIDATION (±)	3,171	2,770
– from debt consolidation difference	4,753	4,687
– from intermediate result difference	– 1,582	– 1,917
18. PARTICIPATION OF OUTSIDE MEMBERS (OTHER OWNERS)	0	284
TOTAL LIABILITIES	**2,320,957**	**2,734,082**
From this:		
– SHORT-TERM LIABILITIES	1,936,667	2,226,799
– LONG-TERM LIABILITIES	103,824	145,886
– EQUITY (CAPITAL AND RESERVES)	182,173	237,536
OFF BALANCE SHEET LIABILITIES	**509,918**	**881,708**
1. CONTINGENT LIABILITIES	318,775	641,127
2. FUTURE LIABILITIES	191,143	240,581
OFF BALANCE SHEET ASSETS	**218,338**	**444,142**

PROFIT AND LOSS ACCOUNT

(consolidated, based on HAR) for the year ended 31 December 2002 in HUF mn

	2001	2002
1. Interest received and interest-type income	211,521	220,987
a) interest received on securities with fixed-interest signifying a creditor relationship	54,839	48,775
b) other interest received and interest-type income	156,682	172,212
From this: – from related companies	701	976
– from other participation companies	2,932	725
2. Interest paid and interest-type expenses	100,581	97,574
From this: – to related companies	159	243
– to other participation companies	149	180
INTEREST DIFFERENCE	**110,940**	**123,413**
3. Incomes from securities	504	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	55,921
a) revenues from other financial services	41,151	53,005
From this: – 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
From this: – from related companies	4	14
5. Fees and commission paid	7,616	10,609
a) expenses on other financial services	7,199	10,275
From this: – to related companies	366	445
– to other participation companies	0	3
b) expenses on investment services (except expenses from trading activities)	417	334
From this: – to related companies	12	46
6. Profit or loss from financial transactions	– 2,347	3,289
a) revenues from other financial services	27,414	34,226
From this: – from related companies	7	155
– from other participation companies	45	1
b) expenses on other financial services	27,564	29,751
From this: – to related companies	3,091	1,414
– to other participation companies	31	1
c) revenues from investment services (revenues from trading activities)	4,773	6,802
From this: – from related companies	441	153
d) expenses on investment services (expenses from trading activities)	6,970	7,988
From this: – to related companies	352	180
– to other participation companies	0	10

	2001	2002
7. Other incomes from business	110,624	115,271
a) incomes from non-financial and investment services	99,406	94,770
From this: – from related companies	726	722
– from other participation companies	25	3
a.1.) income of consolidated investment service providers	36,973	20,506
a.2.) income of consolidated insurance companies	43,658	55,160
a.3.) income of other consolidated companies	18,775	19,104
b) other revenues	10,630	15,327
From this: – from related companies	35	1,039
– reversal of write-off of inventory	16	66
b.1.) other income of consolidated investment service providers	9,537	13,666
b.2.) other income of consolidated insurance companies	154	97
b.3.) other income of other consolidated companies	939	1,564
ba) consolidation difference income due to debtor consolidation	0	10
bb) other income due to consolidation	588	2,164
8. General administration expenses	63,868	76,334
a) personnel expenses	35,237	41,254
aa) wage costs	21,758	26,670
ab) other payments to personnel	4,062	4,220
From this: – social security expenses	1,902	2,312
– pension related expenses	1,809	2,018
ac) contributions on wages and salaries	9,417	10,364
From this: – social security expenses	8,240	8,997
– pension related expenses	4,719	4,704
b) other administration expenses	28,631	35,080
9. Depreciation and amortization	11,579	12,045
10. Other expenses from business	122,723	122,972
a) expenses from non-financial and investment services	69,062	58,048
From this: – to related companies	386	697
– to other participation companies	84	24
a.1.) expenses of consolidated investment service providers	36,591	18,353
a.2.) expenses of consolidated insurance companies	32,187	39,670
a.3.) expenses of other consolidated companies	284	25
b) other expenses	30,093	37,408
From this: – to related companies	7,605	319
– write-off of inventory	7	0
b.1.) other expenses of consolidated investment service providers	28,369	34,785
b.2.) other expenses of consolidated insurance companies	300	422
b.3.) other expenses of other consolidated companies	1,424	2,201
ba) consolidation difference due to debt consolidation	9	0
bb) other expenses due to consolidation	90	60
c) expenses of consolidated subsidiaries	23,469	27,456
c.1.) expense of consolidated insurance companies	9,550	12,730
c.2.) expense of other consolidated companies	13,919	14,726

	2001	2002
11. Write-off of loans and provision for contingent and future liabilities	16,583	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	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 and 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
15. Result of ordinary business activities	**58,006**	**69,691**
From this:		
– RESULT OF FINANCIAL AND INVESTMENT SERVICES	51,762	61,387
– RESULT OF NON-FINANCIAL AND INVESTMENT SERVICES	6,244	8,304
16. Extraordinary revenues	134	53
17. Extraordinary expenses	850	1,569
18. Extraordinary profit or loss	– 716	– 1,516
19. Profit or loss before tax	**57,290**	**68,175**
20. Tax liabilities	10,938	13,599
a) tax difference due to consolidation (±)	– 52	– 409
21. After-tax profit or loss	**46,404**	**54,985**
22. Formation and utilization of general reserves (±)	– 4,140	– 5,086
23. Use of accumulated profit reserve for dividends and profit-sharing	0	0
24. Dividends and profit-sharing paid (approved)	7,089	0
From this: – to related companies	52	0
25. Balance-sheet profit or loss figure	**35,175**	**49,899**

Deloitte & Touche
Auditing and Consulting Ltd.
Nádor u. 21.
H-1051 Budapest
Hungary
P.O. Box 503
H-1397 Budapest
Hungary

Tel: +36 (1) 428-6800
Fax: +36 (1) 428-6801
www.deloittece.com

Deloitte & Touche

INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying unconsolidated balance sheets of National Savings and Commercial Bank Ltd. ("the Bank") as at December 31, 2002 and 2001, and the related unconsolidated statements of operation, cash flows and changes in shareholders' equity for the years then ended, included on pages 79 to 109 of this Annual Report. These unconsolidated financial statements are the responsibility of the Bank's management. Our responsibility is to express an opinion on these unconsolidated financial statements based on our audits.

We conducted our audits in accordance with International Standards on Auditing. 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 statement presentation. We believe that our audits provide a reasonable basis for our opinion.

Consolidated financial statements have not been presented at the date of this report, as required by International Accounting Standard No. 27. We draw attention to Notes 2.3 and 2.7 to the unconsolidated financial statements, which explain why consolidated financial statements have not been presented and the method of accounting for unconsolidated subsidiaries, respectively.

In our opinion, except for the effects on the financial statements of the matter referred to in the preceding paragraph, the financial statements present fairly, in all material respects, the unconsolidated financial position of the Bank as at December 31, 2002 and 2001, and the unconsolidated results of its operations, cash flows and changes in shareholders' equity for the years then ended in accordance with International Financial Reporting Standards.

Budapest, March 17, 2003

Deloitte - Touche

Deloitte & Touche

Deloitte
Touche
Tohmatsu

BALANCE SHEET

(unconsolidated, based on IAS) as at 31 December 2002 and 2001 in HUF mn

	2002	2001
Cash, due from banks and balances with the National Bank of Hungary	348,424	375,540
Placements with other banks, net of allowance for possible placement losses	277,627	326,830
Securities held-for-trading and available-for-sale	204,408	106,255
Loans, net of allowance for possible loan losses	994,994	760,164
Accrued interest receivable	23,407	26,999
Equity investments	48,888	33,175
Securities held-to-maturity	362,045	398,746
Premises, equipment and intangible assets, net	71,305	56,727
Other assets	58,908	19,144
TOTAL ASSETS	**2,390,006**	**2,103,580**
Due to banks and deposits from the National Bank of Hungary and other banks	46,401	25,133
Deposits from customers	2,045,653	1,842,722
Liabilities from issued securities	2,054	556
Accrued interest payable	7,479	8,770
Other liabilities	69,433	57,297
Subordinated bonds and loans	15,511	17,293
TOTAL LIABILITIES	2,186,531	1,951,771
Share capital	28,000	28,000
Retained earnings and reserves	192,358	141,559
Treasury shares	– 16,883	– 17,750
TOTAL SHAREHOLDER'S EQUITY	203,475	151,809
TOTAL LIABILITIES AND SHAREHOLDER’S EQUITY	**2,390,006**	**2,103,580**

The accompanying notes to unconsolidated financial statements on pages 82 to 109 form an integral part of these uncosolidated financial statements.

PROFIT AND LOSS ACCOUNT

(unconsolidated, based on IAS) for the year ended 31 December 2002 and 2001 in HUF mn

	2002	2001
INTEREST INCOME		
Loans	106,555	91,571
Placements with other banks	26,473	17,700
Due from banks and balances with the National Bank of Hungary	18,488	33,017
Securities held-for-trading or available-for-sale	11,075	8,316
Securities held-to-maturity	32,540	40,860
TOTAL INTEREST INCOME	*195,131*	*191,464*
INTEREST EXPENSE		
Due to banks and deposits from the National Bank of Hungary and other banks	4,189	2,670
Deposits from customers	80,988	90,570
Liabilities from issued securities	74	45
Subordinated bonds and loans	963	1,391
TOTAL INTEREST EXPENSE	*86,214*	*94,676*
NET INTEREST INCOME	**108,917**	**96,788**
Provision for possible loan and placement losses	6,214	6,627
NET INTEREST INCOME AFTER PROVISION FOR POSSIBLE LOAN AND PLACEMENT LOSSES	**102,703**	**90,161**
NON-INTEREST INCOME		
Fees and commissions	64,741	46,404
Foreign exchange losses and gains, net	– 3,400	2,421
Gains and losses on securities, net	2,600	– 2,549
Losses on real estate transactions, net	– 14	– 59
Dividend income	332	127
Other	3,989	2,037
TOTAL NON-INTEREST INCOME	*68,248*	*48,381*
NON-INTEREST EXPENSES		
Fees and commissions	7,854	6,406
Personnel expenses	37,571	32,551
Depreciation and amortization	13,085	12,475
Other	49,440	36,703
TOTAL NON-INTEREST EXPENSES	*107,950*	*88,135*
INCOME BEFORE INCOME TAXES	**63,001**	**50,407**
Income taxes	11,100	9,239
NET INCOME AFTER INCOME TAXES	**51,901**	**41,168**
Earnings per share (in HUF)		
basic	197	1,563
diluted	196	1,559

The accompanying notes to unconsolidated financial statements on pages 82 to 109 form an integral part of these uncosolidated financial statements.

STATEMENT OF CASH-FLOW

(unconsolidated, based on IAS) for the year ended 31 December 2002 and 2001 in HUF mn

	2002	2001
OPERATING ACTIVITIES		
Income before income taxes	63,001	50,407
Adjustments to reconcile income after income taxes to net cash provided by operating activities:		
Income tax paid	– 11,873	– 10,428
Depreciation and amortization	13,085	12,475
Provision for possible loan and placement losses	6,214	6,627
Provision/(credit) for permanent diminution in value of investments	555	– 3,829
Provision/(credit) for possible losses of other assets	749	– 1,239
Provision for possible losses on off-balance sheet commitments and contingent liabilities net	2,066	1,299
Unrealised gains on fair value adjustment of securities held-for-trading and available-for-sale	– 2,949	– 667
Unrealised (gains)/losses on fair value adjustment of derivative financial instruments	– 5,610	773
Effect of deferred taxes	215	268
Changes in operating assets and liabilities:		
Net decrease/(increase) in accrued interest receivable	3,592	– 117
Net increase in other assets, excluding advances for investments and before provisions for possible losses	– 32,108	– 1,233
Net decrease in accrued interest payable	– 1,291	– 2,323
Net increase/(decrease) in other liabilities	14,922	– 2,850
Net cash provided by operating activities	**50,568**	**49,163**
INVESTING ACTIVITIES		
Net decrease/(increase) in placements with other banks, before provision for possible placement losses	49,210	– 103,237
Net increase in securities held-for-trading or available-for-sale	– 95,204	– 15,251
Net increase in equity investments, before provision for permanent diminuation in value	– 16,268	– 2,708
Net decrease/(increase) in securities held-to-maturity	36,701	– 36,775
Net decrease in advances for investments included in other assets	21	38
Net increase in loans, before provision for possible loan losses	– 241,051	– 141,131
Net additions to premises, equipment and intangible assets	– 27,663	– 13,529
Net cash used in investing activities	**– 294,254**	**– 312,593**
FINANCING ACTIVITIES		
Net increase/(decrease) in due to banks and deposits from the National Bank of Hungary and other banks	21,268	– 19,282
Net increase in deposits from customers	202,931	178,790
Net increase/(decrease) in liabilities from issued securities	1,498	– 477
Decrease in subordinated bonds and loans	– 1,782	– 467
Profit on sale of treasury shares	– 1,102	72
Decrease/(increase) in treasury shares	867	– 8,683
Net decrease in the compulsory reserve established by the National Bank of Hungary	14,470	75,611
Dividends paid	– 7,110	– 3,492
Net cash provided by financing activities	**231,040**	**222,072**
Net decrease in cash and cash equivalents	**– 12,646**	**– 41,358**
Cash and cash equivalents at the beginning of the year	***268,003***	***309,361***
Cash and cash equivalents at the end of the year	**255,357**	**268,003**

The accompanying notes to unconsolidated financial statements on pages 82 to 109 form an integral part of these uncosolidated financial statements.

STATEMENT OF CHANGES IN SHAREHOLDER'S EQUITY

(unconsolidated, based on IAS) for the year ended 31 December 2002 and 2001 in HUF mn

	Share Capital	Retained Earnings and Reserves	Treasury Shares	Total
Balance as at January 1, 2001	28,000	107,402	– 9,067	126,335
Net income after income taxes	–	41,168	–	41,168
Profit on sale of treasury shares	–	72	–	72
Change in carrying value of treasury shares	–	–	– 8,683	– 8,683
Effects of adoption of IAS 39	–	192	–	192
Dividends declared on common shares	–	– 7,275	–	– 7,275
Balance as at December 31, 2001	**28,000**	**141,559**	**– 17,750**	**151,809**
Net income after income taxes	–	51,901	–	51,901
Loss on sale of treasury shares	–	– 1,102	–	– 1,102
Change in carrying value of treasury shares	–	–	867	867
Balance as at December 31, 2002	**28,000**	**192,358**	**– 16,883**	**203,475**

The accompanying notes to unconsolidated financial statements on pages 82 to 109 form an integral part of these uncosolidated financial statements.

NOTES TO FINANCIAL STATEMENTS

NOTE 1: **ORGANIZATION AND BASIS OF FINANCIAL STATEMENTS**

1.1. GENERAL

National Savings and Commercial Bank Ltd. (the "Bank" or "OTP") was established on December 31, 1990, when the predecessor State-owned company was transformed into a limited liability company.

As at December 31, 1994, 79% of the Bank's shares were held directly or indirectly by the Hungarian Government and the remaining 21% were held by domestic investors or represented as own shares (less than 3%). In spring 1995, the Hungarian Government transferred 20% of the Bank's shares to the Hungarian Social Security Funds. Subsequent to the successful initial public offering in summer 1995, the Bank's shares were introduced to the Budapest and the Luxembourg stock exchanges and were also listed on SEAQ London and PORTAL (USA).

At an extraordinary General Assembly, on September 3, 1997, the Bank issued a preferential voting share with a nominal value of HUF 1 thousand (the "Special Share") to the State Privatization and Holding Company. The Special Share gives the power to the State Privatization and Holding Company to control the outcome of certain shareholder votes in accordance with the Bank's Articles of Association and the right to delegate one member to the Bank's Board of Directors and one member to the Supervisory Board of the Bank.

By public offerings in fall 1997 and fall 1999, the State Privatization and Holding Company sold the remaining common shares.

The Annual General Meeting on April 25, 2001 approved resolution No. 6/1/2001 concerning the conversion of HUF 1,150 million nominal value preference shares issued by the Bank to common shares.

As at December 31, 2002 approximately 91.7% of the Bank's shares were held by domestic and foreign private and institutional investors. The remaining shares are owned by employees, leading officials (2.8%) and the Bank (5.5%).

The Bank provides a full range of commercial banking services through a nationwide network of 427 branches in Hungary.

1.2. ACCOUNTING

The Bank maintains its accounting records and prepares its statutory accounts in accordance with the commercial, banking and fiscal regulations prevailing in Hungary.

The Bank's functional currency is the Hungarian Forint ("HUF").

Some of the accounting principles prescribed for statutory purposes are different from those generally recognized in international financial markets. Certain adjustments have been made to the Bank's Hungarian unconsolidated statutory accounts (see note 31), in order to present the unconsolidated financial position and results of operations of the Bank in accordance with all standards and interpretations approved by the International Accounting Standards Board (IASB), which are referred to as International Financial Reporting Standards (IFRS). These standards and interpretations were previously called International Accounting Standards.

Effective as of January 1, 2001 the Bank adopted IAS 39 – "Financial Instruments: Recognition and Measurement". Revisions to a number of other IAS also took effect in the financial statements of the year of 2001. Those revisions concerned matters of detailed application which have no significant effect on amounts reported.

IAS 39 has introduced a comprehensive framework of accounting for all financial instruments. The Bank's detailed accounting policies in respect of such instruments are set out below. The principal effects of the adoption of IAS 39 have been that all of the Bank's investments in securities classified as held-for-trading or available-for-sale are now carried at fair value and that derivative financial instruments have been brought on balance sheet. The effects of the remeasurement of investments to fair value and bringing the derivative financial instruments on-balance sheet at fair value have been recognised with effect from January 1, 2001. The effects on retained earnings and reserves on adoption can be summarised as follows (in HUF millions):

Excess of fair value of securities held-for-trading and available-for-sale over cost	282
Net fair value of derivatives not designated as hedging instruments	– 48
Effect of deferred taxation	– 42
Adjustment as of January 1, 2001	**192**

Subsequent remeasurements to fair value are recorded in the Unconsolidated Statement of Operations.

NOTE 2: **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

Significant accounting policies applied in the preparation of the accompanying unconsolidated financial statements are summarized below:

2.1. BASIS OF PRESENTATION

These unconsolidated financial statements have been prepared under the historical cost convention with the exception of certain financial instruments, which are recorded on fair value. Revenues and expenses are recorded in the period in which they are earned or incurred.

2.2. FOREIGN CURRENCY TRANSLATION

Assets and liabilities denominated in foreign currencies are translated into HUF at exchange rates quoted by the National Bank of Hungary ("NBH") as of the date of the financial statements. Income and expenses arising in foreign currencies are converted at the rate of exchange on the transaction date. Resulting foreign exchange gains or losses are recorded in the Unconsolidated Statement of Operations.

