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SENIOR MANAGEMENT OF OTP BANK LTD.



DR. SÁNDOR CSÁNYI
Chairman-CEO



DR. ZOLTÁN SPÉDER
Vice Chairman, Deputy CEO
STRATEGIC AND FINANCIAL DIVISION



CSABA LANTOS
Deputy CEO
RETAIL BANKING DIVISION



GÉZA LENK
Deputy CEO
CREDIT APPROVAL AND
RISK MANAGEMENT DIVISION



GYULA PAP
Deputy CEO
IT AND LOGISTICS DIVISION



DR. ANTAL PONGRÁCZ
Deputy CEO
STAFF DIVISION



LÁSZLÓ WOLF
Deputy CEO
COMMERCIAL BANKING DIVISION



MESSAGE FROM THE CHAIRMAN AND CHIEF EXECUTIVE OFFICER



It gives me great pleasure to be able to report to our shareholders that we have had yet another successful year. The OTP Bank Group closed 2002 with consolidated pre-tax profit of over HUF 68 billion, which represents a 19% increase over the previous year. The non-consolidated pre-tax earnings of OTP

Bank were HUF 58 billion (a 22.6% increase), while among the various subsidiaries outstanding results were posted by OTP Fund Management with HUF 3.5 billion, Merkantil Bank with HUF 2.4 billion, and OTP Building Society and OTP-Garancia Insurance with HUF 1.6 billion each, in pre-tax earnings.

The market value of shares in OTP Bank increased by 34% (66% in dollar terms) in 2002, to reach HUF 2,210 per share, while the share index of the Budapest Stock Exchange, the BUX, grew by just 9.4% over the year. These changes are fully in line with the trends of previous years: From the end of 1995 to December 2002, the value of shares in the Bank increased by a factor of almost 20 (57% average annual growth), while over the same period the BUX only achieved a little over five-fold growth (a 26% annual average increase) – with even this increase largely attributable to the performance of OTP Bank shares within the index.

In 2002 the Bank continued to earn industry-wide recognition both in Hungary and abroad. As in previous years, OTP Bank was rated "Hungary's Best Bank" by Global Finance, Euromoney and The Banker. The reasons cited by these respected financial journals for bestowing the awards included the successful integration of Slovakia's IRB into the Group, the launch of OTP Mortgage Bank, outstanding product developments and OTP Bank's success in retaining its dominant position in the retail and municipality banking markets. In addition to receiving these most prestigious of international awards, OTP Bank was also voted "Issuer of the Year" by the members of the Budapest Stock Exchange, while the success of the Bank's product deve-

lopment work in the area of electronic banking services earned it a special award of "Mobile Bank of the Year".

In 2002 OTP Bank continued to focus on development work and projects aimed at maintaining the Bank's competitiveness and improving the effectiveness of its business operations over the long term. Accordingly, strategic projects commenced or planned in previous years – such as the introduction of SAP, the Back-Office Rationalisation Project, and creation of the Bank's Transactional Data Warehouse – were continued according to schedule, along with projects aimed at further developing the distribution network. The construction work on the Bank's new headquarters should also be mentioned here.

In 2002, the Bank was again successful in meeting the objectives of its medium-term strategy of supplementing organic growth with acquisitions, and achieving international growth by expanding within the region, most notably through the purchase of Slovakia's IRB Bank.

As the first step in IRB's integration into the OTP Bank group, the Slovakian bank underwent a complete image change: From August 2002, the financial institution continued its activities under the name OTP Banka Slovensko, a. s. (OBS).

The steps taken thus far in the restructuring of OBS have been welcomed by the market and our shareholders alike, which encourages us to seek further opportunities for regional expansion and for implementing our acquisitions strategy, while making the best possible use of the experience gained so far.

Finally, I would like to take this opportunity to thank all our employees, whose hard work over the year resulted in the Bank's and the Bank Group's outstanding successes in 2002. Thanks are also due to our shareholders for the trust they have placed in us, a confidence that I hope will continue to be justified by the future performance of the Bank.