2.3. CONSOLIDATED FINANCIAL STATEMENTS

These financial statements present the Bank's unconsolidated financial position and results of operations. See Note 2.7 for the description of the method of accounting for investments in subsidiaries and associated companies in these unconsolidated financial statements.

2.4. SECURITIES HELD-TO-MATURITY

Investments in securities are accounted on a settlement date basis and are initially measured at cost. At subsequent reporting dates, debt securities that the Bank has the expressed intention and ability to hold to maturity (held-to-maturity debt securities) are measured at amortised cost, less any impairment losses recognised to reflect irrecoverable amounts. The annual amortisation of any discount or premium on the acquisition of a held-to-maturity debt security is aggregated with other investment income receivable over the term of the investment so that the revenue recognised in each period represents a constant yield on the investment.

Held-to-maturity investments include securities, which the Bank is able and intent to hold to maturity. Such securities comprise mainly securities issued by the Hungarian Government.

2.5. SECURITIES HELD-FOR-TRADING AND AVAILABLE-FOR-SALE

Investments in securities are accounted on a settlement date basis and are initially measured at cost. Held-for-trading and available-for-sale investments are measured at subsequent reporting dates at fair value and unrealised gains and losses are included in the Unconsolidated Statement of Operations for the period. Such securities consist of discounted and interest bearing Treasury bills, Hungarian Government bonds, bonds issued by National Bank of Hungary (NBH), and other securities. Other securities include shares in commercial companies, shares in investment funds, bonds issued by companies, foreign governments and mortgage bonds issued by other financial institutions.

Available-for-sale securities are remeasured at fair value based on quoted prices or amounts derived from cash flow models. In circumstances where the quoted market prices are not readily available, the fair value of debt securities is estimated using the present value future cash flows and the fair value of unquoted equity instruments is estimated using applicable price/earnings or price/cashflow ratios refined to reflect the specific circumstances of the user.

Those held-for-trading and available-for-sale financial assets that do not have a quoted market price and whose fair value cannot be reliably measured by other models mentioned above, are measured at cost, less allowance for permanent diminution in value, when appropriate.

2.6. LOANS, PLACEMENTS WITH OTHER BANKS AND ALLOWANCE FOR POSSIBLE LOAN AND PLACEMENT LOSSES

Loans and placements with other banks are stated at the principal amounts outstanding, net of allowance for possible loan or placement losses, respectively. Interest is accrued and credited to income based on the principal amounts outstanding. When a borrower is unable to meet payments as they come due or, in the opinion of the management, there is an indication that a borrower may be unable to meet payments as they come due, all unpaid interest is reversed. Loan origination fees and costs are recognized in the Unconsolidated Statement of Operations in full at the time of the loan origination.

The allowances for possible loan and placement losses are maintained at levels adequate to absorb probable future losses. Management determines the adequacy of the allowances based upon reviews of individual loans and placements, recent loss experience, current economic conditions, the risk characteristics of the various categories of loans and other pertinent factors.

2.7. EQUITY INVESTMENTS

Investments comprise equity investments and equity securities. Equity investments with a controlling or significant interest include investments in companies in which the Bank holds an equity share of 10% or more and investments made for strategic, regulatory or operational purposes. Equity investments representing a controlling interest comprise those investments where the Bank, through direct and indirect ownership interest, has the power to govern the financial and operating policies of the investee. Equity investments representing a significant interest comprise those investments where the Bank, through direct and indirect ownership interest, has the power to participate in the financial and operating policies of the investee but not to control those activities. Other equity securities comprise shareholdings, which do not meet the preceding criteria.

Investments are recorded at the cost of acquisition, less allowance for permanent diminution in value, when appropriate.

2.8. SALE AND REPURCHASE AGREEMENT

Where debt or equity securities are sold under a commitment to repurchase them at a pre-determined price, they remain on the balance sheet and the consideration received is recorded in Other liabilities. Conversely, debt or equity securities purchased under a commitment to resell are not recognised in the balance sheet and the consideration paid is recorded in Other assets. Interest is accrued evenly over the life of the repurchase agreement.

2.9. PREMISES, EQUIPMENT AND INTANGIBLE ASSETS

Premises, equipment and intangible assets are stated at cost, less accumulated depreciation and amortization. Depreciation and amortization are computed using the straight-line method over the estimated useful lives of the assets based on the following annual percentages:

Buildings	1–2%
Machinery and equipment	8–33.3%
Leased assets	16.7–33.3%
Vehicles	15–20%
Software	20–33.3%
Property rights	16.7%

Depreciation and amortization on premises, equipment and intangible assets commences on the day such assets are placed into service.

At each balance sheet date, the Bank reviews the carrying value of its tangible and intangible assets to determine if there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated to determine the extent (if any) of the impairment loss. Where it is not possible to estimate the recoverable amount of an individual asset, the Bank estimates the recoverable amount of the cash-generating unit to which the asset belongs. Where the carrying value of premises, equipment and other tangible fixed assets is greater than the estimated recoverable amount, it is written down immediately to the estimated recoverable amount.

2.10. LEASES

Assets held under finance leases, which confer rights and obligations similar to those attached to owned assets, are capitalised at their fair value and depreciated over the useful lives of assets. The capital element of each future lease obligation is recorded as a liability, while the interest elements are charged to the profit and loss account over the period of the leases to produce a constant rate of charge on the balance of capital payments outstanding.

Payments made under operating leases are charged to the profit and loss statement on a straight-line basis over the term of the lease. When an operating lease is terminated before the lease period has expired, any payment required to be made to the lessor by way of penalty is recognised as an expense in the period in which termination takes place.

2.11. TREASURY SHARES

Treasury shares are purchased on the stock exchange and the over-the-counter market by the Bank and are presented in the Unconsolidated Balance Sheet as a deduction from unconsolidated shareholder's equity. Gains and losses on the sale of treasury shares are credited or charged directly to retained earnings and reserves.

2.12. INCOME TAXES

The annual taxation charge is based on the tax payable under Hungarian fiscal law, adjusted for deferred taxation. Deferred taxation is accounted for, using the balance sheet liability method in respect of temporary differences in the tax bases of assets and liabilities and their carrying value for financial reporting purposes, measured at the tax rates that are expected to apply when the asset is realised or the liability is settled, based on tax rates that have been enacted at the date of the Unconsolidated Balance Sheet.

2.13. OFF-BALANCE SHEET COMMITMENTS AND CONTINGENT LIABILITIES

In the ordinary course of its business, the Bank has entered into off-balance sheet commitments such as guarantees, commitments to extend credit and letters of credit and transactions with financial instruments. The allowance for possible losses on commitments and contingent liabilities is maintained at a level adequate to absorb probable future losses. Management determines the adequacy of the allowance based upon reviews of individual items, recent loss experience, current economic conditions, the risk characteristics of the various categories of transactions and other pertinent factors.

The Bank recognises an allowance when it has a present obligation as a result of a past event; it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation; and a reliable estimate can be made of the obligation.

2.14. DERIVATIVE FINANCIAL INSTRUMENTS

In the normal course of business, the Bank is a party to contracts for derivative financial instruments, which represent a very low initial investment compared to the notional value of the contract. The derivative financial instruments used include interest rate forward or swap agreements and currency swaps. These financial instruments are used by the Bank to hedge interest rate risk and currency exposures associated with its transactions in the financial markets.

Derivative financial instruments are initially recognised at cost and subsequently are remeasured at their fair value. Fair values are obtained from quoted market prices, discounted cash flow models and options pricing models as appropriate. Changes in the fair value of derivative financial instruments that do not qualify for hedge accounting are recognised in the Unconsolidated Statement of Operations as they arise. All derivatives are carried as assets when fair value is positive and as liabilities when fair value is negative.

Changes in the fair value of derivatives that are designated and qualify as fair value hedges and that prove to be highly effective in relation to the hedged risk, are recorded in the Unconsolidated Statement of Operations along with the corresponding change in fair value of the hedged asset or liability that is attributable to the specific hedged risk. The ineffective element of the hedge is charged directly to the Unconsolidated Statement of Operations.

Changes in fair value of derivatives that are designated and qualify as cash flow hedges and that prove to be highly effective in relation to hedged risk, are recognised in the reserve among unconsolidated shareholder's equity. Amounts deferred in equity are transferred to the Unconsolidated Statement of Operations and classified as revenue or expense in the periods during which the hedged assets and liabilities affect the result for the period. The ineffective element of the hedge is charged directly to the Unconsolidated Statement of Operations.

Certain derivative transactions, while providing effective economic hedges under the Bank's risk management positions, do not qualify for hedge accounting under the specific rules of IAS 39 and are therefore treated as derivatives held-for-trading with fair value gains and losses charged directly to the Unconsolidated Statement of Operations.

2.15. UNCONSOLIDATED STATEMENT OF CASH FLOWS

For the purposes of reporting cash flows, cash and cash equivalents include cash, due from banks and balances with the National Bank of Hungary, excluding compulsory reserve established by the National Bank of Hungary. Cash flows from hedging activities are classified in the same category as the item being hedged.

2.16. COMPARATIVE FIGURES

Certain amounts in the 2001 unconsolidated financial statements have been reclassified to conform with current period presentation.

NOTE 3: **CASH, DUE FROM BANKS AND BALANCES WITH THE NATIONAL BANK OF HUNGARY**

			(in HUF mn)
		2002	**2001**
Cash on hand:	in HUF	39,460	38,540
	in foreign currency	3,570	10,630
		43,030	*49,170*
Due from banks and balances with NBH:			
Short-term:	in HUF	301,709	320,279
	in foreign currency	3,251	4,360
		304,960	*324,639*
Long-term:	in foreign currency	434	1,731
Total		**348,424**	**375,540**

Based on the requirements for compulsory reserves set by the National Bank of Hungary, the balance of compulsory reserves amounted to approximately HUF 93,067 million and HUF 107,537 million as at December 31, 2002 and 2001 respectively.

NOTE 4: **PLACEMENTS WITH OTHER BANKS AND ALLOWANCE FOR POSSIBLE PLACEMENT LOSSES**

(in HUF mn)

		2002	2001
Short-term:	in HUF	146,576	73,206
	in foreign currency	117,192	235,455
		263,768	*308,661*
Long-term:	in HUF	8,300	8,300
	in foreign currency	5,722	10,039
		14,022	*18,339*
Total		**277,790**	**327,000**
Allowance for possible placement losses		– 163	– 170
		277,627	**326,830**

Placements with other banks in foreign currency as at December 31, 2002 and 2001 bear interest rates in the range from 0.1% to 9.2% and from 1% to 6.5%, respectively.

Placements with other banks in HUF as at December 31, 2002 and 2001 bear interest rates in the range from 7.5% to 11.2% and from 8.4% to 11.3%, respectively.

An analysis of the change in the allowance for possible placement losses is as follows:

(in HUF mn)

	2002	2001
Balance as at January 1	170	183
Credit for possible placement losses	– 7	– 13
Balance as at December 31	**163**	**170**

NOTE 5: **SECURITIES HELD-FOR-TRADING AND AVAILABLE-FOR-SALE**

(in HUF mn)

	2002	2001
Securities held-for-trading		
Hungarian Government discounted Treasury bills	4,996	7,545
Hungarian Government interest bearing Treasury bills	1,945	1,333
Government bond	10,002	23,197
Bonds issued by National Bank of Hungary	–	5,129
Other securities	1,148	6,041
	18,091	*43,245*
Securities available-for-sale		
Government bond	38,881	44,267
Other securities	22,192	18,413
Mortgage bonds	125,244	330
	186,317	*63,010*
Total	**204,408**	**106,255**

Approximately 90% and 65% of the held-for-trading and available-for-sale securities portfolio was denominated in HUF as at December 31, 2002 and 2001, respectively.

Approximately 10% and 23% of the government bonds were denominated in foreign currency as at December 31, 2002 and 2001, respectively. Approximately 54%, 37%, 1% and 8% of this portfolio was denominated in USD, JPY, EUR and GBP as at December 31, 2002 and 78%, 13%, 8% and 1% of this portfolio was denominated in USD, JPY, EUR and GBP as at December 31, 2001.

Interest rates on securities held-for-trading ranged from 2.3% to 10.5% and from 2.8% to 14% as at December 31, 2002 and 2001, respectively.

Interest conditions and the remaining maturities of held-for-trading and available-for-sale securities can be analysed as follows:

(in HUF mn)

	2002	2001
Within five years:		
variable interest	42,837	64,260
fixed interest	15,260	18,957
	58,097	*83,217*
Over five years:		
variable interest	29,772	670
fixed interest	105,193	14,678
	134,965	*15,348*
Non-interest bearing securities	11,346	7,690
Total	**204,408**	**106,255**

NOTE 6: LOANS AND ALLOWANCE FOR POSSIBLE LOAN LOSSES

(in HUF mn)

	2002	2001
Short-term loans and trade bills (within one year)	381,364	334,740
Long-term loans and trade bills (over one year)	632,048	444,964
	1,013,412	*779,704*
Allowance for possible loan losses	– 18,418	– 19,540
	994,994	**760,164**

Foreign currency loans represent approximately 21% and 18% of the loan portfolio, before allowance for possible losses, as at December 31, 2002 and 2001, respectively.

Loans denominated in HUF, with a maturity within one year as at December 31, 2002 and 2001 bear interest rates in the range from 12.3% to 33% and from 14% to 29%, respectively.

Loans denominated in HUF, with a maturity over one year as at December 31, 2002 and 2001 bear interest rates in the range from 4% to 19.8% and from 11.1% to 21.5%, respectively.

Approximately 1.7% and 3% of the gross loan portfolio represented loans on which interest is not being accrued as at December 31, 2002 and 2001 respectively.

An analysis of the loan portfolio by type, before allowances for possible loan losses, is as follows:

	(in HUF mn) 2002		2001	
Commercial loans	555,099	55%	464,123	60%
Municipality loans	128,057	13%	55,745	7%
Housing loans	212,150	20%	149,512	19%
Consumer loans	118,106	12%	110,324	14%
	1,013,412	**100%**	**779,704**	**100%**

An analysis of the allowance for possible loan losses is as follows:

	(in HUF mn) 2002	2001
Balance as at January 1	19,540	19,816
Provision for possible loan losses	6,221	6,640
Write-offs	– 7,343	– 6,916
Balance as at December 31	**18,418**	**19,540**

The Bank regularly sells non-performing loans without recourse at estimated fair value to a wholly owned subsidiary, OTP Factoring Ltd, see Note 23.

NOTE 7: **EQUITY INVESTMENTS**

	(in HUF mn) 2002	2001
Equity investments:		
Controlling interest	51,051	36,876
Significant interest	2,623	365
Other	995	1,160
	54,669	*38,401*
Allowance for permanent diminution in value	– 5,781	– 5,226
	48,888	**33,175**

Equity investments in companies in which the Bank has a controlling interest are detailed below. All companies are incorporated in Hungary unless indicated otherwise.

	31 Dec 2002		31 Dec 2001	*(in HUF mn)*
	Held *(direct and indirect)*	**Cost**	**Held** *(direct and indirect)*	**Cost**
OTP Garancia Institute Ltd.	100.00%	7,472	100.00%	7,472
OTP Real Estate Ltd.	100.00%	1,228	100.00%	1,175
OTP Securities Ltd.	100.00%	750	100.00%	750
Merkantil Bank Ltd.	100.00%	1,600	100.00%	1,600
OTP Building Society Ltd.	100.00%	1,950	100.00%	1,950

(continued from page 90

(in HUF mn)

	31 Dec 2002 Held (direct and indirect)	31 Dec 2002 Cost	31 Dec 2001 Held (direct and indirect)	31 Dec 2001 Cost
HIF Ltd. (United Kingdom)	100.00%	1,132	100.00%	1,132
Bank Center No. 1. Ltd.	100.00%	9,364	100.00%	9,364
OTP Factoring Ltd.	100.00%	150	100.00%	150
INGA One Ltd.	100.00%	407	100.00%	407
INGA Two Ltd.	100.00%	5,892	100.00%	5,892
OTP Fund Servicing and Consulting Ltd.	100.00%	1,317	100.00%	1,317
OTP Fund Management Ltd.	100.00%	1,653	100.00%	1,653
OTP Mortgage Bank Company Ltd.	100.00%	7,100	100.00%	3,000
AIR-Invest Ltd.	100.00%	1,000	100.00%	1,000
OTP Banka Slovensko a.s. (Slovakia)	95.74%	9,970	–	–
Other	100.00%	66	100.00%	14
Total		**51,051**		**36,876**

An analysis of the change in the allowance for permanent diminution in value is as follows:

(in HUF mn)

	2002	2001
Balance as at January 1	5,226	9,055
Provision/(credit) for permanent diminution in value	555	– 3,829
Balance as at December 31	**5,781**	**5,226**

NOTE 8: **HELD-TO-MATURITY INVESTMENTS**

(in HUF mn)

	2002	2001
Government securities	345,024	376,582
Hungarian Government discounted Treasury bills	3,689	19,068
Bonds issued by National Bank of Hungary	–	2,496
Other debt securities	13,332	600
	362,045	**398,746**

Interest conditions and the remaining maturities of held-to-maturity investments can be analysed as follows:

(in HUF mn)

		2002	2001
Within five years:	variable interest	127,014	166,385
	fixed interest	145,809	157,240
		272,823	*323,625*
Over five years:	variable interest	47,333	50,661
	fixed interest	41,889	24,460
		89,222	*75,121*
Total		**362,045**	**398,746**

Approximately 99% and 97% of the debt securities portfolio was denominated in HUF as at December 31, 2002 and 2001, respectively. In most cases, interest on variable rate securities is based on the interest rates of 90 day Hungarian Government Treasury bills and is adjusted semi-annually.

Interest rates on fixed interest securities denominated in HUF ranged from 6.3% to 13% and from 7.5% to 14% as at December 31, 2002 and 2001, respectively. Interest on fixed rate and variable rate securities is, in most cases, paid semi-annually.

NOTE 9: **PREMISES, EQUIPMENT AND INTANGIBLE ASSETS**

	2002	***(in HUF mn)*** **2001**
Land and buildings	37,241	33,982
Machinery and equipment	54,609	50,319
Construction in progress	6,951	2,942
Intangible assets	32,655	26,197
	131,456	*113,440*
Accumulated depreciation and amortization	– 60,151	– 56,713
	71,305	**56,727**

NOTE 10: **OTHER ASSETS**

	2002	***(in HUF mn)*** **2001**
Receivables due to collection of Hungarian Government securities	45	113
Property held for sale	455	1,174
Due from Government for interest subsidies	876	685
Trade receivables	2,740	2,540
Advances for securities and investments	475	496
Deferred tax asset	–	22
Taxes recoverable	278	191
Inventories	724	1,015
Other advances	334	309
Credits sold under deferred payment scheme	5,931	4,447
Loans sold under deferred payment scheme to OTP Mortgage Bank Company Ltd.	15,947	–
Subsidies paid on behalf of the Government	777	408
Margin account balance	240	513
Accounts with investment funds and pension funds	12,014	84
Settlement accounts	925	1,498
Receivables from investing services	2,335	682
Prepayments and accrued incomes	2,843	1,646
Fair value adjustment of derivative financial instruments	8,469	20
Other	5,918	4,970
	61,326	*20,813*
Allowance for possible losses on other assets	– 2,418	– 1,669
	58,908	**19,144**

Allowance for possible losses on other assets mainly consists of allowances for property held for sale, credits sold under deferred payment scheme and allowances for trade receivables.

An analysis of the change in the allowance for possible losses on other assets is as follows:

(in HUF mn)

	2002	2001
Balance as at January 1	1,669	2,908
Provision/(credit) for possible losses	749	– 1,239
Balance as at December 31	**2,418**	**1,669**

NOTE 11: **DUE TO BANKS AND DEPOSITS FROM THE NATIONAL BANK OF HUNGARY AND OTHER BANKS**

(in HUF mn)

		2002	2001
Within one year:	in HUF	29,920	4,783
	in foreign currency	7,100	3,421
		37,020	*8,204*
Over one year:	in HUF	4,774	7,821
	in foreign currency	4,607	9,108
		9,381	*16,929*
Total		**46,401**	**25,133**

Due to banks and deposits from the National Bank of Hungary and other banks payable in HUF within one year as at December 31, 2002 and 2001, bear interest rates in the range from 7.5% to 9.7% and from 9.7% to 10.8%, respectively.

Due to banks and deposits from the National Bank of Hungary and other banks payable in HUF over one year as at December 31, 2002 and 2001, bear interest rates in the range from 9% to 9.5% and from 3% to 9.8%, respectively.

Due to banks and deposits from the National Bank of Hungary and other banks payable in foreign currency within one year as at December 31, 2002 and as 2001, bear interest rates in the range from 0.7% to 7.2% and from 1.1% and 2.5%, respectively.

Due to banks and deposits from the National Bank of Hungary and other banks payable in foreign currency over one year as at December 31, 2002 and 2001, bear interest rates in the range from 1.4% to 9.2% and from 1.4% to 9.2%, respectively.

NOTE 12: **DEPOSITS FROM CUSTOMERS**

(in HUF mn)

		2002	2001
Within one year:	in HUF	1,740,583	1,467,714
	in foreign currency	293,597	359,052
		2,034,180	*1,826,766*
Over one year:	in HUF	11,473	15,956
		11,473	*15,956*
Total		**2,045,653**	**1,842,722**

Deposits from customers payable in HUF within one year as at December 31, 2002 and 2001, bear interest rates in the range from 0.5% to 8% and from 0.5% to 8.5%, respectively.

Deposits from customers payable in HUF over one year as at December 31, 2002 and 2001, bear interest rates in the range from 5% to 7.6% and from 6.5% to 8.5%, respectively.

Deposits from customers payable in foreign currency as at December 31, 2002 and 2001, bear interest rates in the range from 0.1% to 1.6% and from 0.1% to 2.1%, respectively.

An analysis of deposits from customers by type, is as follows:

	2002		2001	*(in HUF mn)*
Commercial deposits	361,749	18%	267,512	15%
Municipality deposits	152,590	7%	154,925	8%
Consumer deposits	1,531,314	75%	1,420,285	77%
	2,045,653	**100%**	**1,842,722**	**100%**

NOTE 13: **LIABILITIES FROM ISSUED SECURITIES**

	2002	2001 *(in HUF mn)*
With original maturity:		
Within one year	338	538
Over one year	1,716	18
	2,054	**556**

Liabilities from issued securities are denominated in HUF at interest rates in the range from 2% to 6.3% and from 3.8% to 8.3% as at December 31, 2002 and 2001, respectively.

NOTE 14: **OTHER LIABILITIES**

	2002	2001 *(in HUF mn)*
Taxes payable	1,608	1,804
Deferred tax liabilities	193	–
Giro clearing accounts	23,541	13,942
Accounts payable	5,656	4,876
Salaries and social security payable	6,153	5,539
Liability from security trading as an agent	5,431	5,177
Allowances for possible losses on off-balance sheet commitments, contingent liabilities	5,488	3,491
Dividends payable	649	7,758
Accrued expenses	4,692	2,977
Suspense accounts	2,543	3,228
Loans for collection	1,567	967
Fair value adjustment of derivative financial instruments	3,680	841
Other	8,232	6,697
	69,433	**57,297**

The allowances for possible losses on off-balance sheet commitments and contingent liabilities are detailed as follows:

	2002	*(in HUF mn)* 2001
Allowance for litigation	1,591	779
Allowance for other off-balance sheet commitments, contingent liabilities	2,140	1,253
Other allowances for expected liabilities	1,529	1,162
Allowance for housing warranties	228	297
Balance as at December 31	**5,488**	**3,491**

The allowance for possible losses on other off-balance sheet commitments and contingent liabilities primarily relates to commitments stemming from guarantees and credit lines issued by the Bank.

As part of its operations, until 1991, the Bank financed and constructed residential accommodations for resale on which it was required to provide a ten year guarantee against defective workmanship. The Bank has recourse against the constructors for any claims. The recovery of such claims is, however, dependent upon the financial status of the constructors, which is impaired in certain cases. An allowance has been recorded to account for the estimated possible future losses due to housing warranties.

Movements in the allowance for possible losses on commitments and contingent liabilities can be summarized as follows:

	2002	*(in HUF mn)* 2001
Balance as at January 1	3,491	2,345
Provision for off-balance sheet commitments and contingent liabilities, net	2,066	1,299
Write-off of allowance for housing waranties	– 69	– 153
Balance as at December 31	**5,488**	**3,491**

NOTE 15: **SUBORDINATED BONDS AND LOANS**

In 1993, the Bank issued HUF 5 billion in bonds, which are subordinated to the other liabilities of the Bank and subscribed by the Hungarian Ministry of Finance. Interest on subordinated bonds and the frequency of payment of interests are based on condition of interest of 2013/C credit consolidated government bonds, which is a variable-rate bond, the interest payable and the rate of interest are fixed twice a year. The semi-annual interest payable was 5.57% as at December 20, 2001, 5.19% as at June 20, 2002, and 4.36% as at December 20, 2002. The original maturity was 20 years. The proceeds of the subordinated bonds were invested in Hungarian Government bonds with similar interest conditions and maturity.

In December 1996, the Bank obtained a USD 30 million and DEM 31.14 million (15.92 million in EUR) subordinated loan from the European Bank for Reconstruction and Development. The loan is unsecured, subordinate to the other liabilities and has a ten-year maturity, with interest payable at six-month LIBOR + 1.4% from December 27, 1996 until December 29, 1997, at six-month LIBOR + 1.0% from December 29, 1997 until June 28, 1999, at six-month LIBOR + 1.7% from June 28, 1999 until December 27, 2004 and at six-month LIBOR + 2.5% from December 27, 2004 until December 27, 2006.

NOTE 16: **SHARE CAPITAL**

	2002	2001
		(in HUF mn)
Authorized, issued and fully paid:		
Common shares	28,000	28,000
	28,000	**28,000**

In the first quarter of 2002 the nominal value of the common shares of the Bank has decreased from HUF 1,000 to HUF 100 per share.

From September 3, 1997, the Bank has one preferential voting share (the "Special Share") outstanding with a nominal value of HUF 1 thousand (see Note 1.1).

NOTE 17: **RETAINED EARNINGS AND RESERVES**

	2002	2001
		(in HUF mn)
Balance as at January 1	141,559	107,402
Net income after income taxes	51,901	41,168
Effect of adoption of IAS 39	–	192
(Loss)/profit on sale of Treasury Shares	– 1,102	72
Dividends	–	– 7,275
Balance as at December 31	**192,358**	**141,559**

The Bank's reserves under Hungarian Accounting Standards were HUF 177,843 million and HUF 130,515 million as at December 31, 2002 and 2001, respectively. Of these amounts, legal reserves represent HUF 34,169 million and HUF 29,450 million, respectively. The legal reserve is not available for distribution.

Dividends for the year ended December 31, 2001 represent the dividends declared by the Bank’s shareholders for shares at the Annual General Meeting in 2002.

Dividends for the year ended December 31, 2002 will be proposed at the Annual General Meeting in April 2003.

NOTE 18: **TREASURY SHARES**

	2002	2001
		(in HUF mn)
Nominal Value	1,543	1,542
Carrying Value	16,883	17,750

NOTE 19: **OTHER EXPENSES**

	2002	2001 (in HUF mn)
Provision/(credit) for permanent diminution in value of equity investments	555	– 3,829
Provision/(credit) for other assets	749	– 1,239
Provision for possible losses on off-balance sheet commitments, contingent liabilities	2,066	1,299
Administration expenses, including rent	17,960	15,696
Advertising	3,024	2,198
Taxes, other than income	7,864	6,823
Services	11,758	11,507
Professional fees	2,586	2,039
Other	2,878	2,209
	49,440	**36,703**

NOTE 20: **INCOME TAXES**

The Bank is presently liable for income tax at a rate of 18% of taxable income.

A reconciliation of the income tax is as follows:

	2002	2001 (in HUF mn)
Current tax	10,885	8,971
Deferred tax	215	268
	11,100	**9,239**

A reconciliation of the deferred tax asset/(liability) is as follows:

	2002	2001 (in HUF mn)
Balance as at January 1	22	332
Effect of adoption of IAS 39	–	– 42
Deferred tax charge	– 215	– 268
Balance as at December 31	**– 193**	**22**

A reconciliation of the income tax charge is as follows:

	2002	2001 (in HUF mn)
Net income before income taxes	63,001	50,407
Permanent differences due to movements in statutory provisions	– 3,033	– 1,731
Dividend income	– 332	– 127
Other permanent differences	2,030	2,778
Adjusted tax base	61,666	51,327
Income tax at 18%	**11,100**	**9,239**

NOTE 21: **FINANCIAL INSTRUMENTS**

A financial instrument is any contract that gives rise to the right to receive cash or another financial asset from another party (financial asset) or the obligation to deliver cash or another financial asset to another party (financial liability).

Financial instruments may result in certain risks to the Bank. The most significant risks the Bank faces include:

CREDIT RISK

The Bank takes on exposure to credit risk which is the risk that a counter-party will be unable to pay amounts in full when due. The Bank structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower, or Banks of borrowers, and to geographical and industry segments. Such risks are monitored on a revolving basis and subject to an annual or more frequent review. The exposure to any one borrower including banks and brokers is further restricted by sub-limits covering on and off-balance sheet exposures and daily delivery risk limits in relation to trading items such as forward foreign exchange contracts. Actual exposures against limits are monitored daily.

Exposure to credit risk is managed through regular analysis of the ability of borrowers and potential borrowers to meet interest and capital repayment obligations and by changing these lending limits where appropriate. Exposure to credit risk is also managed in part by obtaining collateral and corporate and personal guarantees.

MARKET RISK

The Bank takes on exposure to market risks. Market risks arise from open positions in interest rate, currency and equity products, all of which are exposed to general and specific market movements. The Bank applies a 'value at risk' methodology to estimate the market risk of positions held and the maximum losses expected, based upon a number of assumptions for various changes in market conditions. The Management Board sets limits on the value of risk that may be accepted, which is monitored on a daily basis.

LIQUIDITY RISK

See Note 27.

FOREIGN CURRENCY RISK

See Note 28.

INTEREST RATE RISK

See Note 29.

NOTE 22: **OFF BALANCE SHEET ITEMS AND DERIVATIVE FINANCIAL INSTRUMENTS**

In the normal course of business, the Bank becomes a party to various financial transactions that are not reflected on the balance sheet and are referred to as off-balance sheet financial instruments. The following represent notional amounts of these off-balance sheet financial instruments, unless stated otherwise.

A) CONTINGENT LIABILITIES AND COMMITMENTS

	2002	2001
		(in HUF mn)
Commitments to extend credit	314,127	255,630
Guarantees arising from banking activities	47,401	36,487
Confirmed letters of credit	787	3,799
Other	20,051	1
Legal disputes	4,846	3,487
Controversial local tax contingency	–	542
	387,212	*299,946*

COMMITMENTS FROM GUARANTEES AND LETTERS OF CREDIT

The primary purpose of these instruments is to ensure that funds are available to a customer as required. Guarantees and standby letters of credit, which represent irrevocable assurances that the Bank will make payments in the event that a customer cannot meet its obligations to third parties, carry the same credit risk as loans. Documentary and commercial letters of credit, which are written undertakings by the Bank on behalf of a customer authorising a third party to draw drafts on the Bank up to a stipulated amount under specific terms and conditions, are collateralised by the underlying shipments of goods to which they relate and therefore carry less risk than a direct borrowing.

Commitments to extend credit represent unused portions of authorisations to extend credit in the form of loans, guarantees or letters of credit. With respect to credit risk on commitments to extend credit, the Bank is potentially exposed to loss in an amount equal to the total unused commitments. However, the likely amount of loss is less than the total unused commitments since most commitments to extend credit are contingent upon customers maintaining specific credit standards.

Guarantees, irrevocable letters of credit and undrawn loan commitments are subject to similar credit risk monitoring and credit policies as utilised in the extension of loans. The management of the Bank believes the market risk associated with guarantees, irrevocable letters of credit and undrawn loans commitments to be minimal.

LEGAL DISPUTES

At the balance sheet date the Bank was involved in various claims and legal proceedings of a nature considered normal to its business. The level of these claims and legal proceedings correspond to the level of claims and legal proceedings in previous years.

The Bank believes that the various asserted claims and litigations in which it is involved will not materially affect its financial position, future operating results or cash flows, although no assurance can be given with respect to the ultimate outcome of any such claim or litigation.

B) DERIVATIVES

	2002	2001 *(in HUF mn)*
Foreign currency contracts		
Assets	55,869	34,488
Liabilities	58,743	35,436
	– 2,874	*– 948*
Foreign exchange swaps and interest rate swaps		
Assets	161,347	122,728
Liabilities	150,126	122,664
	11,221	*64*
Option contracts		
Assets	183,322	28,294
Liabilities	164,658	19,310
	18,664	*8,984*
Forward rate agreements		
Assets	41,700	30,768
Liabilities	26,500	30,986
	15,200	*– 218*

The Bank maintains strict control limits on net open derivative positions, i.e. the difference between purchase and sale contracts, by both amount and term. At any one time the amount subject to credit risk is limited to the current fair value of instruments that are favourable to the Bank (i.e. assets), which in relation to derivatives is only a small fraction of the contract or notional values used to express the volume of instruments outstanding. This credit risk exposure is managed as part of the overall lending limits with customers, together with potential exposures from market movements. Collateral or other security is not usually obtained for credit risk exposures on these instruments, except of trading with clients, where the Bank in most of the cases requires margin deposits.

As at 31 December 2002, the Bank has derivative instruments with positive fair values of HUF 8,469 million and negative fair values of HUF 3,680 million. Corresponding figures as at 31 December 2001 are HUF 20 million and HUF 841 million.

FOREIGN CURRENCY CONTRACTS

Foreign currency contracts are agreements to exchange specific amounts of currencies at a specified rate of exchange, at a spot date (settlement occurs two days after the trade date) or at a forward date (settlement occurs more than two days after the trade date). The notional amount of these contracts does not represent the actual market or credit risk associated with these contracts.

Foreign currency contracts are used by the Bank for risk management and trading purposes. The Bank's risk management foreign currency contracts were used to hedge against exchange rate fluctuations on loans and advances to credit institutions denominated in foreign currency.

FOREIGN EXCHANGE SWAPS AND INTEREST RATE SWAPS

The Bank enters into foreign-exchange swap and interest rate swap transactions. The swap transaction is a complex agreement concerning to the swap of certain financial instruments, which usually consist of a prompt and one or more futures contracts.

Interest rate swaps obligate two parties to exchange one or more payments calculated with reference to fixed or periodically reset rates of interest applied to a specific notional principal amount. Notional principal is the amount upon which interest rates are applied to determine the payment streams under interest rate swaps.

Such notional principal amounts often are used to express the volume of these transactions but are not actually exchanged between the counter-parties. The Bank's interest rate swaps were used for management of interest rate exposures and have been accounted for at mark-to-market fair value.

FORWARD RATE AGREEMENTS

A forward rate agreement is an agreement to settle amounts at a specified future date based on the difference between an interest rate index and an agreed upon fixed rate. Market risk arises from changes in the market value of contractual positions caused by movements in interest rates. The Bank limits its exposure to market risk by entering into generally matching or offsetting positions and by establishing and monitoring limits on unmatched positions. Credit risk is managed through approval procedures that establish specific limits for individual counterparties. The Bank's forward rate agreements were transacted for management of interest rate exposures and have been accounted for at mark-to-market fair value.

For an analysis of the allowance for possible losses on off balance sheet commitments and contingent liabilities, see Note 14.

NOTE 23: **RELATED PARTY TRANSACTIONS**

Transactions with related parties, other than increases in share capital, are summarized below:

During the years ended December 31, 2002 and 2001 the Bank sold, without recourse, non-performing loans and the related accrued interest receivable to OTP Factoring for HUF 4,961 million and HUF 1,423 million, respectively. The gross book value of such credits was HUF 12,238 million and HUF 5,564 million, respectively, with a corresponding allowance for possible loan losses of HUF 9,603 million and HUF 4,774 million, respectively. The underlying mortgage rights were also transferred to OTP Factoring. Gains or losses related to such transactions are included in the unconsolidated financial statements.

Commissions received by the Bank from OTP Securities in relation to securities transactions were HUF 86 million and HUF 806 million for the years ended December 31, 2002 and 2001, respectively. Losses recorded by the Bank from the sale of securities to OTP Secuities were HUF 120 million, and HUF 262 million for the years ended December 31, 2002, and 2001, respectively.

Commissions received by the Bank from OTP Building Society in relation to finalised customer contracts were HUF 481 million and HUF 461 million for the years ended December 31, 2002 and 2001, respectively.

Insurance premiums paid by the Bank to OTP Garancia Insurance were HUF 841 million and HUF 685 million for the years ended December 31, 2002 and 2001, respectively.