Dr. Sándor Csányi
Chairman-CEO

FINANCIAL HIGHLIGHTS

| PROFIT AND LOSS ACCOUNT | 2001 HUF mn | 2002 HUF mn | CHANGE % |
|-------------------------|----------------|----------------|-------------|
| Net interest income | 98,342 | 102,715 | 4.4% |
| Non-interest income | 42,775 | 64,447 | 50.7% |
| Total income | 141,117 | 167,162 | 18.5% |
| Non-interest expenses | 85,214 | 95,557 | 12.1% |
| Operating profits | 55,903 | 71,605 | 28.1% |
| Increase in provisions | 8,534 | 13,523 | 58.5% |
| Profit before taxation | 47,369 | 58,082 | 22.6% |
| Profit after taxation | 38,398 | 47,197 | 22.9% |

| BALANCE SHEET (AS AT 31ST DECEMBER) | 2001 HUF bn | 2002 HUF bn | CHANGE % |
|---|----------------|----------------|-------------|
| Total assets | 2,127.2 | 2,390.1 | 12.4% |
| Loans and advances to customer | 769.8 | 951.7 | 23.6% |
| Retail loans | 258.2 | 329.8 | 27.7% |
| Corporate loans | 464.8 | 558.6 | 20.2% |
| Local government loans | 46.7 | 63.3 | 35.6% |
| Interbank loans and advances | 329.9 | 263.3 | -20.2% |
| Government securities in the Bank's portfolio | 481.1 | 401.9 | -16.5% |
| Deposits from customers | 1,811.2 | 2,011.0 | 11.0% |
| Retail deposits | 1,405.6 | 1,523.7 | 8.4% |
| Corporate deposits | 253.6 | 341.9 | 34.8% |
| Local government deposits | 152.0 | 145.4 | -4.3% |
| Total loans and advances | 1,118.7 | 1,234.8 | 10.4% |
| Performing loans | 1,074.1 | 1,183.4 | 10.2% |
| Qualified loans | 44.6 | 51.4 | 15.2% |
| Provisions for possible loan losses | 21.7 | 20.6 | -5.0% |
| Shareholder's equity | 158.5 | 205.8 | 29.9% |

| PERFORMANCE RATIOS | 2001 | 2002 |
|---|-----------|-----------|
| Cost/income ratio, % | 60.40 | 57.20 |
| Return on Average Equity (ROAE), % | 26.85 | 25.90 |
| Return on Average Assets (ROAA), % | 1.89 | 2.09 |
| Capital adequacy ratio*, % | 14.11 | 13.43 |
| Undiluted EPS (HUF) | 145.77 | 178.98 |
| Diluted EPS (HUF) | 137.13 | 168.56 |
| Total assets per employee* (HUF millions) | 256.50 | 272.50 |
| Total income per employee (HUF thousand) | 17,235.00 | 19,519.00 |

| MARKET SHARE (31ST DECEMBER) | 2001 | 2002 |
|------------------------------|------|------|
| Retail deposits, % | 39 | 38 |
| Retail loans, % | 31 | 23 |
| Corporate deposits, % | 12 | 13 |
| Corporate loans, % | 12 | 13 |
| Municipal deposits, % | 78 | 66 |
| Municipal loans, % | 65 | 55 |

* On December 31.



MACROECONOMIC AND MONETARY ENVIRONMENT IN 2002

Compared to the previous year, the Hungarian economic environment was less favourable in 2002, and economic policy goals were only partially achieved. The rate of economic growth slowed, the internal and external balance deteriorated, and, although there was a slight reduction in the foreign trade deficit, the amount of foreign capital entering the country fell short of the previous year. On the positive side, there was no further decline in investments, the rate of inflation plunged to a 15-year low, the employment situation improved somewhat – although the unemployment rate deteriorated slightly – and real wages increased at an exceptional rate. By international standards, the performance of the economy remains dynamic.

Gross domestic product (GDP) increased by 3.3% in 2002, which falls short of the 3.8% growth of previous year, but is still 2.5 percentage points above the EU average and higher than even the USA's rate of economic growth. Among the candidate countries for EU accession, the economies of the Czech Republic and Poland displayed slower growth, while Slovakia and Slovenia outperformed Hungary in terms of GDP increase. Over the course of the year, the trend in the GDP growth rate improved from one quarter to the next. In the first quarter of 2002, after hitting a low of 2.9%, the rate of GDP growth began to increase steadily, with the quarterly indexes showing 3.0%, 3.5% and 3.7% growth respectively. The economic growth was driven exclusively by domestic demand: The substantial state-sector wage increases led to a dramatic rise in household consumption, while government infrastructure investments and schemes to stimulate home construction boosted investment activity.