Commissions received by the Bank from OTP Fund Management in relation to custody activity were HUF 438 million and HUF 319 million in relation to trading activity were HUF 2,116 million and HUF 1,571 million for the years ended December 31, 2002 and 2001, respectively.

Commissions received by the Bank from OTP Real Estate in relation to its activity were HUF 3,071 million and HUF 1,167 million for the years ended December 31, 2002 and 2001, respectively.

The Bank sold mortgage bonds with recourse to OTP Mortgage Bank Company Ltd. for the amount of HUF 189,785 million at the year ended December 31, 2002 (including interest). The gross book value of these receivables was HUF 189,430 million.

In the normal course of business, the Bank enters into other transactions with its subsidiaries, the amounts and volumes of which are not significant to these unconsolidated financial statements taken as a whole.

The members of the Board of Directors and the Supervisory Board have a credit line of HUF 103 million as at December 31 2002. Such credit is made available at normal market conditions.

In the normal course of business, the Bank gives loans and provides services to other related parties at normal market conditions. The amount of these loans was HUF 1,762 million, with commitments to extend credit and guarantees of HUF 173 million as at December 31, 2002.

NOTE 24: **CASH AND CASH EQUIVALENTS**

(in HUF mn)

	2002	2001
Cash, due from banks and balances with the NBH	348,424	375,540
Compulsory reserve established by the NBH	– 93,067	– 107,537
	255,357	**268,003**

NOTE 25: **TRUST ACTIVITIES**

The Bank acts as a trustee for certain loans granted by companies or employers to their employees, mainly for housing purposes. The ultimate risk for these loans rests with the party advancing the funds. As these loans and related funds are not considered to be assets or liabilities of the Bank, they are on net value in the accompanying Unconsolidated Balance Sheet. The total amount of such loans managed by the Bank as a trustee amounted to HUF 27,061 million and HUF 42,843 million as at December 31, 2002 and 2001, respectively.

NOTE 26: **CONCENTRATION OF ASSETS AND LIABILITIES**

Approximately 30% and 38% of the Bank's total assets consisted of receivables from, or securities issued by, the Hungarian Government or the National Bank of Hungary as at December 31, 2002 and 2001, respectively. There were no other significant concentrations of the Bank's assets or liabilities as at December 31, 2002 and 2001, respectively.

NOTE 27: **MATURITY ANALYSIS OF ASSETS AND LIABILITIES AND LIQUIDITY RISK**

Liquidity risk is a measure of the extent to which the Bank may be required to raise funds to meet its commitments associated with financial instruments. The Bank maintains its liquidity profiles in accordance with regulations laid down by the National Bank of Hungary. The following tables provide an analysis of assets, liabilities and shareholder’s equity into relevant maturity groupings based on the remaining period from the balance sheet date to the contractual maturity date. It is presented under the most prudent consideration of maturity dates where options or repayment schedules allow for early repayment possibilities.

As at December 31, 2002

	Within 3 months	Within one year and over 3 months	Within 5 years and over one year	Over 5 years	(in HUF mn) Total
Cash, due from banks and balances with the National Bank of Hungary	346,964	1,026	307	127	348,424
Placements with other banks, net of allowance for possible placement losses	217,817	45,788	13,722	300	277,627
Securities held-for-trading and available-for-sale	9,957	6,185	53,301	134,965	204,408
Loans, net of allowance for possible loan losses	150,122	225,304	338,292	281,276	994,994
Accrued interest receivable	21,979	1,395	33	–	23,407
Investments	–	–	–	48,888	48,888
Securities held-to-maturity	24,165	56,598	192,060	89,222	362,045
Premises, equipment and intangible assets, net	–	–	28,282	43,023	71,305
Other assets	51,408	7,500	–	–	58,908
TOTAL ASSETS	**822,412**	**343,796**	**625,997**	**597,801**	**2,390,006**
Due to banks and deposits from the National Bank of Hungary and other banks	27,445	9,575	7,737	1,644	46,401
Deposits from customers	1,671,710	362,470	11,473	–	2,045,653
Liabilities from issued securities	174	164	1,716	–	2,054
Accrued interest payable	4,810	2,669	–	–	7,479
Other liabilities	61,881	6,114	1,171	267	69,433
Subordinated bonds and loans	–	–	10,511	5,000	15,511
TOTAL LIABILITIES	**1,766,020**	**380,992**	**32,608**	**6,911**	**2,186,531**
Share capital	–	–	–	28,000	28,000
Retained earnings and reserves	–	–	–	192,358	192,358
Treasury shares	–	– 16,883	–	–	– 16,883
TOTAL SHAREHOLDER'S EQUITY	–	– 16,883	–	220,358	203,475
TOTAL LIABILITIES AND SHAREHOLDER'S EQUITY	**1,766,020**	**364,109**	**32,608**	**227,269**	**2,390,006**
LIQUIDITY (DEFICIENCY)/EXCESS	**– 943,608**	**– 20,313**	**593,389**	**370,532**	**–**

As at December 31, 2001

	Within 3 months	Within one year and over 3 months	Within 5 years and over one year	Over 5 years	*(in HUF mn)* Total
Cash, due from banks and balances with the National Bank of Hungary	372,593	1,216	1,480	251	375,540
Placements with other banks, net of allowance for possible placement losses	134,070	174,421	17,499	840	326,830
Securities held-for-trading and available-for-sale	16,549	8,366	65,992	15,348	106,255
Loans, net of allowance for possible loan losses	83,379	238,835	254,903	183,047	760,164
Accrued interest receivable	20,949	5,884	120	46	26,999
Investments	–	–	–	33,175	33,175
Securities held-to-maturity	42,801	55,154	225,670	75,121	398,746
Premises, equipment and intangible assets, net	–	–	19,526	37,201	56,727
Other assets	12,418	6,726	–	–	19,144
TOTAL ASSETS	**682,759**	**490,602**	**585,190**	**345,029**	**2,103,580**
Due to banks and deposits from the National Bank of Hungary and other banks	4,346	3,858	14,499	2,430	25,133
Deposits from customers	1,491,259	335,507	15,929	27	1,842,722
Liabilities from issued securities	228	310	18	–	556
Accrued interest payable	4,536	4,234	–	–	8,770
Other liabilities	45,580	11,717	–	–	57,297
Subordinated bonds and loans	–	–	12,293	5,000	17,293
TOTAL LIABILITIES	**1,545,949**	**355,626**	**42,739**	**7,457**	**1,951,771**
Share capital	–	–	–	28,000	28,000
Retained earnings and reserves	–	–	–	141,559	141,559
Treasury shares	–	– 17,750	–	–	– 17,750
TOTAL SHAREHOLDER’S EQUITY	–	– 17,750	–	169,559	151,809
TOTAL LIABILITIES AND SHAREHOLDER’S EQUITY	**1,545,949**	**337,876**	**42,739**	**177,016**	**2,103,580**
LIQUIDITY (DEFICIENCY)/EXCESS	**– 863,190**	**152,726**	**542,451**	**168,013**	**–**

NOTE 28: **NET FOREIGN CURRENCY POSITION AND FOREIGN CURRENCY RISK**

As at December 31, 2002

	USD	EUR	Others	*(in HUF mn)* Total
Assets	155,937	173,721	53,140	382,798
Liabilities	– 112,482	– 170,049	– 34,211	– 316,742
Off-balance sheet assets and liabilities, net	– 42,961	– 4,656	– 4,067	– 51,684
Net position	**494**	**– 984**	**14,862**	**14,372**

As at December 31, 2001

(in HUF mn)	USD	EUR	Others	Total
Assets	218,353	201,450	43,680	463,483
Liabilities	– 157,717	– 187,965	– 39,200	– 384,882
Off-balance sheet assets and liabilities, net	– 59,721	– 10,241	59	– 69,903
Net position	**915**	**3,244**	**4,539**	**8,698**

The table above provides an analysis of the Bank‘s main currency exposures. The remaining currencies are shown within ‘Others’. Whilst the Bank monitors its foreign exchange position for compliance with the regulatory requirements of the National Bank of Hungary and own limit system established in respect of limits on open positions. The measuring of the Bank’s open foreign currency position involves monitoring the ‘value at risk’ limit on the foreign exchange exposure of the Bank.

NOTE 29: **INTEREST RATE RISK MANAGEMENT**

Interest rate risk is the risk that the value of a financial instrument will fluctuate due to changes in market interest rates. The length of time for which the rate of interest is fixed on a financial instrument, therefore, indicates to what extent it is exposed to interest rate risk.

The majority of the Bank's interest bearing assets and liabilities are structured to match either short-term assets and short-term liabilities, or long-term assets and liabilities with repricing opportunities within one year, or long-term assets and corresponding liabilities where repricing is performed simultaneously.

In addition, the significant spread existing between the different types of interest bearing assets and liabilities enables the Bank to benefit from a high level of flexibility in adjusting for its interest rate matching and interest rate risk exposure.

The following table presents the interest repricing dates of the Bank. Variable yield assets and liabilities have been reported according to their next repricing date. Fixed income assets and liabilities have been reported according to their maturity.

As at December 31, 2002

(in HUF mn)

ASSETS	Within 1 month		Within 3 months over 1 month		Within 1 year over 3 months		Within 2 years over 1 year		Over 2 years		Total		Total
	HUF	In foreign currency	HUF	In foreign currency	HUF	In foreign currency	HUF	In foreign currency	HUF	In foreign currency	HUF	In foreign currency	
Cash due from banks and balances with the NBH	**341,169**	**5,794**	**–**	**939**	**–**	**76**	**–**	**–**	**–**	**446**	**341,169**	**7,255**	**348,424**
fixed interest	299,113	2,224	–	197	–	–	–	–	–	446	299,113	2,867	301,980
variable interest	–	–	–	742	–	76	–	–	–	–	–	818	818
non-interest bearing	42,056	3,570	–	–	–	–	–	–	–	–	42,056	3,570	45,626
Placements with other banks	**109,433**	**107,920**	**21,500**	**7,062**	**23,780**	**7,932**	**–**	**–**	**–**	**–**	**154,713**	**122,914**	**277,627**
fixed interest	94,237	103,682	14,000	1,396	23,780	5,629	–	–	–	–	132,017	111,707	242,724
variable interest	10,800	3,029	7,500	5,666	–	2,303	–	–	–	–	18,300	10,998	29,298
non-interest bearing	4,396	1,209	–	–	–	–	–	–	–	–	4,396	1,209	5,605
Securities held-for-trading and available-for-sale	**28,861**	**240**	**14,637**	**14,631**	**27,981**	**2,252**	**177**	**3,873**	**111,485**	**271**	**183,141**	**21,267**	**204,408**
fixed interest	445	–	1,277	2,275	6,036	–	177	3,873	111,485	271	119,420	6,419	125,839
variable interest	22,697	–	13,360	12,356	21,945	2,252	–	–	–	–	58,002	14,608	72,610
non-interest bearing	5,719	240	–	–	–	–	–	–	–	–	5,719	240	5,959
Loans	**533,805**	**64,293**	**153,310**	**90,335**	**57,563**	**28,638**	**2,762**	**1,817**	**62,471**	**–**	**809,911**	**185,083**	**994,994**
fixed interest	1,983	–	9,984	–	621	2,142	91	1,297	735	–	13,414	3,439	16,853
variable interest	531,822	64,293	143,326	90,335	56,942	26,496	2,671	520	61,736	–	796,497	181,644	978,141
Securities held-to maturity	**22,697**	**–**	**131,693**	**–**	**53,509**	**2,954**	**37,509**	**–**	**111,438**	**2,245**	**356,846**	**5,199**	**362,045**
fixed interest	–	–	1,853	–	35,387	2,954	37,509	–	111,438	2,245	186,187	5,199	191,386
variable interest	22,697	–	129,840	–	18,122	–	–	–	–	–	170,659	–	170,659
FX-swap, FX-forward, FX-futures, FRA-deals included in other assets	**70,579**	**67,224**	**37,131**	**13,521**	**114,176**	**21,545**	**–**	**8,458**	**1,162**	**–**	**223,048**	**110,748**	**333,796**
fixed interest	69,532	67,224	20,551	11,952	81,576	21,545	–	8,458	1,162	–	172,821	109,179	282,000
variable interest	1,047	–	16,580	1,569	32,600	–	–	–	–	–	50,227	1,569	51,796

LIABILITIES	Within 1 month		Within 3 months over 1 month		Within 1 year over 3 months		Within 2 years over 1 year		Over 2 years		Total		Total
	HUF	In foreign currency	HUF	In foreign currency	HUF	In foreign currency	HUF	In foreign currency	HUF	In foreign currency	HUF	In foreign currency	
Due to banks and deposits with the NBH	**26,736**	**3,991**	**2,887**	**7,073**	**3,498**	**197**	**–**	**–**	**1,573**	**446**	**34,694**	**11,707**	**46,401**
fixed interest	20,850	3,097	2,300	893	3,036	197	–	–	1,573	446	27,759	4,633	32,392
variable interest	4,468	590	587	6,180	462	–	–	–	–	–	5,517	6,770	12,287
non-interest bearing	1,418	304	–	–	–	–	–	–	–	–	1,418	304	1,722
Deposits from customers	**1,669,931**	**43,941**	**49,532**	**209,817**	**21,120**	**39,839**	**11,473**	**–**	**–**	**–**	**1,752,056**	**293,597**	**2,045,653**
fixed interest	449,726	43,941	49,532	209,817	9,128	39,839	11,473	–	–	–	519,859	293,597	813,456
variable interest	1,220,205	–	–	–	11,992	–	–	–	–	–	1,232,197	–	1,232,197
Liabilities from issued securities	**339**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**1,715**	**–**	**2,054**	**–**	**2,054**
fixed interest	–	–	–	–	–	–	–	–	1,715	–	1,715	–	1,715
variable interest	339	–	–	–	–	–	–	–	–	–	339	–	339
FX-swap, FX-forward, FX-futures, FRA-deals included in other liabilities	**22,398**	**110,834**	**13,951**	**18,027**	**68,920**	**32,188**	**9,407**	**1,842**	**52,546**	**–**	**167,222**	**162,891**	**330,113**
fixed interest	21,350	110,834	13,951	18,027	68,920	32,188	9,407	1,842	52,546	–	166,174	162,891	329,065
variable interest	1,048	–	–	–	–	–	–	–	–	–	1,048	–	1,048
Subordinated bonds and loans	**–**	**–**	**–**	**–**	**5,000**	**10,511**	**–**	**–**	**–**	**–**	**5,000**	**10,511**	**15,511**
variable interest	–	–	–	–	5,000	10,511	–	–	–	–	5,000	10,511	15,511

As at December 31, 2001

(in HUF mn)

ASSETS	Within 1 month		Within 3 months over 1 month		Within 1 year over 3 months		Within 2 years over 1 year		Over 2 years		Total		Total
	HUF	In foreign currency	HUF	In foreign currency	HUF	In foreign currency	HUF	In foreign currency	HUF	In foreign currency	HUF	In foreign currency	
Cash due from banks and balances with the NBH	**358,819**	**13,774**	**–**	**–**	**–**	**2,947**	**–**	**–**	**–**	**–**	**358,819**	**16,721**	**375,540**
fixed interest	317,431	3,144	–	–	–	–	–	–	–	–	317,431	3,144	320,575
variable interest	–	–	–	–	–	2,947	–	–	–	–	–	2,947	2,947
non-interest bearing	41,388	10,630	–	–	–	–	–	–	–	–	41,388	10,630	52,018
Placements with other banks	**65,236**	**188,395**	**15,300**	**50,427**	**800**	**6,672**	**–**	**–**	**–**	**–**	**81,336**	**245,494**	**326,830**
fixed interest	53,532	172,714	15,000	40,109	800	5,023	–	–	–	–	69,332	217,846	287,178
variable interest	8,000	5,124	300	10,318	–	1,649	–	–	–	–	8,300	17,091	25,391
non-interest bearing	3,704	10,557	–	–	–	–	–	–	–	–	3,704	10,557	14,261
Securities held-for-trading and available-for-sale	**4,528**	**14,461**	**20,642**	**6,033**	**31,193**	**201**	**2,803**	**2,896**	**9,559**	**13,939**	**68,725**	**37,530**	**106,255**
fixed interest	2,937	–	5,891	31	8,166	201	2,803	2,896	9,559	13,939	29,356	17,067	46,423
variable interest	–	8,362	14,751	6,002	23,027	–	–	–	–	–	37,778	14,364	52,142
non-interest bearing	1,591	6,099	–	–	–	–	–	–	–	–	1,591	6,099	7,690
Loans	**534,345**	**103,970**	**31,979**	**37,510**	**30,845**	**21,515**	**–**	**–**	**–**	**–**	**597,169**	**162,995**	**760,164**
fixed interest	1,647	–	–	–	–	–	–	–	–	–	1,647	–	1,647
variable interest	532,053	103,856	31,979	37,510	30,845	21,515	–	–	–	–	594,877	162,881	757,758
non-interest bearing	645	114	–	–	–	–	–	–	–	–	645	114	759
Securities held-to maturity	**38,530**	**–**	**158,051**	**–**	**66,244**	**4,619**	**33,005**	**3,524**	**91,994**	**2,779**	**387,824**	**10,922**	**398,746**
fixed interest	15,834	–	5,389	–	48,137	2,603	33,005	3,524	91,994	2,779	194,359	8,906	203,265
variable interest	22,696	–	152,662	–	18,107	2,016	–	–	–	–	193,465	2,016	195,481
FX-swap, FX-forward, FX-futures, FRA-deals included in other assets	**79,075**	**42,689**	**23,307**	**17,148**	**34,248**	**17,361**	**1,029**	**56**	**–**	**–**	**137,659**	**77,254**	**214,913**
fixed interest	79,075	42,689	23,307	17,148	34,248	17,361	1,029	56	–	–	137,659	77,254	214,913

LIABILITIES	Within 1 month		Within 3 months over 1 month		Within 1 year over 3 months		Within 2 years over 1 year		Over 2 years		Total		Total
	HUF	In foreign currency	HUF	In foreign currency	HUF	In foreign currency	HUF	In foreign currency	HUF	In foreign currency	HUF	In foreign currency	
Due to banks and deposits with the NBH	**7,828**	**2,544**	**347**	**7,152**	**2,179**	**2,833**	**395**	**–**	**1,855**	**–**	**12,604**	**12,529**	**25,133**
fixed interest	750	–	347	–	1,726	–	395	–	1,855	–	5,073	–	5,073
variable interest	5,634	1,355	–	7,152	453	2,833	–	–	–	–	6,087	11,340	17,427
non-interest bearing	1,444	1,189	–	–	–	–	–	–	–	–	1,444	1,189	2,633
Deposits from customers	**1,400,282**	**54,873**	**30,387**	**279,564**	**37,045**	**24,615**	**15,956**	**–**	**–**	**–**	**1,483,670**	**359,052**	**1,842,722**
fixed interest	328,858	54,873	30,204	279,564	6,128	24,615	3,234	–	–	–	368,424	359,052	727,476
variable interest	1,071,424	–	183	–	30,917	–	12,722	–	–	–	1,115,246	–	1,115,246
Liabilities from issued securities	**556**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**556**	**–**	**556**
variable interest	556	–	–	–	–	–	–	–	–	–	556	–	556
FX-swap, FX-forward, FX-futures, FRA-deals included in other liabilities	**9,586**	**109,916**	**14,982**	**20,147**	**42,444**	**18,582**	**57**	**–**	**–**	**–**	**67,069**	**148,645**	**215,714**
fixed interest	9,586	109,916	14,982	20,147	42,444	18,582	57	–	–	–	67,069	148,645	215,714
Subordinated bonds and loans	**–**	**–**	**–**	**–**	**5,000**	**12,293**	**–**	**–**	**–**	**–**	**5,000**	**12,293**	**17,293**
variable interest	–	–	–	–	5,000	12,293	–	–	–	–	5,000	12,293	17,293

NOTE 30: **EARNINGS PER SHARE**

Earnings per share attributable to the Bank's common shares are determined based on dividing income after income taxes for the year attributable to common shareholders, after the deduction of declared preference dividends, by the weighted average number of common shares outstanding during the year.

	2002	2001
Income after income taxes (in HUF mn)	51,901	41,168
Weighted average number of common shares outstanding during the year for calculating basic EPS (piece)	263,700,791	26,341,861
Basic earnings per share (in HUF)	**197**	**1,563**
Weighted average number of common shares outstanding during the year for calculating diluted EPS (piece)	264,488,644	26,399,522
Diluted earnings per share (in HUF)	**196**	**1,559**

The weighted average number of common shares outstanding during the period does not include own shares held.

In the first quarter of the year of 2002 the nominal value of the common shares of the Bank has decreased from HUF 1,000 to HUF 100 per share.

NOTE 31: **RECONCILIATION OF FINANCIAL STATEMENTS PREPARED UNDER HUNGARIAN ACCOUNTING STANDARDS AND FINANCIAL STATEMENTS PREPARED UNDER IAS**

(in HUF mn)

	Retained Earnings and Reserves Jan. 1, 2002	Net Income for the year ended Dec. 31, 2002	Dividends	Direct Movements on Reserves	Retained Earnings and Reserves Dec. 31, 2002
Hungarian financial statements	**130,515**	**47,198**	**–**	**131**	**177,844**
Adjustments to Hungarian financial statements:					
Reversal of statutory general provision	10,929	3,324	–	–	14,253
Premium and discount amortization on investment securities	– 3	– 45	–	–	– 48
Allowance for possible loan losses	– 1,340	–	–	–	– 1,340
Allowance for possible losses on off-balance sheet commitments and contingent liabilities	– 297	69	–	–	– 228
Increase of investment in subsidiary	1,012	–	–	–	1,012
Difference in accounting for finance leases	149	– 486	–	–	– 337
Fair value adjustment of held-for-trading and available-for-sale financial assets (IAS 39)	532	2,949	–	–	3,481
Fair value adjustment of derivative financial instruments (IAS 39)	– 502	– 1,252	–	–	– 1,754
Loss on sale of Treasury Shares	–	1,102	–	– 1,102	–
Revesal of negative goodwill	–	– 572	–	–	– 572
Revaluation of investments denominated in foreign currency to historical cost	–	281	–	–	281

(continued from 108 page) *(in HUF mn)*

	Retained Earnings and Reserves Jan. 1, 2002	Net Income for the year ended Dec. 31, 2002	Dividends	Direct Movements on Reserves	Retained Earnings and Reserves Dec. 31, 2002
Difference in accounting for repo transactions	–	– 41	–	–	– 41
Reclassification of direct charges (self-revision)	–	– 411	–	411	–
Deferred taxation	22	– 215	–	–	– 193
Reclassification of direct charge related to local tax	542	–	–	– 542	–
International financial statements	**141,559**	**51,901**	**–**	**– 1,102**	**192,358**

Deloitte & Touche
Auditing and Consulting Ltd.
Nádor u. 21.
H-1051 Budapest
Hungary
P.O. Box 503
H-1397 Budapest
Hungary

Tel: +36 (1) 428-6800
Fax: +36 (1) 428-6801
www.deloittece.com

Deloitte & Touche

INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying consolidated balance sheets of National Savings and Commercial Bank Ltd. and its subsidiaries ("the Bank") as at December 31, 2002 and 2001, and the related consolidated statements of operations, cash flows and changes in shareholders' equity for the years then ended, included on pages 111 to 140 of this Annual Report. These consolidated financial statements are the responsibility of the Bank's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with International Standards on Auditing. 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 statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion the consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Bank as at December 31, 2002 and 2001, and the consolidated results of its operations, cash flows and changes in shareholders' equity for the years then ended in accordance with International Financial Reporting Standards.

Budapest, April 14, 2003

Deloitte + Touche

Deloitte & Touche

Deloitte
Touche
Tohmatsu

BALANCE SHEET

(consolidated, based on IAS) as at 31 December 2002 and 2001 in HUF mn

	2002	2001
Cash, due from banks and balances with the National Bank of Hungary	355,440	381,773
Placements with other banks, net of allowance for possible placement losses	295,892	332,088
Securities held-for-trading and available-for-sale	220,091	228,563
Loans, net of allowance for possible loan losses	1,280,710	771,334
Accrued interest receivable	26,195	29,797
Equity investments	5,464	2,816
Securities held-to-maturity	352,916	401,603
Premises, equipment and intangible assets, net	93,568	73,334
Other assets	86,315	68,337
TOTAL ASSETS	**2,716,591**	**2,289,645**
Due to banks and deposits from the National Bank of Hungary and other banks	79,060	36,952
Deposits from customers	2,151,169	1,891,512
Liabilities from issued securities	84,862	40,074
Accrued interest payable	12,627	12,626
Other liabilities	149,345	123,902
Subordinated bonds and loans	15,511	17,293
TOTAL LIABILITIES	2,492,574	2,122,359
Share capital	28,000	28,000
Retained earnings and reserves	223,412	165,643
Treasury shares	– 27,800	– 26,357
TOTAL SHAREHOLDER'S EQUITY	223,612	167,286
MINORITY INTEREST	405	–
TOTAL LIABILITIES AND SHAREHOLDER'S EQUITY	**2,716,591**	**2,289,645**

The accompanying notes to consolidated financial statements on pages 114 to 140 form an integral part of these consolidated financial statements.

PROFIT AND LOSS ACCOUNT

(consolidated, based on IAS) as at 31 December 2002 and 2001 in HUF mn

	2002	2001
INTEREST INCOME		
Loans	129,711	104,722
Placements with other banks	26,653	17,584
Due from banks and balances with the National Bank of Hungary	19,251	33,359
Securities held-for-trading and available-for-sale	21,879	16,632
Securities held-to-maturity	32,822	41,165
TOTAL INTEREST INCOME	*230,316*	*213,462*
INTEREST EXPENSES		
Due to banks and deposits from the National Bank of Hungary and other banks	6,440	3,276
Deposits from customers	85,441	91,884
Liabilities from issued securities	3,193	3,189
Subordinated bonds and loans	963	1,391
Other	4	234
TOTAL INTEREST EXPENSES	*96,041*	*99,974*
Net Interest Income	**134,275**	**113,488**
Provision for possible loan and placement losses	8,817	6,152
Net Interest Income after Provision for Possible Loan and Placement Losses	**125,458**	**107,336**
NON-INTEREST INCOME		
Fees and commissions	63,618	49,233
Foreign exchange losses and gains, net	– 2,768	3,067
Gains and losses on securities, net	1,062	– 255
Gains and losses on real estate transactions, net	809	2,244
Dividend income	600	673
Insurance premiums	49,715	38,975
Other	11,545	5,033
TOTAL NON-INTEREST INCOME	*124,581*	*98,970*
NON-INTEREST EXPENSES		
Fees and commissions	12,965	9,094
Personnel expenses	50,241	41,366
Depreciation and amortization	17,021	15,017
Other	96,684	80,324
TOTAL NON-INTEREST EXPENSES	*176,911*	*145,801*
Income before income taxes	**73,128**	**60,505**
Income taxes	– 13,952	– 11,552
Net income after income taxes	**59,176**	**48,953**
Minority interest	55	–
Net income	**59,231**	**48,953**
Consolidated earnings per share (in HUF)		
basic	231	1,912
diluted	231	1,907

The accompanying notes to consolidated financial statements on pages 114 to 140 form an integral part of these consolidated financial statements.

STATEMENT OF CASH-FLOW

(consolidated, based on IAS) as at 31 December 2002 and 2001 in HUF mn

	2002	2001
OPERATING ACTIVITIES		
Net income before income taxes	73,128	60,505
Adjustments to reconcile Net Income before income taxes to net cash provided by operating activities		
Income tax paid	– 15,436	– 12,449
Depreciation and amortization	17,021	15,017
Provision for possible loan and placement losses	8,817	6,152
Provision for permanent diminution in value of held-to-maturity investments	26	–
Credit for permanent diminution in value of equity investments	– 1,548	– 1,340
Credit for possible losses on other assets	– 1,317	– 353
Provision for possible losses on off-balance sheet commitments and contingent liabilities, net	2,355	2,145
Net income from accounting for associates under the equity method of accounting	160	131
Net increase in insurance reserves	16,316	12,437
Unrealised gains on fair value adjustment of securities held-for-trading and available-for-sale	– 369	– 687
Unrealised (gains)/losses on fair value adjustment of derivative financial instruments	– 5,610	796
Effect of deferred taxes	82	464
Minority interest	55	–
Changes in operating assets and liabilities		
Net decrease/(increase) in accrued interest receivable	3,928	– 1,317
Net increase in other assets, excluding advances for investments and before allowance for possible losses	– 12,410	– 13,692
Net decrease in accrued interest payable	– 730	– 1,012
Net increase/(decrease) in other liabilities	10,201	– 5,726
Net Cash Provided by Operating Activities	**94,669**	**61,071**
INVESTING ACTIVITIES		
Net decrease/(increase) in placements with other banks, before provision for possible placement losses	48,522	– 115,721
Net decrease/(increase) in securities held-for-trading and available-for-sale, before unrealised gains or losses	32,265	– 40,661
Net (increase)/decrease in equity investments, before provision for permanent diminution in value	– 861	931
Purchase of investment in subsidiary, net	– 3,288	–
Net decrease/(increase) in debt securities held-to-maturity	48,740	– 38,225
Net decrease in advances for investments, included in other assets	17	38
Net increase in loans, before provision for possible loan losses	– 448,152	– 141,697
Net additions to premises, equipment and intangible assets	– 31,791	– 18,254
Net Cash Used in Investing Activities	**– 354,548**	**– 353,589**
FINANCING ACTIVITIES		
Net increase/(decrease) in due to banks and deposits from the National Bank of Hungary and other banks	6,815	– 14,993
Net increase in deposits from customers	194,716	193,546
Net increase in liabilities from issued securities	43,590	9,629
Decrease in subordinated bonds and loans	– 1,782	– 467
Minority interest	24	–
(Loss)/Profit on sale of treasury shares	– 1,102	72
Foreign currency translation losses	– 360	– 84
Increase in treasury shares	– 1,443	– 7,501
Net decrease in compulsory reserves at National Bank of Hungary	15,055	77,955
Dividends paid	– 6,912	– 3,404
Net Cash Provided by Financing Activities	**248,601**	**254,753**
Net Decrease in Cash and Cash Equivalents	**– 11,278**	**– 37,765**
Cash and cash equivalents at the beginning of the year	***271,504***	***309,269***
Cash and Cash Equivalents at end of the year	**260,226**	**271,504**

The accompanying notes to consolidated financial statements on pages 114 to 140 form an integral part of these consolidated financial statements.

STATEMENT OF CHANGES IN SHAREHOLDER'S EQUITY

(consolidated, based on IAS) as at 31 December 2002 and 2001 in HUF mn

	Share Capital	Retained Earnings Reserves	Treasury Shares	Total
Balance as at January 1, 2001	28,000	123,504	– 18,856	132,648
Net income	–	48,953	–	48,953
Profit on sale of treasury shares	–	72	–	72
Change in carrying value of treasury shares	–	–	– 7,501	– 7,501
Dividends declared on common shares	–	– 7,050	–	– 7,050
Effects of adoption of IAS 39	–	248	–	248
Foreign currency translation gain	–	– 84	–	– 84
Balance as at December 31, 2001	**28,000**	**165,643**	**– 26,357**	**167,286**
Net income	–	59,231	–	59,231
Loss on sale of treasury shares	–	– 1,102	–	– 1,102
Change in carrying value of treasury shares	–	–	– 1,443	– 1,443
Foreign currency translation gain	–	– 360	–	– 360
Balance as at December 31, 2002	**28,000**	**223,412**	**– 27,800**	**223,612**

The accompanying notes to consolidated financial statements on pages 114 to 140 form an integral part of these consolidated financial statements.

NOTES TO FINANCIAL STATEMENTS

NOTE 1: **ORGANIZATION AND BASIS OF CONSOLIDATED FINANCIAL STATEMENTS**

1.1. GENERAL

National Savings and Commercial Bank Ltd. (the "Bank" or "OTP") was established on December 31, 1990, when the predecessor State-owned company was transformed into a limited liability company.

As at December 31, 1994, 79% of the Bank's shares were held directly or indirectly by the Hungarian Government and the remaining 21% were held by domestic investors or represented as own shares (less than 3%). In spring 1995, 20% of the shares were transferred by the Hungarian Government to the Hungarian Social Security Funds. Subsequent to the successful privatization of the Bank by a public offering in summer 1995, the Bank's shares were introduced to the Budapest and the Luxembourg stock exchanges and were also listed on SEAQ London and PORTAL (USA).

At an extraordinary General Assembly, on September 3, 1997, the Bank issued a preferential voting share with a nominal value of HUF 1 thousand (the "Special Share") to the State Privatization and Holding Company. The Special Share gives the power to the State Privatization and Holding Company to control the outcome of certain shareholder votes in accordance with the Bank's Articles of Association and the right to delegate one member to the Bank's Board of Directors and one member to the Supervisory Board of the Bank.

By public offerings in fall 1997 and fall 1999, the State Privatization and Holding Company sold the remaining common shares.

The Annual General Meeting on April 25, 2001 approved resolution No. 6/1/2001 concerning the conversion of HUF 1,150 million nominal value preference shares issued by the Bank to common shares.

As at December 31, 2002 approximately 91.7% of the Bank's shares were held by domestic and foreign private and institutional investors. The remaining shares are owned by employees, leading officials (2.8%) and the Bank (5.5%).

The Bank provides a full range of commercial banking services through a nationwide network of 427 branches in Hungary.

1.2. ACCOUNTING

The Bank and its subsidiaries (together the "Group") maintain their accounting records and prepare their statutory accounts in accordance with the commercial, banking and fiscal regulations prevailing in Hungary.

The Group's functional currency is the Hungarian Forint ("HUF").

Some of the accounting principles prescribed for statutory purposes are different from those generally recognized in international financial markets. Certain adjustments have been made to the Bank's Hungarian unconsolidated statutory accounts (see note 31), in order to present the unconsolidated financial position and results of operations of the Bank in accordance with all standards and interpretations approved by the International Accounting Standards Board (IASB), which are referred to as International Financial Reporting Standards (IFRS). These standards and interpretations were previously called International Accounting Standards.

Effective as of January 1, 2001 the Group adopted IAS 39 – "Financial Instruments: Recognition and Measurement". Revisions to a number of other IAS also took effect in the financial statements of the year of 2001. Those revisions concerned matters of detailed application which have no significant effects on amounts reported in the current or prior accounting periods.

IAS 39 has introduced a comprehensive framework of accounting for all financial instruments. The Group's detailed accounting policies in respect of such instruments are set out below. The principal effects of the adoption of IAS 39 have been that all of the Group's investments in securities classified as held-for-trading or available-for-sale are now carried at fair value and that derivative financial instruments have been brought on balance sheet. The effects of the remeasurement of investments to fair value and bringing the derivative financial instruments on-balance sheet at fair value have been recognised with effect from January 1, 2001.

The effects on retained earnings and reserves on adoption can be summarised as follows (in HUF millions):

Excess of fair value of securities held-for-trading and available-for-sale over cost	314
Net fair value of derivatives not designated as hedging instruments	– 12
Effect of deferred taxation	– 54
Adjustment as of January 1, 2001	**248**

Subsequent remeasurements to fair value are recorded in the Consolidated Statement of Operations.

NOTE 2: **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

Significant accounting policies applied in the preparation of the accompanying consolidated financial statements are summarized below:

2.1. BASIS OF PRESENTATION

These consolidated financial statements have been prepared under the historical cost convention with the exception of certain financial instruments, which are recorded on fair value. Revenues and expenses are recorded in the period in which they are earned or incurred.

2.2. FOREIGN CURRENCY TRANSLATION

Assets and liabilities denominated in foreign currencies are translated into HUF at exchange rates quoted by the National Bank of Hungary ("NBH") as of the date of the consolidated financial statements. Income and expenses arising in foreign currencies are converted at the rate of exchange on the transaction date. Resulting foreign exchange gains or losses are recorded in the Consolidated Statement of Operations.

Net differences resulting from translating foreign currency financial statements of consolidated subsidiaries are presented as an element of retained earnings and reserves in the Consolidated Balance Sheet.

2.3. PRINCIPLES OF CONSOLIDATION

Included in these consolidated financial statements are the accounts of those subsidiaries in which the Bank holds a controlling interest. The list of the major fully consolidated subsidiaries, the percentage of issued capital owned by the Bank and the description of their activities is provided in Note 26. However, certain subsidiaries in which the Bank holds a controlling interest have not been consolidated in accordance with IAS because it is either intended that the shares shall be disposed of in the near future or the effect of consolidating such companies is immaterial to the consolidated financial statements as a whole (see Note 2.9.).

2.4. ACCOUNTING FOR ACQUISITIONS

Upon acquisition, subsidiaries are accounted for under the fair value method of accounting. Any goodwill or negative goodwill arising on acquisition is recognized in the consolidated balance sheet and accounted for as indicated below.