The unfavourable economic environment was also reflected in the **industrial output** figures. By 2002, the 18% growth experienced in 2000 had fallen to just 2.6%. Two years of stagnating domestic sales and a reduction in exports of industrial goods both contributed to this reduction. Rather than leading to an expansion of the market for domestically manufactured goods, the 11% increase in retail turnover resulted in more imports, which became cheaper as a result of the strengthening of the forint.

Growth in the **construction industry**, which has continued unabated for several years, reached 20.1% in 2002. The upswing in the construction industry can be attributed to an increase in domestic demand. Of the various sub-sectors, the volume of "other" construction work (roads, bridges, drainage) saw the most dynamic growth (28%), which is chiefly the result of an increase in state-financed infrastructure investments. The construction of buildings increased by 15% due to new home construction, the refurbishment of public buildings and the building of new commercial properties. A 21.1% increase in new orders suggests that the upswing in this sector is likely to continue. However, within this figure, the volume of new contracts for the construction of buildings decreased sharply compared to the base period, while the volume of new contracts for "other" forms of construction increased by 44.5% in 2002, following a reduction of 17.6% in the previous year. The pace of the upturn in home construction, which commenced after the trough of 1999, slowed in 2002. The 31,500 new homes handed over for use in 2002 represented a 12% increase over the previous year, while the 49,000 new home construction permits issued represented a 2% year-on-year increase, and came close to the estimated ceiling for sustainable growth. The overall slowdown in the growth of new home construction contained regional disparities. Some 71% of new homes were built in large cities. The rate of growth was 46% in Budapest and 28% in county seats, but in smaller towns and villages the number of new homes constructed fell by 8%.

Following an outstanding year in 2001, performance in the **agricultural sector** was much less favourable in 2002. Overall, after a temporary period of growth, output dropped once again in 2002, due to a combination of natural and market factors. Sales of agricultural products increased by around 2%, within which sales of plant-cultivation and horticultural products stagnated and sales of livestock and animal products saw a slight upturn, increasing 3.6% over the year.

The **domestic use of GDP** increased by 5.1% in 2002. **Investment volume** exceeded the previous year's level by 5.8%. There was considerable investment activity in the

MACROECONOMIC ENVIRONMENT

area of infrastructure development: The volume of construction projects has increased by 10.7%, while the volume of machinery investments has decreased by 0.6–0.5% over the past two years.

Due to the downswing in the world economy, the level of corporate investment was extremely low. Investments by manufacturing industry companies, which account for 21% of all investments, decreased by over 9%, while investments made by companies from the realty and economic services sector, which constitute 27% of total investments, were up 14.5%. The greatest increases in state-sector investments were in the areas of public administration and defence (32.2%), and health and social security (35.1%).

Household consumption, which accounts for around two thirds of domestic GDP use, increased – at a substantially higher rate than GDP – by 8.8%, while gross household savings rose by 12.9% at current prices and 7.2% in real terms in comparison to the previous year. **Average gross wages** of the employed (HUF 122,453) increased by 18.3%, while **average net wages** (HUF 77,607) were 19.6% higher than in the previous year. Within this figure, gross average wages in the private sector increased at the less dynamic rate of 13.3%, while net average wages in the private sector increased by 16%. The higher increase in net wages resulted from the exemption from income tax payment obligations of people earning the statutory minimum wage. The state-sector wage increases of 2001 and 2002 mainly affected the employees of institutions funded from the central budget and social-insurance. In this sector, gross average wages increased to HUF 136,891 (by 29.2%), and net average wages to HUF 84,475 (by 27.5%), thus exceeding the average wage levels of the private sector. Taking the economy as a whole, the wage increases coupled with the drop in inflation resulted in an extremely dynamic 13.6% increase in **real wages**.

The level of activity on the **labour market** improved somewhat, but the unemployment rate deteriorated slightly, from 5.7% to 5.8%.

Annual average inflation fell substantially in 2002, from 9.2% to 5.3%. The evidence of a downward trend in inflation is further supported by the fact that over the course of the year the forint exchange rate remained within the upper half of its intervention band, often brushing the

maximum limit. There was no imported inflationary pressure on domestic prices, even despite fluctuations in oil prices; and the world economy was also mainly characterised by a downward inflationary trend. The rate of increase in consumer prices slowed in every consumption category, while the prices of consumer durables effectively decreased.

The slowing in growth was accompanied by a significant deterioration in the economic balance. This deterioration, even discounting the unfavourable trends in the world economy, had already started in 2001 as a result of the general election. The preparations for the election, the campaign promises and their subsequent fulfilment led to a drastic overstepping of annual budgetary targets.

The **public finance deficit** for 2002 – calculated using the ESA95 method applied in the EU – amounted to HUF 1,573.0 billion, or 9.5% of annual GDP and more than three times the annual projection. At the end of 2002 the Parliament adjusted the budgetary targets for the year. The purpose of the modifications was to include settlements undertaken by the state but hitherto managed outside of public finance, the takeover of debts from state-owned companies and settlements related to ÁPV Rt., in the central budget. At year's end the **central budget** had a deficit of HUF 1,474.7 billion, of which around HUF 650 billion was attributable to one-off items related to the modification of the annual targets. Disregarding these one-off items, the public finance deficit amounted to 5-6% of GDP.

Over the year, the **current account deficit** – calculated using the new method – totalled EUR 2.8 billion, which represents a EUR 0.8 billion increase against the previous year. Almost a quarter of the deficit was accumulated in the last month of the year. A decisive role in the deficit's increase was played by the deterioration in the services balance – exacerbated by a further increase in the burgeoning earnings deficit – which the improvements in the balance of trade and the balance of unreciprocated current-account transfers were unable to compensate. Tourist trade was a decisive factor in the development of the services balance, accounting for 96% of its deterioration. The EUR 2.2 billion import surplus in the trade balance represented a EUR 300 million reduction against the previous year. Repatriated profits totalled EUR 1.7 billion, or EUR 166 million more than in the previous year. A net amount of

MACROECONOMIC ENVIRONMENT

EUR 891 million arrived in the country in the form of **foreign direct investment** (working capital and portfolio investments), a 10% increase over last year. This is only sufficient to cover a third of the current account deficit. The country's gross external debt (including loans from the owners of companies) increased by EUR 1 billion to EUR 38.6 billion, while the net debt grew by EUR 2.1 billion to EUR 15.7 billion. At the end of 2002, 48.3% of the net debt came from the government sector and the national bank. International reserves decreased to EUR 9.9 billion, which was EUR 2.3 billion lower than at the end of the previous year.

The **foreign trade deficit** was EUR 3.4 billion (USD 3.3 billion), or EUR 130 million less than in 2001. This deficit is equivalent to 9.4% of total exports. The volume of exports grew 6% over the year, while imports increased by 5%. The growth in exports exceeded that of imports during the first three quarters of the year, but the gap between the two growth rates narrowed steadily, and in the last quarter the rate of growth in imports exceeded that of exports by 4 percentage points. Consequently, 40% of the foreign trade deficit for 2002 was accrued in the last quarter of the year.

MONETARY POLICY

In 2002 the National Bank of Hungary (NBH) continued its monetary policy focused on meeting inflation targets. The measures taken by the central bank during the course of the year were characterised by its attempts to compensate for lax fiscal policies. The basic forecast was that the central bank planned to achieve the 4.5% inflation target for the end of 2002, and the 3.5% target for December 2003 – with a tolerance of $\pm 1\%$ – through the use of strict monetary-policy measures. In December 2002 consumer inflation was close to the centre of its target band, at 4.8%, largely due to the implementation of a coherent monetary policy.

The broadening of the forint exchange-rate band in May 2001 limited the available arsenal of monetary policy tools to making changes in the benchmark interest rate, and to using the prime rate to influence inflationary expectations and thus achieve inflationary targets.