Goodwill, which represents the residual cost of the acquisition after recognizing the acquirer's interest in the fair value of the identifiable assets and liabilities acquired, is held as an intangible asset and amortized to the consolidated Statement of Operations, in anticipation of future economic benefits, on a straight-line basis over a period not exceeding five years or until the date of disposal of the acquired company, whichever is shorter. The value of any goodwill held in the consolidated balance sheet is reassessed on an annual basis, determined on the basis of specific identification of the investment. If it is no longer probable that the goodwill will be recovered from future economic benefits, it is recognized immediately as an expense.

The excess, as at the date of the exchange transaction, of the Bank’s interest in the fair values of the identifiable assets and liabilities acquired over the cost of the acquisition, is recognised as negative goodwill.

The extent that negative goodwill relates to expectations of future losses and expenses that are identified in the Bank’s plan for the acquisition and can be measured reliably, but which do not represent identifiable liabilities at the date of acquisition, that portion of negative goodwill is recognised as income in the consolidated income statement when the future losses and expenses are recognised. To the extent that negative goodwill does not relate to identifiable expected future losses and expenses that can be measured reliably at the date of acquisition, negative goodwill is recognised as income on a systematic basis over the remaining weighted average useful life of the identifiable acquired depreciable/amortisable assets.

2.5. DEBT SECURITIES HELD-TO-MATURITY

Investments in securities are accounted on a settlement date basis and are initially measured at cost. At subsequent reporting dates, debt securities that the Group has the expressed intention and ability to hold to maturity (held-to-maturity debt securities) are measured at amortised cost, less any impairment losses recognised to reflect irrecoverable amounts. The annual amortisation of any discount or premium on the acquisition of a held-to-maturity debt securities is aggregated with other investment income receivable over the term of the investment so that the revenue recognised in each period represents a constant yield on the investment.

Held-to-maturity investments include securities, which the Group is able and has the intent to hold to maturity. Such securities comprise mainly securities issued by the Hungarian Government.

2.6. SECURITIES HELD-FOR-TRADING AND AVAILABLE-FOR-SALE

Investments in securities are accounted on a settlement date basis and are initially measured at cost. Held-for-trading and available-for-sale investments are measured at subsequent reporting dates at fair value and unrealised gains and losses are included in the Consolidated Statement of Operations for the period. Such securities consist of discounted and interest bearing Treasury bills, Hungarian Government bonds, bonds issued by National Bank of Hungary (NBH) and other securities. Other securities include shares in commercial companies, shares in investment funds, bonds issued by companies and foreign governments and mortgage bonds issued by other financial institutions.

Available-for-sale securities are remeasured at fair value based on quoted prices or amounts derived from cash flow models. In circumstances where the quoted market prices are not readily available, the fair value of debt securities is estimated using the present value of future cash flows and the fair value of unquoted equity instruments is estimated using applicable price/earnings or price/cash flow ratios refined to reflect the specific circumstances of the user.

Those held-for-trading and available-for-sale financial assets that do not have a quoted market price and whose fair value cannot be reliably measured by other models mentioned above, are measured at cost, less allowance for permanent diminution in value, when appropriate.

2.7. LOANS, PLACEMENTS WITH OTHER BANKS AND ALLOWANCE FOR POSSIBLE LOAN AND PLACEMENT LOSSES

Loans and placements with other banks are stated at the principal amounts outstanding, net of allowance for possible loan or placements losses, respectively. Interest is accrued and credited to income based on the principal amount outstanding. When a borrower is unable to meet payments as they become due or, in the opinion of the management, there is an indication that a borrower may be unable to meet payments as they become due, all unpaid interests are reversed. Loan origination fees and costs are recognized in the Consolidated Statement of Operations in full at the time of the loan origination.

The allowances for possible loan and placement losses are maintained at levels adequate to absorb probable future losses. Management determines the adequacy of the allowances based upon reviews of individual loans and placements, recent loss experience, current economic conditions, the risk characteristics of the various categories of loans and other pertinent factors.

2.8. SALE AND REPURCHASE AGREEMENTS

Where debt or equity securities are sold under a commitment to repurchase them at a pre-determined price, they remain on the balance sheet and the consideration received is recorded in Other liabilities. Conversely, debt or equity securities purchased under a commitment to resell are not recognised in the balance sheet and the consideration paid is recorded in Other assets. Interest is accrued evenly over the life of the repurchase agreement.

2.9. EQUITY INVESTMENTS

Companies where the Bank has a significant interest are accounted for using the equity method. However, certain associated companies in which the Bank holds a significant interest have not been accounted for in accordance with the equity method because the effect of using the equity method to account for such companies is immaterial to the consolidated financial statements as a whole. From January 1, 2001 shares which it is intended shall be disposed of are included among securities available for sale.

Unconsolidated subsidiaries, associated companies that were not accounted for using the equity method and other investments where the Bank does not hold a controlling or significant interest are recorded at the cost of acquisition, less allowance for permanent diminution in value, when appropriate.

Gains and losses on the sale of equity investments are determined on the basis of the specific identification of the cost of each investment.

2.10. PREMISES, EQUIPMENT AND INTANGIBLE ASSETS

Premises, equipment and intangible assets are stated at cost, less accumulated depreciation and amortization. Depreciation and amortization are computed using the straight-line method over the estimated useful lives of the assets based on the following annual percentages:

Buildings	1–6%
Machinery and equipment	8–33.3%
Vehicles	14.5–33%
Leased assets	16.7–33.3%
Goodwill	20%
Software	14.5–33.3%
Property rights	16.7–33%

Depreciation and amortization on premises, equipment and intangible assets commences on the day such assets are placed into service.

At each balance sheet date, the Group reviews the carrying value of its tangible and intangible assets to determine if there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated to determine the extent (if any) of the impairment loss. Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

Where the carrying value of premises, equipment and other tangible fixed assets is greater than the estimated recoverable amount, it is written down immediately to the estimated recoverable amount.

2.11. LEASES

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

The Group as lessor

Amounts due from lessees under finance leases are recorded as receivables at the amount of the Group's net investment in the lease. Finance lease income in allocated to accounting periods so as to reflect a constant rate of return on the Group's net investment outstanding in respect of the leases.

Rental income from operating leases is recognised on a straight-line basis over the term of the relevant lease.

The Group as lessee

Assets held under finance leases are recognised as assets of the Group at their fair value at the date of acquisition. The corresponding liability to the lessor is included in the Consolidated Balance Sheet as a finance lease obligation. Finance costs, which represent the difference between the total leasing commitments and the fair value of the assets acquired, are charge to the Consolidated Statement of Income over the term of the relevant lease so as to produce a constant periodic rate of charge on the remaining balance of the obligations for each accounting period.

Rentals payable under operating leases are charged to the Consolidated Statement of Income on a straight-line basis over the terms of the relevant lease.

2.12. PROPERTIES HELD FOR RESALE

Properties held for resale are accounted for at historical cost less allowance for permanent diminution in value and are included in other assets in the Consolidated Balance Sheet. Properties held for resale include property held for sale in the normal course of business as a result of construction or development, real estate held due to work out of loans and property acquired exclusively with a view to subsequent disposal in the near future.

2.13. INSURANCE RESERVES

Insurance reserves are accrued for liabilities from life and non-life insurance contracts and are included in other liabilities. The level of such reserves reflects the amount of future liabilities expected as at the date of the consolidated financial statements. The provision for outstanding claims and claim settlement expenses for non-life policies are based upon estimates of the expected losses for all classes of business. The reserve includes reported claims, claims incurred but not reported and claim adjustment expenses. This provision takes into account mortality factors within Hungary and is based upon mortality tables approved by the Hungarian Financial Supervisory Authority.

2.14. TREASURY SHARES

Treasury shares are purchased on the stock exchange and the over-the-counter market by the Bank and its subsidiaries and are presented in the Consolidated Balance Sheet as a deduction from consolidated shareholder's equity.

Gains and losses on the sale of treasury shares are credited or charged directly to consolidated retained earnings and reserves.

2.15. INCOME TAXES

The annual taxation charge is based on the tax payable under Hungarian fiscal law, adjusted for deferred taxation.

Deferred taxation is provided on temporary differences in the tax bases of assets and liabilities and their carrying value for financial reporting purposes, measured at the tax rates that are expected to apply when the asset is realized or the liability is settled, based on tax rates that have been enacted at the date of the Consolidated Balance Sheet.

2.16. OFF-BALANCE SHEET COMMITMENTS AND CONTINGENT LIABILITIES

In the ordinary course of its business, the Group has entered into off-balance sheet commitments such as guarantees, commitments to extend credit and letters of credit and transactions with financial instruments. The allowance for possible losses on commitments and contingent liabilities is maintained at a level adequate to absorb probable future losses. Management determines the adequacy of the allowance based upon reviews of individual items, recent loss experience, current economic conditions, the risk characteristics of the various categories of transactions and other pertinent factors.

The Group recognises an allowance when it has a present obligation as a result of a past event; it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation; and a reliable estimate can be made of the obligation.

2.17. DERIVATIVE FINANCIAL INSTRUMENTS

In the normal course of business, the Group is a party to contracts for derivative financial instruments, which represent a very low initial investment compared to the notional value of the contract. The derivative financial instruments used include interest rate forward or swap agreements and currency swaps. These financial instruments are used by the Group to hedge interest rate risk and currency exposures associated with its transactions in the financial markets.

Derivative financial instruments are initially recognised at cost and subsequently are remeasured at their fair value. Fair values are obtained from quoted market prices, discounted cash flow models and options pricing models as appropriate. Changes in the fair value of derivative financial instruments that do not qualify for hedge accounting are recognised in the Consolidated Statement of Operations as they arise. All derivatives are carried as assets when fair value is positive and as liabilities when fair value is negative.

Changes in the fair value of derivatives that are designated and qualify as fair value hedges and that prove to be highly effective in relation to the hedged risk, are recorded in the profit Consolidated Statement of Operations along with the corresponding change in fair value of the hedged asset or liability that is attributable to the specific hedged risk. The ineffective element of the hedge is charged directly to the Consolidated Statement of Operations.

Changes in fair value of derivatives that are designated and qualify as cash flow hedges and that prove to be highly effective in relation to hedged risk, are recognised in the reserve among consolidated shareholder's equity. Amounts deferred in equity are transferred to the Consolidated Statement of Operations and classified as revenue or expense in the periods during which the hedged assets and liabilities affect the result for the period. The ineffective element of the hedge is charged directly to the Consolidated Statement of Operations.

Certain derivative transactions, while providing effective economic hedges under the Group's risk management positions, do not qualify for hedge accounting under the specific rules of IAS 39 and are therefore treated as derivatives held-for-trading with fair value gains and losses charged directly to the Consolidated Statement of Operations.

2.18. CONSOLIDATED STATEMENT OF CASH FLOW

For the purposes of reporting consolidated cash flows, cash and cash equivalents include cash, due from banks and balances with the National Bank of Hungary, excluding compulsory reserve established by the National Bank of Hungary. Consolidated cash flows from hedging activities are classified in the same category as the item being hedged.

2.19. SEGMENTAL REPORTING

Condensed financial statements of subsidiaries, representing segments of business, other than banking, are not presented due to their immateriality to the consolidated financial statements as a whole.

2.20. COMPARATIVE FIGURES

Certain other amounts in the 2001 consolidated financial statements have been reclassified to conform to current year presentation.

NOTE 3: CASH, DUE FROM BANKS AND BALANCES WITH THE NATIONAL BANK OF HUNGARY

(in HUF mn)

		2002	2001
Cash on hand:	in HUF	42,114	38,811
	in foreign currency	3,570	10,631
		45,684	*49,442*
Due from banks and balances with the National Bank of Hungary:			
Within one year:	in HUF	306,003	326,173
	in foreign currency	3,319	4,427
		309,322	*330,600*
Over one year:	in foreign currency	434	1,731
Total		**355,440**	**381,773**

Based on the requirements for compulsory reserve set by the National Bank of Hungary, the balance of compulsory reserves maintained by the Group amounted to approximately HUF 95,214 million and HUF 110,269 million as at December 31, 2002 and 2001, respectively.

NOTE 4: PLACEMENTS WITH OTHER BANKS, NET OF ALLOWANCE FOR POSSIBLE PLACEMENT LOSSES

(in HUF mn)

		2002	2001
Within one year:	in HUF	148,158	78,764
	in foreign currency	134,175	235,455
		282,333	*314,219*
Over one year:	in HUF	8,000	8,000
	in foreign currency	5,722	10,039
		13,722	*18,039*
		296,055	**332,258**
Allowance for possible placement losses		– 163	– 170
Total		**295,892**	**332,088**

Placements with other banks in foreign currency as at December 31, 2002 and 2001 bear interest rates in the range from 0.1% to 9.2% and from 1.0% to 6.5%, respectively.

Placements with other banks in HUF as at December 31, 2002 and 2001 bear interest rates in the range from 7.5% to 11.2% and from 8.3% to 11.3%, respectively.

An analysis of the change in the allowance for possible placement losses is as follows:

(in HUF mn)

	2002	2001
Balance as at January 1	170	183
Credit for possible placement losses	– 7	– 13
Balance as at December 31	**163**	**170**

NOTE 5: **SECURITIES HELD-FOR-TRADING AND AVAILABLE-FOR-SALE**

	2002	(in HUF mn) 2001
Held-for-trading securities:		
Hungarian Government discounted Treasury bills	46,335	36,510
Hungarian Government interest bearing Treasury bills	1,945	1,352
Government bonds	60,837	38,059
Bonds issued by National Bank of Hungary	–	27,230
Other securities	7,615	9,573
	116,732	*112,724*
Available-for-sale securities:		
Government bonds	74,747	75,281
Other bonds	23,660	18,516
Mortgage bonds	331	330
Other securities	4,621	21,712
	103,359	*115,839*
Total	**220,091**	**228,563**

Approximately 85% and 83% of the held-for-trading and available-for-sale securities portfolio was denominated in HUF as at December 31, 2002 and 2001, respectively.

Approximately 12% and 13% of the government bonds were denominated in foreign currency as at December 31, 2002 and 2001, respectively. Approximately 15.4%, 11%, 0.2%, 2.3% and 71.1% of this portfolio was denominated in USD, JPY, EUR, GBP and other currencies as at December 31, 2002 and 77.3%, 13.1%, 8.3% and 1.3% of this portfolio was denominated in USD, JPY, EUR and GBP as at December 31, 2001.

Interest rates on securities held-for-trading are ranged from 2.3% to 13% and from 2.8% to 14% as at December 31, 2002 and 2001, respectively.

Interest conditions and the remaining maturities of held-for-trading and available-for-sale financial assets can be analyzed as follows:

	2002	(in HUF mn) 2001
Within five years:		
with variable interest	50,669	66,966
with fixed interest	103,242	110,826
	153,911	*177,792*
Over five years:		
with variable interest	17,950	1,360
with fixed interest	26,215	17,440
	44,165	*18,800*
Non-interest bearing securities	22,015	31,971
Total	**220,091**	**228,563**

NOTE 6: LOANS, NET OF ALLOWANCE FOR POSSIBLE LOAN LOSSES

	2002	2001
		(in HUF mn)
Loans and trade bills within one year	401,895	342,822
Loans and trade bills over one year	935,050	478,883
	1,336,945	*821,705*
Allowance for possible loan losses	– 56,235	– 50,371
Total	**1,280,710**	**771,334**

Foreign currency loans represent approximately 18% and 13% of the total loan portfolio, before allowance for possible losses, as December 31, 2002 and 2001, respectively.

Loans denominated in HUF, with maturity within one year as at December 31, 2002 and 2001, bear interest rates in the range from 9.5% to 33% and from 6% to 29%, respectively.

Loans denominated in HUF, with maturity over one year as at December 31, 2002 and 2001, bear interest rates in the range from 4% to 20% and from 6% to 22.1%, respectively.

Approximately 6.3% and 6.6% of the gross loan portfolio represented loans on which interest is not being accrued as at December 31, 2002 and 2001, respectively.

An analysis of the loan portfolio by type, before allowance for possible loan losses, is as follows:

	2002		2001	
				(in HUF mn)
Commercial loans	629,309	47%	460,298	56%
Municipality loans	128,255	10%	55,809	7%
Housing loans	411,838	31%	156,237	19%
Consumer loans	167,543	12%	149,361	18%
	1,336,945	**100%**	**821,705**	**100%**

An analysis of the change in the allowance for possible loan losses is as follows:

	2002	2001
		(in HUF mn)
Balance as at January 1	50,371	50,101
Provision for possible loan losses	8,824	6,165
Write-offs	– 2,960	– 5,895
Balance as at December 31	**56,235**	**50,371**

NOTE 7: EQUITY INVESTMENTS

	2002	2001
		(in HUF mn)
Equity investments:		
Unconsolidated subsidiaries	1,450	1,217
Associated companies	4,357	3,391
Other	1,194	1,293
	7,001	*5,901*
Allowance for permanent diminution in value	– 1,537	– 3,085
	5,464	**2,816**
Total assets of unconsolidated subsidiaries	**4,738**	**4,011**

As at December 31, 2002 and 2001, except as follows all investments are in companies incorporated in Hungary. As at December 31, 2002 and 2001 the Bank held an investment in a company with a book value of HUF 5 million, incorporated in the Republic of Austria, a company incorporated in Romania with a book value of HUF 37 million covered by allowance of HUF 37 million. As at December 31, 2002, ten companies incorporated in Slovakia with a book value of HUF 471 million covered by allowance of HUF 165 million.

An analysis of the change in the allowance for permanent diminution in value is as follows:

(in HUF mn)	2002	2001
Balance as at January 1	3,085	4,425
Credit for permanent diminution in value	– 1,548	– 1,340
Balance as at December 31	**1,537**	**3,085**

NOTE 8: **SECURITIES HELD-TO-MATURITY**

(in HUF mn)	2002	2001
Government securities	347,880	379,439
Hungarian Government discounted Treasury bills	3,689	19,068
Bonds issued by National Bank of Hungary	–	2,496
Other debt securities	1,373	600
	352,942	**401,603**
Allowance for permanent diminution in value	– 26	–
Total	**352,916**	**401,603**

Interest conditions and the remaining maturities of investments in debt securities can be analysed as follows:

(in HUF mn)	2002	2001
Within five years:		
with variable interest	128,540	167,839
with fixed interest	145,809	157,240
	274,349	*325,079*
Over five years:		
with variable interest	48,736	52,064
with fixed interest	29,857	24,460
	78,593	*76,524*
Total	**352,942**	**401,603**

Approximately 99% and 97% of the debt securities portfolio was denominated in HUF as at December 31, 2002 and 2001, respectively. In most cases, interests on variable rate bonds are based on the interest rates of 90-day Hungarian Government Treasury bills and are adjusted semi-annually.

Interest rates on fixed interest securities denominated in HUF are ranged from 6.3% to 13.0% and from 7.5% to 14.0% as at December 31, 2002 and 2001, respectively. Interest on fixed rate and variable rate securities is, in most cases, paid semi-annually.

An analysis of the change in the allowance for permanent diminution in value is as follows:

(in HUF mn)	2002	2001
Balance as at January 1	–	–
Provision for permanent diminution in value	26	–
Balance as at December 31	**26**	**–**

NOTE 9: **PREMISES, EQUIPMENT AND INTANGIBLE ASSETS, NET**

(in HUF mn)	**2002**	**2001**
Land and buildings	59,357	43,595
Machinery and equipment, vehicles, leased assets	79,403	62,511
Construction in progress	7,326	3,219
Intangible assets	33,909	26,562
Goodwill and negative goodwill	– 3,154	1,062
	176,841	*136,949*
Accumulated depreciation and amortization	– 83,273	– 63,615
Total	**93,568**	**73,334**

NOTE 10: **OTHER ASSETS**

(in HUF mn)	**2002**	**2001**
Receivables due from collection of Hungarian Government securities	45	113
Property held for sale	10,244	9,677
Due from Hungarian Government for interest subsidies	876	685
Trade receivables	3,511	4,186
Advances for securities and investments	479	496
Taxes recoverable	821	1,259
Inventories	962	1,365
Credits sold under deferred payment scheme	503	2,856
Subsidies paid on behalf of the Government	777	408
Receivables from leasing activities	28,752	34,496
Receivables due from KELER	–	1,743
Receivables due from insurance bond holders	2,039	912
Margin account balance	240	508
Receivables due from pension funds and fund management	12,707	683
Settlement accounts	925	1,498
Prepayments and accrued income	4,773	2,918
Receivables from investing services	2,335	682
Fair value of derivative financial instruments	8,476	35
Other	10,321	7,605
	88,786	*72,125*
Allowance for possible losses on other assets	– 2,471	– 3,788
Total	**86,315**	**68,337**

Allowance for possible losses on other assets mainly consists of allowances for property held for sale, trade receivables, receivables from leasing activities and reinsurance receivables.

An analysis of the change in the allowance for possible losses on other assets is as follows:

(in HUF mn)	**2002**	**2001**
Balance as at January 1	3,788	4,141
Provision for possible losses on other assets	– 1,317	– 353
Balance as at December 31	**2,471**	**3,788**

NOTE 11: **DUE TO BANKS AND DEPOSITS FROM THE NATIONAL BANK OF HUNGARY AND OTHER BANKS**

		2002	2001
			(in HUF mn)
Within one year:	in HUF	27,323	5,236
	in foreign currency	31,213	11,642
		58,536	*16,878*
Over one year:	in HUF	4,774	7,822
	in foreign currency	15,750	12,252
		20,524	*20,074*
Total		**79,060**	**36,952**

Due to banks and deposits from the National Bank of Hungary and other banks payable in HUF within one year as at December 31, 2002 and 2001, bear interest rates in the range from 7.5% to 9.7% and from 3.0% to 10.8%, respectively.

Due to banks and deposits from the National Bank of Hungary and other banks payable in HUF over one year as at December 31, 2002 and 2001, bear interest rates in the range from 9% to 9.5% and from 3.0% to 9.8%, respectively.

Due to banks and deposits from the National Bank of Hungary and other banks payable in foreign currency within one year as at December 31, 2002 and 2001, bear interest rates in the range from 0.7% to 8.4% and from 1.1% to 2.5%, respectively.

Due to banks and deposits from the National Bank of Hungary and other banks payable in foreign currency over one year as at December 31, 2002 and 2001, bear interest rates in the range from 1.4% to 9.2%, respectively.

NOTE 12: **DEPOSITS FROM CUSTOMERS**

		2002	2001
			(in HUF mn)
Within one year:	in HUF	1,756,724	1,498,199
	in foreign currency	360,327	359,052
		2,117,051	*1,857,251*
Over one year:	in HUF	33,693	34,261
	in foreign currency	425	–
		34,118	*34,261*
Total		**2,151,169**	**1,891,512**

Deposits from customers payable in HUF within one year as at December 31, 2002 and 2001, bear interest rates in the range from 0% to 8% and from 0.5% to 9.2%, respectively.

Deposits from customers payable in HUF over one year as at December 31, 2002 and 2001, bear interest rates in the range from 3% to 7.6% and from 3.0% to 8.5%, respectively.

Deposits from customers payable in foreign currency within one year as at December 31, 2002 and 2001, bear interest rates in the range from 0% to 5.3% and from 0.1% to 2.1%, respectively.

Deposits from customers payable in foreign currency over one year as at December 31, 2002, bear interest rates in the range from 0.1% to 5.4%.

An analysis of deposits from customers by type, is as follows:

	2002		2001	
			(in HUF mn)	
Commercial deposits	381,242	18%	265,948	14%
Municipality deposits	156,365	7%	155,032	8%
Consumer deposits	1,613,562	75%	1,470,532	78%
	2,151,169	**100%**	**1,891,512**	**100%**

NOTE 13: **LIABILITIES FROM ISSUED SECURITIES**

	2002	2001
		(in HUF mn)
With original maturity:		
Within one year	12,312	5,688
Over one year	72,550	34,386
Total	**84,862**	**40,074**

Liabilities from issued securities are denominated mainly in HUF and as at December 31, 2002 and 2001, bear interest at rates in the range from 6.4% to 8.3% and from 3.8% to 9.2%, respectively.

NOTE 14: **OTHER LIABILITIES**

	2002	2001
		(in HUF mn)
Deferred tax liabilities	699	617
Taxes payable	2,340	2,483
Giro clearing accounts	23,916	14,389
Accounts payable	7,981	8,352
Insurance reserves	68,544	52,228
Salaries and social security payable	7,398	6,452
Liability from security trading	5,431	5,177
Allowance for possible losses on off-balance sheet commitments and contingent liabilities	7,511	5,225
Dividends payable	598	7,509
Liabilities from leasing activities	–	792
Advances received from customers	1,681	915
Accrued expenses	6,941	4,161
Loan for collection	1,567	967
Suspense accounts	2,543	3,228
Fair value of derivative financial instruments	3,713	843
Other	8,482	10,564
Total	**149,345**	**123,902**

The allowances for possible losses on off-balance sheet commitments and contingent liabilities are detailed as follows:

(in HUF mn)

	2002	2001
Allowance for litigation	1,591	779
Allowance for possible losses on off-balance sheet commitments and contingent liabilities	3,212	1,999
Other allowances (for expected liabilities)	2,232	1,915
Allowance for housing warranties	476	532
Balance as at December 31	**7,511**	**5,225**

The allowance for possible losses on other off-balance sheet commitments and contingent liabilities primarily relates to commitments stemming from guarantees and credit lines issued by the Bank and other Group companies.

As part of its operations, until 1991, the Bank financed and constructed residential accommodation for resale on which it was required to provide a ten-year-guarantee against defective workmanship. The Bank has recourse against the constructors for any claims. The recovery of such claims is, however, dependent upon the financial status of the constructors, which is impaired in certain cases. An allowance has been recorded to account for the estimated possible future losses on housing warranties.

Movements in the allowance for possible losses on commitments and contingent liabilities can be summarized as follows:

(in HUF mn)

	2002	2001
Balance as at January 1	5,225	3,233
Provision for possible off-balance sheet commitments and contingent liabilities	2,355	2,145
Write-offs	– 69	– 153
Balance as at December 31	**7,511**	**5,225**

Movements in insurance reserves can be summarized as follows:

(in HUF mn)

	2002	2001
Balance as at January 1	52,228	39,791
Net increase in insurance reserves	16,316	12,437
Balance as at December 31	**68,544**	**52,228**

NOTE 15: **SUBORDINATED BONDS AND LOANS**

In 1993, the Bank issued HUF 5 billion in bonds, which are subordinated to the other liabilities of the Bank and subscribed by the Hungarian Ministry of Finance. Interest on subordinated bonds and the frequency of payment of interests are based on condition of interest of 2013/C credit consolidated government bonds, which is a variable-rate bond, the interest payable and the rate of interest are fixed twice a year. The semi-annual interest payable was 5.57% as at December 20, 2001, 5.19% as at June 20, 2002, and 4.36% as at December 20, 2002. The original maturity was 20 years. The proceeds of the subordinated bonds were invested in Hungarian Government bonds with similar interest conditions and maturity.

In December 1996, the Bank obtained a USD 30 million and DEM 31.14 million (15.92 million in EUR) subordinated loan from the European Bank for Reconstruction and Development. The loan is unsecured, subordinate to the other liabilities and has a ten-year maturity, with interest payable at six-month LIBOR + 1.4% from December 27, 1996 until December 29, 1997, at six-month LIBOR + 1.0% from December 29, 1997 until June 28, 1999, at six-month LIBOR + 1.7% from June 28, 1999 until December 27, 2004 and at six-month LIBOR + 2.5% from December 27, 2004 until December 27, 2006.

NOTE 16: **SHARE CAPITAL**

		(in HUF mn)
	2002	**2001**
Authorized, issued and fully paid:		
Common shares	28,000	28,000
	28,000	**28,000**

In the first quarter of 2002 the nominal value of the common shares of the Bank has decreased from HUF 1,000 to HUF 100 per share.

From September 3, 1997, the Bank has one preferential voting share (the "Special Share") outstanding with a nominal value of HUF 1 thousand (see Note 1.1).

NOTE 17: **RETAINED EARNINGS AND RESERVES**

		(in HUF mn)
	2002	**2001**
Balance as at January 1	165,643	123,504
Net income after income taxes	59,231	48,953
(Loss)/Profit on sale of treasury shares	– 1,102	72
Effects of adoption of IAS 39	–	248
Dividends	–	– 7,050
Foreign currency translation loss	– 360	– 84
Balance as at December 31	**223,412**	**165,643**

The Bank's unconsolidated reserves under Hungarian Accounting Standards were HUF 177,843 million and HUF 130,515 million at December 31, 2002 and 2001, respectively. Of these amounts, legal reserves represent HUF 34,169 million and HUF 29,450 million, respectively. The legal reserves are not available for distribution.

Dividends for the year ended December 31, 2001 represent the dividends declared by the Bank’s shareholders for both preference and common shares at the Annual General Meeting in 2002.

Dividends for the year ended December 31, 2002 will be proposed at the Annual General Meeting in April 2003.

NOTE 18: **TREASURY SHARES**

		(in HUF mn)
	2002	**2001**
Nominal value (Common Shares)	2,334	2,217
Carrying value	27,800	26,357

NOTE 19: **MINORITY INTEREST**

(in HUF mn)	2002	2001
Balance as at January 1	–	–
Minority interest purchased	381	–
Minority interest deriving from capital increase	79	–
Minority interest included in net income	– 55	–
Balance as at December 31	**405**	**–**

NOTE 20: **OTHER EXPENSES**

(in HUF mn)	2002	2001
Provision for permanent diminution in value of held-to-maturity investments	26	–
Credit for permanent diminution in value of equity investments	– 1,548	– 1,340
Credit for other assets	– 1,317	– 353
Provision for off-balance sheet commitments and contingent liabilities	2,355	2,145
Administration expenses, including rent	21,070	18,009
Advertising	4,272	2,972
Taxes, other than income taxes	9,540	7,905
Services	15,037	13,234
Insurance claims paid	23,436	19,767
Net increase in insurance reserves	16,316	12,437
Professional fees	2,769	1,878
Other	4,728	3,670
Total	**96,684**	**80,324**

NOTE 21: **INCOME TAXES**

The Group is presently liable for income tax at rates of 18%, 25% and 30% of taxable income. The 18% rate relates to the Bank and its subsidiaries incorporated in Hungary. The 25% rate relates to the Bank's subsidiary incorporated in Slovakia and the 30% rate relates to the Bank's United Kingdom subsidiary.

A reconciliation of the income tax charges is as follows:

(in HUF mn)	2002	2001
Current tax	13,870	11,088
Deferred tax	82	464
Total	**13,952**	**11,552**

A reconciliation of the deferred tax liability is as follows:

	2002	2001
		(in HUF mn)
Balance as at January 1	– 617	– 99
Effect of adoption of IAS 39	–	– 54
Deferred tax charge	– 82	– 464
Balance as at December 31	**– 699**	**– 617**

A reconciliation of the income tax charge is as follows:

	2002	2001
		(in HUF mn)
Income before income taxes	73,128	60,505
Permanent timing differences	4,397	3,511
Adjusted income before income taxes	77,525	64,016
Income taxes	**13,952**	**11,552**

NOTE 22: **FINANCIAL INSTRUMENTS**

A financial instrument is any contract that gives rise to the right to receive cash or another financial asset from another party (financial asset) or the obligation to deliver cash or another financial asset to another party (financial liability).

Financial instruments may result in certain risks to the Group. The most significant risks the Group faces include:

CREDIT RISK

The Group takes on exposure to credit risk which is the risk that a counter-party will be unable to pay amounts in full when due. The Group structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower, or Banks of borrowers, and to geographical and industry segments. Such risks are monitored on a revolving basis and subject to an annual or more frequent review. The exposure to any one borrower including banks and brokers is further restricted by sub-limits covering on and off-balance sheet exposures and daily delivery risk limits in relation to trading items such as forward foreign exchange contracts. Actual exposures against limits are monitored daily. Exposure to credit risk is managed through regular analysis of the ability of borrowers and potential borrowers to meet interest and capital repayment obligations and by changing these lending limits where appropriate. Exposure to credit risk is also managed in part by obtaining collateral and corporate and personal guarantees.

MARKET RISK

The Group takes on exposure to market risks. Market risks arise from open positions in interest rate, currency and equity products, all of which are exposed to general and specific market movements. The Group applies a 'value at risk' methodology to estimate the market risk of positions held and the maximum losses expected, based upon a number of assumptions for various changes in market conditions. The Management Board of the Group sets limits on the value of risk that may be accepted, which is monitored on a daily basis.

FOREIGN CURRENCY RISK

See Note 29.

LIQUIDITY RISK

See Note 30.

INTEREST RATE RISK

See Note 31.

NOTE 23: OFF-BALANCE SHEET COMMITMENTS, CONTINGENT LIABILITIES AND FINANCIAL INSTRUMENTS

In the normal course of business, the Group becomes a party to various financial transactions that are not reflected on the balance sheet and are referred to as off-balance sheet financial instruments. The following represent notional amounts of these off-balance sheet financial instruments, unless stated otherwise.

A) CONTINGENT LIABILITIES

(in HUF mn)

	2002	2001
Commitments to extend credit	310,559	255,554
Guarantees arising from banking activities	137,469	36,606
Confirmed letters of credit	787	3,799
Others	22,467	21
Legal disputes	4,846	3,487
Local tax contingency	–	542
Total	**476,128**	**300,009**

COMMITMENTS FROM GUARANTEES AND LETTERS OF CREDIT

The primary purpose of these instruments is to ensure that funds are available to a customer as required. Guarantees and standby letters of credit, which represent irrevocable assurances that the Bank will make payments in the event that a customer cannot meet its obligations to third parties, carry the same credit risk as loans. Documentary and commercial letters of credit, which are written undertakings by the Bank on behalf of a customer authorising a third party to draw drafts on the Bank up to a stipulated amount under specific terms and conditions, are collateralised by the underlying shipments of goods to which they relate and therefore carry less risk than a direct borrowing.

Commitments to extend credit represent unused portions of authorisations to extend credit in the form of loans, guarantees or letters of credit. With respect to credit risk on commitments to extend credit, the Bank is potentially exposed to loss in an amount equal to the total unused commitments. However, the likely amount of loss is less than the total unused commitments since most commitments to extend credit are contingent upon customers maintaining specific credit standards.

Guarantees, irrevocable letters of credit and undrawn loan commitments are subject to similar credit risk monitoring and credit policies as utilised in the extension of loans. The management of the Group believes the market risk associated with guarantees, irrevocable letters of credit and undrawn loans commitments to be minimal.

LEGAL DISPUTES

At the balance sheet date the Group was involved in various claims and legal proceedings of a nature considered normal to its business. The level of these claims and legal proceedings correspond to the level of claims and legal proceedings in previous years.

The Bank believes that the various asserted claims and litigations in which it is involved will not materially affect its financial position, future operating results or cash flows, although no assurance can be given with respect to the ultimate outcome of any such claim or litigation.

B) DERIVATIVES

(in HUF mn)

	2002	2001
Foreign currency contracts		
Assets	57,743	36,548
Liabilities	– 63,581	– 37,488
	– 5,838	*– 940*
Foreign exchange swaps and interest rate swaps		
Assets	161,347	122,728
Liabilities	– 150,126	– 122,664
	11,221	*64*
Option contracts		
Assets	183,322	28,294
Liabilities	– 164,999	– 19,310
	18,323	*8,984*
Forward rate agreements		
Assets	41,700	30,768
Liabilities	– 26,500	– 30,986
	15,200	*– 218*

The Group maintains strict control limits on net open derivative positions, i.e. the difference between purchase and sale contracts, by both amount and term. At any one time the amount subject to credit risk is limited to the current fair value of instruments that are favourable to the Group (i.e. assets), which in relation to derivatives is only a small fraction of the contract or notional values used to express the volume of instruments outstanding. This credit risk exposure is managed as part of the overall lending limits with customers, together with potential exposures from market movements. Collateral or other security is not usually obtained for credit risk exposures on these instruments, except of trading with clients, where the Group in most of the cases requires margin deposits.

As at December 31, 2002, the Group has derivative instruments with positive fair values of HUF 8,476 million and negative fair values of HUF 3,713 million. Corresponding figures as at December 31, 2001 are HUF 35 million and HUF 843 million.

FOREIGN CURRENCY CONTRACTS

Foreign currency contracts are agreements to exchange specific amounts of currencies at a specified rate of exchange, at a spot date (settlement occurs two days after the trade date) or at a forward date (settlement occurs more than two days after the trade date). The notional amount of these contracts does not represent the actual market or credit risk associated with these contracts.

Foreign currency contracts are used by the Group for risk management and trading purposes. The Group's risk management foreign currency contracts were used to hedge against exchange rate fluctuations on loans and advances to credit institutions denominated in foreign currency.

FOREIGN EXCHANGE SWAPS AND INTEREST RATE SWAPS

The Group enters into foreign-exchange swap and interest rate swap transactions. The swap transaction is a complex agreement concerning to the swap of certain financial instruments, which usually consist of a prompt and one or more futures contracts.

Interest rate swaps obligate two parties to exchange one or more payments calculated with reference to fixed or periodically reset rates of interest applied to a specific notional principal amount. Notional principal is the amount upon which interest rates are applied to determine the payment streams under interest rate swaps.