The central bank's interest-rate policy during the year was aimed primarily at achieving its inflation-related targets and at curbing the extraordinarily high demand that arose from the exceptional level of government spending. In accordance with the Central Bank Act and international practices, the **central bank prime rate** functions as a benchmark rate in monetary policy. In 2002 there were no restrictions on the placing of central bank deposits at the central bank prime rate, which decreased by a total of 125



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basis points, from 9.75% to 8.5%, over the course of the year. However, the interest rate did not follow a smooth downward path. The 8.5% prime rate was first achieved as early as the second half of February. Following this, at the end of May, the Monetary Council increased the benchmark rate by 50 basis points on two occasions, in response to unfavourable inflation forecasts and growing risk premiums. The NBH maintained the 9.5% prime rate until mid-November, when it was forced back down to 8.5% by an undesirable strengthening of the forint, an interest-rate reduction by the ECB and a reduction in risk premiums resulting from the favourable outlook regarding Hungary's accession to the EU.

The overnight lending rate decreased from 11.25% to 9.5%, while the rate on overnight deposits fell from 9.75% to 8.25% by the end of the year. The interest corridor for overnight deposits and loans narrowed from +/-1.5% to +/-1.0%. The steady decrease in inflation, and the two 50-point interest-rate increases carried out by the Monetary Council, had pushed the real interest attainable on two-week deposits up to 5% by the middle of the year, which led to a massive influx of speculative capital.

Within the framework of the further development of the **mandatory reserve** system, the reserve ratio was reduced

from 6% to 5% with effect from 1 August 2002. The range of liabilities constituting the base for the calculation of reserves was narrowed twice during the course of the year, with liabilities accumulated through repo deals, as well as all types of liability-side accruals and other liability-side accounting items removed from the list. The rate of interest compensation payable on mandatory reserves increased by 50 basis points in September, and a further 50 basis points in October, from 4.25% to 5.25%.

The purpose of the changes to the regulations on reserves was to improve the competitiveness of the banking system, as well as to comply with ECB directives.

Short term yields on the government securities market decreased from 9-9.7% to 7.5-8% by the end of December. In the first quarter, the yields on government securities with a maturity of less than one year decreased steadily, while yields on the longer-term papers increased unabated until the middle of the year. From May, the interest rates for yields of one year or less increased, and by August-September they exceeded the level of the beginning of the year. By the end of the year, the yields on government papers of all maturities had decreased to a greater or lesser extent, and the interest rates on the various maturities came closer together, with the result that the inverse nature of the yield curve weakened steadily.

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BUSINESS *Review*



BUSINESS REVIEW

In line with the Bank's medium-term strategic plan approved in 2001 for the years 2001-2005, a number of important developments were carried out in 2002 in the interests of strengthening the Bank's competitiveness, rationalising its operations, improving its profitability, and raising the level of its services, while at the same time preparations continued for accession to the European Union.

In 2002, the Bank achieved significant progress in implementing the development projects specified in its medium-term strategy, the aims of which were to raise the Bank's efficiency, enhance the quality and speed of data provision, and ensure a continuous improvement in the quality of customer service.

Of the various projects undertaken, one of the most significant was the SAP project, the first phase of which was completed in April of 2002 with the introduction of the Controlling, General Ledger and the Planning modules. As part

of the second phase, currently still underway, the Human Resource and the Integrated Purchasing modules were put into operation at the end of the year.