Such notional principal amounts often are used to express the volume of these transactions but are not actually exchanged between the counterparties. The Group's interest rate swaps were used for management of interest rate exposures and have been accounted for at mark-to-market fair value.

FORWARD RATE AGREEMENTS

A forward rate agreement is an agreement to settle amounts at a specified future date based on the difference between an interest rate index and an agreed upon fixed rate. Market risk arises from changes in the market value of contractual positions caused by movements in interest rates. The Group limits its exposure to market risk by entering into generally matching or offsetting positions and by establishing and monitoring limits on unmatched positions. Credit risk is managed through approval procedures that establish specific limits for individual counterparties. The Group's forward rate agreements were transacted for management of interest rate exposures and have been accounted for at mark-to-market fair value.

For an analysis of the allowance for possible losses on off-balance sheet commitments and contingent liabilities, see Note 14.

NOTE 24: **CASH AND CASH EQUIVALENTS**

(in HUF mn)

	2002	**2001**
Cash, due from banks and balances with the National Bank of Hungary	355,440	381,773
Compulsory reserve established by the National Bank of Hungary	– 95,214	– 110,269
	260,226	**271,504**

NOTE 25: **CASH FLOW STATEMENT**

A) PURCHASE AND CONSOLIDATION OF SUBSIDIARY UNDERTAKINGS

(in HUF mn)

	2002	2001
Cash, due from banks, and balances with the National Bank	1,052	–
Placements with other banks, net of allowance for possible placement losses	12,319	–
Securities held-for-trading and available-for-sale	16,978	–
Loans, net of allowance for possible loan losses	70,048	–
Accrued interest receivable	326	–
Equity investment	399	–
Debt securities held-to-maturity	53	–
Premises, equipment and intangible assets	9,680	–
Other assets	656	–
Due to banks and deposits from the National Bank and other banks	– 35,293	–
Deposits from customers	– 64,941	–
Liabilities from issued securities	– 1,198	–
Accrued interest payable	– 731	–
Other liabilities	– 411	–
Minority interest	– 381	–
	8,556	–
Negative Goodwill	– 4,216	–
Total	**4,340**	**–**

B) ANALYSIS OF NET OUTFLOW OF CASH IN RESPECT OF PURCHASE OF SUBSIDIARIES

(in HUF mn)

	2002	2001
Cash consideration	4,340	–
Cash acquired	– 1,052	–
Net cash outflow	**3,288**	**–**

NOTE 26: **MAJOR SUBSIDIARIES**

Equity investments in companies in which the Bank has a controlling interest are detailed below. All companies are incorporated in Hungary unless indicated otherwise.

	Ownership (Direct and Indirect) 2002	2001	Activity
OTP-Garancia Insurance Ltd.	100.00%	100.00%	insurance
OTP Real Estate Ltd.	100.00%	100.00%	real estate management and development
OTP Securities Ltd.	100.00%	100.00%	brokerage
HIF Ltd. (United Kingdom)	100.00%	100.00%	forfaiting
Merkantil Bank Ltd.	100.00%	100.00%	financing car purchases
Merkantil Car Ltd.	100.00%	100.00%	financing car purchases, leasing
OTP Building Society Ltd.	100.00%	100.00%	financing flat purchase and reconstruction
Bank Center No. 1. Ltd.	100.00%	100.00%	letting real estates
OTP Factoring Ltd.	100.00%	100.00%	work-out

(continued from 135 page)

	Ownership (Direct and Indirect) 2002	2001	Activity
Inga Companies	100.00%	100.00%	property management
OTP Fund Management Ltd.	100.00%	100.00%	fund management
OTP Mortgage Bank Ltd.	100.00%	100.00%	mortgage loaning
OTP Fund Servicing and Consulting Ltd.	100.00%	100.00%	fund services
OTP Banka Slovensko, a. s. (Slovakia)	95.74%	3.19%	commercial banking services

NOTE 27: **TRUST ACTIVITIES**

The Bank acts as a trustee for certain loans granted by companies or employers to their employees, mainly for housing purposes. The ultimate risk for these loans rests with the party advancing the funds. As these loans and related funds are not considered to be assets or liabilities of the Bank, they have been excluded from the accompanying consolidated Balance Sheet. The total amount of such loans managed by the Bank as a trustee amounted to HUF 27,061 million and HUF 42,843 million as at December 31, 2002 and 2001, respectively.

NOTE 28: **CONCENTRATION OF ASSETS AND LIABILITIES**

Approximately 30% and 40% of the Group's total assets consisted of receivables from, or securities issued by, the Hungarian Government or the National Bank of Hungary as at December 31, 2002 and 2001, respectively.

As at December 31, 2002 and 2001 95.7% and 99.5% of the Group's total assets were held by companies incorporated in Hungary. There were no other significant concentrations of the Group's assets or liabilities as at December 31, 2002 and 2001.

NOTE 29: **NET FOREIGN CURRENCY POSITION AND FOREIGN CURRENCY RISK**

As at December 31, 2002

(in HUF mn)

	USD	EUR	Others	Total
Assets	160,805	131,151	139,708	431,664
Liabilities	– 116,739	– 177,792	– 122,342	– 416,873
Off-balance sheet assets and liabilities, net	– 44,412	– 4,103	– 3,208	– 51,723
Net position	**– 346**	**– 50,744**	**14,158**	**– 36,932**

As at December 31, 2001

(in HUF mn)

	USD	EUR	Others	Total
Assets	224,364	184,433	37,408	446,205
Liabilities	– 162,152	– 192,487	– 36,713	– 391,352
Off-balance sheet assets and liabilities, net	– 61,387	– 10,493	1,973	– 69,907
Net position	**825**	**– 18,547**	**2,668**	**– 15,054**

The table above provides an analysis of the Group's main currency exposures. The remaining currencies are shown within 'Others'. The Group monitors its foreign exchange position for compliance with the regulatory requirements of the National Bank of Hungary and own limit system established in respect of limits on open positions. The measuring of the Group's open foreign currency position involves monitoring the 'value at risk' limit on the foreign exchange exposure of the Bank.

NOTE 30: **MATURITY ANALYSIS OF ASSETS AND LIABILITIES AND LIQUIDITY RISK**

Liquidity risk is a measure of the extent to which the Group may be required to raise funds to meet its commitments associated with financial instruments. The Group maintains its liquidity profiles in accordance with regulations laid down by the National Bank of Hungary. The following tables provide an analysis of assets, liabilities and shareholder's equity into relevant maturity groupings based on the remaining period from the balance sheet date to the contractual maturity date. It is presented under the most prudent consideration of maturity dates where options or repayment schedules allow for early repayment possibilities.

As at December 31, 2002

	Within 3 months	**Within one year and over 3 months**	**Within 5 years and over one year**	**Over 5 years**	*(in HUF mn)* **Total**
Cash, due from banks and balances with the National Bank of Hungary	349,939	5,067	307	127	355,440
Placements with other banks, net of allowance for possible placement losses	236,358	45,812	13,722	–	295,892
Securities held-for-trading and available-for-sale	35,289	46,382	89,126	49,294	220,091
Loans, net of allowance for possible loan losses	104,848	238,784	488,148	448,930	1,280,710
Accrued interest receivable	22,977	2,859	93	266	26,195
Equity investments	–	–	–	5,464	5,464
Debt securities held-to-maturity	24,186	56,606	193,531	78,593	352,916
Premises, equipment and intangible assets, net	276	1,135	32,878	59,279	93,568
Other assets	43,474	18,141	23,849	851	86,315
TOTAL ASSETS	**817,347**	**414,786**	**841,654**	**642,804**	**2,716,591**
Due to banks and deposits from the National Bank of Hungary and other banks	31,753	26,898	18,741	1,668	79,060
Deposits from customers	1,727,023	390,027	19,914	14,205	2,151,169
Liabilities from issued securities	3,133	9,180	32,506	40,043	84,862
Accrued interest payable	6,003	3,691	2,900	33	12,627
Other liabilities	69,410	9,955	15,415	54,565	149,345
Subordinated bonds and loans	–	–	10,511	5,000	15,511
TOTAL LIABILITIES	**1,837,322**	**439,751**	**99,987**	**115,514**	**2,492,574**
Share capital	–	–	–	28,000	28,000
Retained earnings and reserves	–	–	–	223,412	223,412
Treasury shares	–	– 27,800	–	–	– 27,800
TOTAL SHAREHOLDER'S EQUITY	–	– 27,800	–	251,412	223,612
MINORITY INTEREST	–	–	–	405	405
TOTAL LIABILITIES AND SHAREHOLDER'S EQUITY	**1,837,322**	**411,951**	**99,987**	**367,331**	**2, 716,591**
LIQUIDITY (DEFICIENCY)/EXCESS	**– 1,019,975**	**2,835**	**741,667**	**275,473**	**–**

As at December 31, 2001

	Within 3 months	Within one year and over 3 months	Within 5 years and over one year	Over 5 years	*(in HUF mn)* Total
Cash, due from banks and balances with the National Bank of Hungary	378,826	1,216	1,480	251	381,773
Placements with other banks, net of allowance for possible placement losses	139,904	174,145	17,499	540	332,088
Securities held-for-trading and available-for-sale	61,909	49,783	92,050	24,821	228,563
Loans, net of allowance for possible loan losses	91,999	206,633	305,914	166,788	771,334
Accrued interest receivable	22,989	6,244	386	178	29,797
Equity investments	–	–	–	2,816	2,816
Debt securities held-to-maturity	42,801	55,154	225,674	77,974	401,603
Premises, equipment and intangible assets, net	695	569	25,341	46,729	73,334
Other assets	21,686	17,351	27,847	1,453	68,337
TOTAL ASSETS	**760,809**	**511,095**	**696,191**	**321,550**	**2,289,645**
Due to banks and deposits from the National Bank of Hungary and other banks	5,396	11,563	17,563	2,430	36,952
Deposits from customers	1,505,280	354,921	30,025	1,286	1,891,512
Liabilities from issued securities	1,242	4,446	34,386	–	40,074
Accrued interest payable	5,216	4,809	2,601	–	12,626
Other liabilities	53,054	17,289	16,818	36,741	123,902
Subordinated bonds and loans	–	–	12,293	5,000	17,293
TOTAL LIABILITIES	**1,570,188**	**393,028**	**113,686**	**45,457**	**2,122,359**
Share capital	–	–	–	28,000	28,000
Retained earnings and reserves	–	–	–	165,643	165,643
Treasury shares	–	– 26,357	–	–	– 26,357
TOTAL SHAREHOLDER'S EQUITY	–	– 26,357	–	193,643	167,286
TOTAL LIABILITIES AND SHAREHOLDER'S EQUITY	**1,570,188**	**366,671**	**113,686**	**239,100**	**2,289,645**
LIQUIDITY (DEFICIENCY)/EXCESS	**– 809,379**	**144,424**	**582,505**	**82,450**	**–**

NOTE 31: **INTEREST RATE RISK MANAGEMENT**

Interest rate risk is the risk that the value of a financial instrument will fluctuate due to changes in market interest rates. The length of time for which the rate of interest is fixed on a financial instrument, therefore, indicates to what extent it is exposed to interest rate risk.

The majority of the Group 's interest bearing assets and liabilities are structured to match either short-term assets and short-term liabilities, or long-term assets and liabilities with repricing opportunities within one year, or long-term assets and corresponding liabilities where repricing is performed simultaneously.

In addition, the significant spread existing between the different types of interest bearing assets and liabilities enables the Group to benefit from a high level of flexibility in adjusting for its interest rate matching and interest rate risk exposure.

The following table presents the interest repricing dates of the Group. Variable yield assets and liabilities have been reported according to their next repricing date. Fixed income assets and liabilities have been reported according to their maturity.

As at December 31, 2002

ASSETS	Within 1 month		Within 3 months over 1 month		Within 1 year over 3 months		Within 2 years over 1 year		Over 2 years		Total		(in HUF mn)
	HUF	In foreign currency	HUF	In foreign currency	HUF	In foreign currency	HUF	In foreign currency	HUF	In foreign currency	HUF	In foreign currency	Total
Cash due from banks and balances with the NBH	**345,248**	**8,368**	**363**	**939**	**–**	**76**	**–**	**–**	**–**	**446**	**345,611**	**9,829**	**355,440**
fixed interest	303,154	2,224	363	197	–	–	–	–	–	446	303,517	2,867	306,384
variable interest	4	–	–	742	–	76	–	–	–	–	4	818	822
non-interest bearing	42,090	6,144	–	–	–	–	–	–	–	–	42,090	6,144	48,234
Placements with other banks, net allowance for possible placement losses	**111,281**	**119,638**	**21,200**	**7,336**	**23,780**	**8,829**	**–**	**9**	**25**	**3,794**	**156,286**	**139,606**	**295,892**
fixed interest	106,057	115,400	14,000	1,670	23,780	6,526	–	9	24	773	143,861	124,378	268,239
variable interest	800	3,029	7,200	5,666	–	2,303	–	–	–	–	8,000	10,998	18,998
non-interest bearing	4,424	1,209	–	–	–	–	–	–	1	3,021	4,425	4,230	8,655
Securities held-for-trading and available-for-sale	**32,342**	**240**	**39,168**	**23,719**	**46,100**	**2,252**	**11,626**	**6,340**	**58,028**	**276**	**187,264**	**32,827**	**220,091**
fixed interest	2,403	–	18,851	2,275	44,629	–	11,626	6,340	51,910	276	129,419	8,891	138,310
variable interest	24,206	–	20,317	21,444	1,471	2,252	–	–	997	–	46,991	23,696	70,687
non-interest bearing	5,733	240	–	–	–	–	–	–	5,121	–	10,854	240	11,094
Loans, net of allowance for possible loan losses	**629,640**	**101,702**	**155,248**	**62,425**	**63,646**	**32,066**	**10,720**	**6,525**	**216,549**	**2,189**	**1,075,803**	**204,907**	**1,280,710**
fixed interest	6,554	88	11,890	201	5,964	4,726	7,150	3,138	157,165	1,316	188,723	9,469	198,192
variable interest	623,086	101,614	143,358	62,224	57,070	27,340	2,778	3,387	59,384	482	885,676	195,047	1,080,723
non-interest bearing	–	–	–	–	612	–	792	–	–	391	1,404	391	1,795
Debt securities held-to maturity	**23,193**	**–**	**132,675**	**47**	**42,855**	**2,954**	**37,509**	**–**	**111,438**	**2,245**	**347,670**	**5,246**	**352,916**
fixed interest	–	–	1,853	–	35,387	2,954	37,509	–	111,438	2,245	186,187	5,199	191,386
variable interest	23,193	–	130,822	47	7,468	–	–	–	–	–	161,483	47	161,530
FX-swap, FX-forward, FX-futures, FRA-deals included in other assets	**70,579**	**67,224**	**37,131**	**13,521**	**114,176**	**21,545**	**–**	**8,458**	**1,162**	**–**	**223,048**	**110,748**	**333,796**
fixed interest	69,532	67,224	20,551	11,952	81,576	21,545	–	8,458	1,162	–	172,821	109,179	282,000
variable interest	1,047	–	16,580	1,569	32,600	–	–	–	–	–	50,227	1,569	51,796

LIABILITIES	Within 1 month		Within 3 months over 1 month		Within 1 year over 3 months		Within 2 years over 1 year		Over 2 years		Total		
	HUF	In foreign currency	HUF	In foreign currency	HUF	In foreign currency	HUF	In foreign currency	HUF	In foreign currency	HUF	In foreign currency	Total
Due to banks and deposits from the NBH, and other banks	**26,615**	**23,385**	**2,887**	**11,430**	**3,498**	**6,266**	**–**	**2,797**	**1,573**	**609**	**34,573**	**44,487**	**79,060**
fixed interest	20,774	21,492	2,300	906	3,036	5,249	–	66	1,573	609	27,683	28,322	56,005
variable interest	4,468	1,502	587	10,524	462	1,017	–	2,731	–	–	5,517	15,774	21,291
non-interest bearing	1,373	391	–	–	–	–	–	–	–	–	1,373	391	1,764
Deposits from customers	**1,683,059**	**96,839**	**49,207**	**218,293**	**26,802**	**45,265**	**18,539**	**299**	**12,841**	**25**	**1,790,448**	**360,721**	**2,151,169**
fixed interest	463,213	62,128	49,207	218,293	14,810	45,265	18,539	299	12,841	25	558,610	326,010	884,620
variable interest	1,219,815	34,711	–	–	11,992	–	–	–	–	–	1,231,807	34,711	1,266,518
non-interest bearing	31	–	–	–	–	–	–	–	–	–	31	–	31
Liabilities from issued securities	**12,877**	**207**	**27,521**	**346**	**642**	**1,253**	**–**	**258**	**41,758**	**–**	**82,798**	**2,064**	**84,862**
fixed interest	770	207	1,311	346	642	1,253	–	258	41,758	–	44,481	2,064	46,545
variable interest	12,070	–	26,210	–	–	–	–	–	–	–	38,280	–	38,280
non-interest bearing	37	–	–	–	–	–	–	–	–	–	37	–	37
FX-swap, FX-forward, FX-futures, FRA-deals included in other liabilities	**22,398**	**110,834**	**13,951**	**18,027**	**68,920**	**32,188**	**9,407**	**1,842**	**52,546**	**–**	**167,222**	**162,891**	**330,113**
fixed interest	21,350	110,834	13,951	18,027	68,920	32,188	9,407	1,842	52,546	–	166,174	162,891	329,065
variable interest	1,048	–	–	–	–	–	–	–	–	–	1,048	–	1,048
Subordinated bonds and loans	**–**	**–**	**–**	**–**	**5,000**	**10,511**	**–**	**–**	**–**	**–**	**5,000**	**10,511**	**15,511**
variable interest	–	–	–	–	5,000	10,511	–	–	–	–	5,000	10,511	15,511

NOTE 32: **EARNINGS PER SHARE**

Earnings per share attributable to the Group's common shares are determined based on dividing income after income taxes for the year attributable to common shareholders, after the deduction of declared preference dividends, by the weighted average number of common shares outstanding during the period.

	2002	2001
Consolidated net income (in HUF mn)	59,231	48,953
Weighted average number of common shares outstanding during the year for calculating basic EPS (piece)	256,171,463	25,607,005
Consolidated Basic Earnings per share (in HUF)	**231**	**1,912**
Weighted average number of common shares outstanding during the year for calculating diluted EPS (piece)	256,959,316	25,664,667
Consolidated Diluted Earnings per share (in HUF)	**231**	**1,907**

The weighted average number of common shares outstanding during the period does not include own shares held.

In the first quarter of the year of 2002 the nominal value of the common shares of the Bank has decreased from HUF 1,000 to HUF 100 per share.