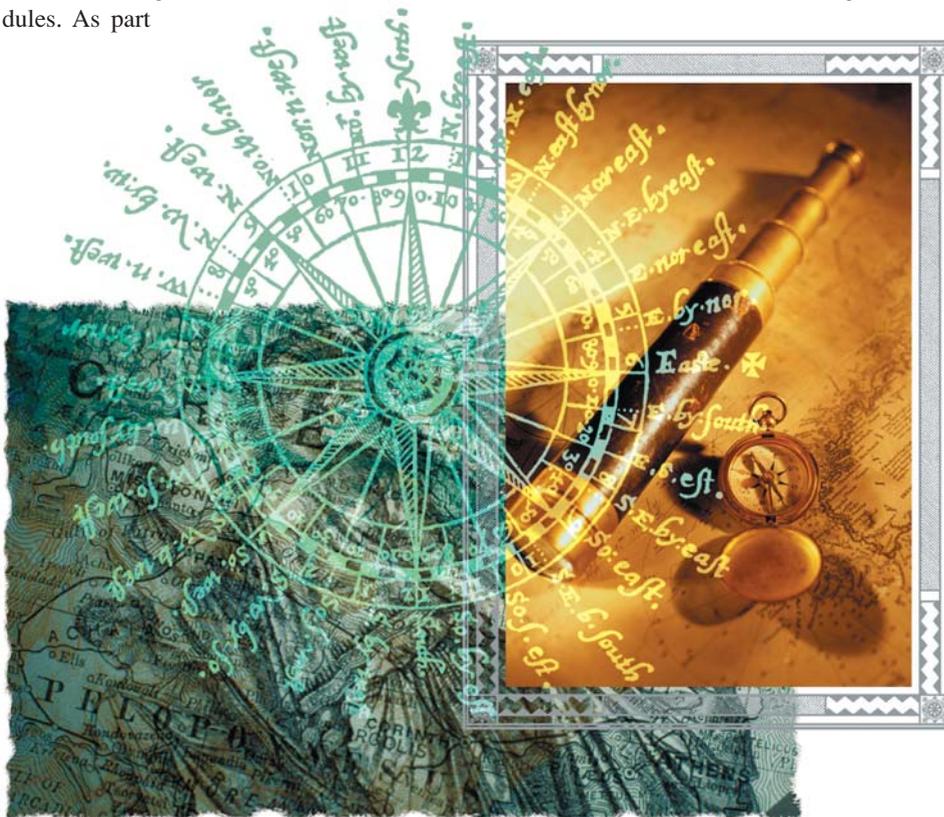
In 2002 work began on the creation of the transaction database, which will serve to support business decisions and sales. In the course of this work, the bank data model was prepared, and the various systems and the range of information that will constitute the source of the database were defined.

The Back Office Rationalisation project was aimed at making bank-operation processes more efficient, with these processes being re-formulated on a cost/return principle, and with activities that can be carried out more efficiently on a centralised basis being brought together under a central back-office unit.

In 2002 the Bank continued the development of its branch network. During the course of the year, the refurbishment

and upgrading of 20, mostly smaller (100–400 m²) branches was completed, and 7 new branches were opened in shopping centres. In the context of the technical development program, 178 ATMs were installed or relocated, 2 customs branches were set up, the frontage signs on 51 key branch offices were replaced, and video surveillance systems were installed in a total of 85 branches. By the end of the year, the Bank was at the disposal of its customers with a total of 427 branches (of which 70 were also providing customers-cashier services), 26 customs outlets and 72 automated customs-cashier units.

In 2002, the Bank continued with the particularly important task of constructing



BUSINESS REVIEW

its new central headquarters in Babér street, Budapest. The 32,000 square-metre office building will provide ample space to accommodate 1,000 of the Bank's staff. Most of the Bank's central organisational units will be moving to the new head office in the course of 2003.

RETAIL BANKING DIVISION

OTP Bank remains the largest participant in the Hungarian retail banking market, managing 38.4% of all household bank savings and more than 23% of household loans as of year-end 2002.

RETAIL DEPOSITS

By the end of 2002, the balance of retail loans placed with the Bank had reached HUF 1,523.7 billion, which represents an increase of 8.4% compared to the previous year. Within total retail deposits, forint deposits increased by HUF 181.8 billion, or 16.9%, significantly ahead of inflation, while foreign-currency deposits fell by 19.4%. The Bank's market share was 39.2% of forint deposits and 35.4% of foreign-currency deposits.

Within the HUF 1,258.6 billion in total retail forint deposits, the balance of retail current account deposits saw the greatest increase – of HUF 204.2 billion, or 32.4% – and their share of total retail forint deposits increased from 58.5% in the previous year to 66.3%. Within this, the volume of time deposits held on current accounts increased by 28.8%. The number of retail forint current accounts had reached 2.7 million by the end of 2002, representing an increase of 4.6%.

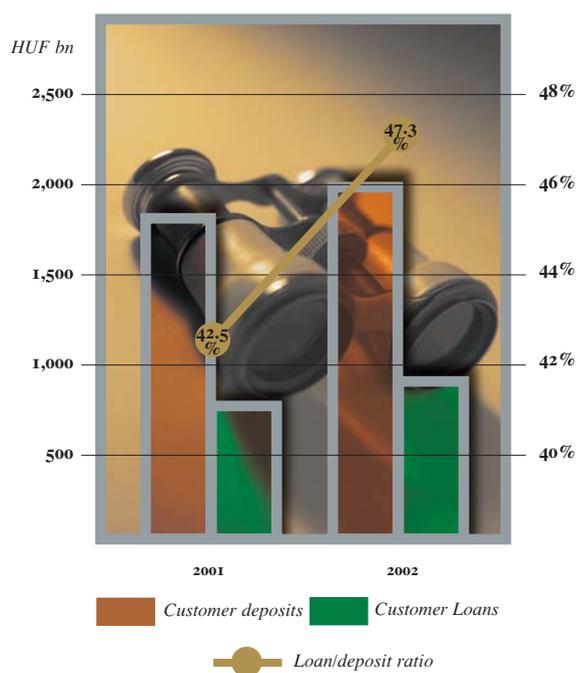
Following a slight, 4.6%, decline over the year, the total balance of passbook deposits amounted to HUF 389.7 billion as of 31 December 2002, and consequently, their share within total deposits dropped from 38% in the previous year to 31% in 2002.

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

In accordance with the law on the prevention of money laundering, the process of assigning the names of account holders to anonymous accounts has continued apace. By

31 December 2002, 1.46 million deposit-holders with total deposits of HUF 290 billion had been named, and as a result only 2% of OTP Bank's total retail savings are now held in anonymous accounts (HUF 29.7 billion in 797,000 deposits). The average balance of anonymous deposits is HUF 40,000.

The balance of foreign-currency deposits fell by 19.4% in 2002, to HUF 265.1 billion. This was due mainly to the



Customer assets and liabilities

impact of foreign exchange liberalisation, a strengthening forint and the favourable development in interest rates on forint savings. At the same time, the number of foreign-currency sight accounts fell by a greater extent than the total volume of such accounts, by 21.1%, while the number of time deposits held on foreign-currency accounts dropped by just 16.6%.

As of year-end 2002 the volume of securities and deposit certificates was HUF 9.4 billion, down 36.6% from the previous year, which is in line with the Bank's objectives. Of the CDs issued by the Bank, Deposit Notes represented the largest share (95.4%), with the volume of these notes standing at HUF 7.1 billion as at year-end, down 50.6% from the previous year.

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RETAIL LOANS

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

In response to the changed market circumstances, OTP Bank made it possible for its customers to take advantage of subsidised housing loans offered under favourable conditions: The Bank's fully owned subsidiary, OTP Mortgage Bank Ltd., began operating in February 2002, and since 11

April has been offering Forrás hitelek (Source Loans), subsidised on the liabilities side, in a consortium through OTP Bank's branch network. As a result of this, the interest on Source Loans has fallen from 12.5% in April to 5.5%, and the demand for the loans has increased dramatically.

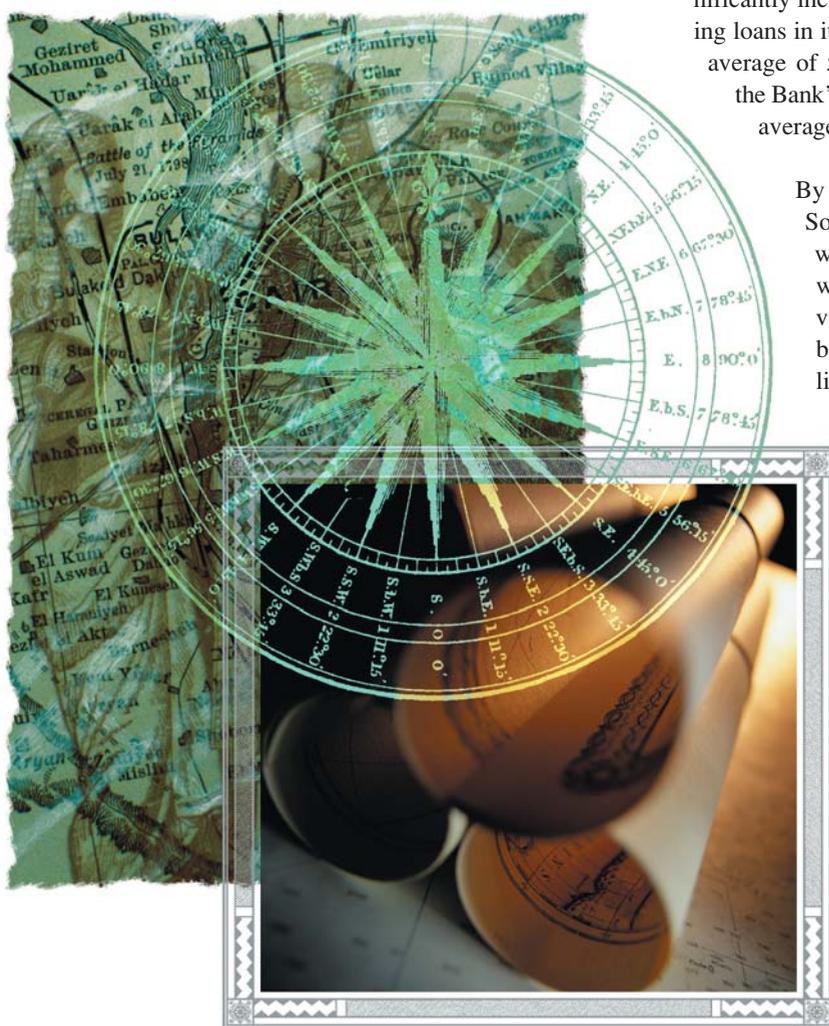
Exploiting the new opportunities offered by the change in the law, the Bank's product developments have also contributed to the improvement in the servicing of customer needs: the range of products expanded in 2002 to include a fixed-income (5 year interest-period) facility and a life-insurance-linked home loan product offered together with OTP-Garancia Insurance, and in order to facilitate the financing of homes built for sale, the Bank made it possible for subsidised loans to be disbursed in several instalments.

In response to the rapid growth in demand, the Bank significantly increased the number of staff dealing with housing loans in its network. In the second half of last year, an average of 5,500 housing loans were approved through the Bank's branch network each month, representing an average monthly volume of some HUF 25 billion.

By 31 December 2002, the volume of approved Source Loans had reached HUF 288 billion, of which loans in a value of HUF 189.4 billion were transferred to OTP Mortgage Bank. The value of housing loans in OTP Bank's own balance sheet by year-end was HUF 212.4 billion, giving the Bank a 27.3% share of the housing loans market at the end of 2002, while the total market share held by the OTP Bank Group – including the loans of OTP Mortgage Bank and OTP Building Society – exceeded 52%.

In the consumer loans market, the trends of the previous years continued, with the total loans of the banking sector growing dynamically, albeit at a more modest rate than the previous year, to exceed HUF 695 billion by the end of 2002. The value of OTP Bank's consumer loan portfolio grew by 9.3%, to HUF 117.4 billion, and consequently, the Bank had an 18.3% share of the consumer loans market as of 31 December 2002.

Within consumer loans the volume of mortgage-backed loans decreased slightly,



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by 1.9%, which can be attributed to a growth in demand for housing loans and a broadening of the range of loan purposes that can be financed through subsidised housing loans. In contrast to this, the volume of "A", "B", and "C" retail current account overdraft facilities grew dynamically, by 23.3%, to approximately HUF 70 billion.

At the end of 2002, the Bank launched its improved consumer credit service. In addition to updating its related IT system, it introduced more sophisticated and efficient credit appraisal methods and collection procedures, and since November, has been offering new, more flexible facilities to its customers. As a result of these developments, the Bank expects to see a significant expansion in business in 2003.

INVESTMENT SERVICES

SECURITIES TRADING AND ACCOUNT MANAGEMENT

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

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

Two new products were added to the range of securities sold through the branch network. As a result of a cooperative agreement between OTP Bank and the Swiss UBS, one of the largest investment banks and securities distributors in the world, the "OTP International Equities – UBS Fund of Funds" was created through the transformation of the already existing OTP Platinum International Equities Fund. Instead of making direct equity investments, the new fund invests in the various international equity funds managed by UBS's fund management arm, UBS Global Asset Management. Consequently, risk will be distributed across approximately 600 different securities registered in the equity markets of OECD countries through a total of 15-20 investment funds, instead of just 80-90 individual shares as had been the case before. The cooperation between the two companies is expected to result in improved performance and higher yields due to the benefits gained from the experience and expertise of the international partner. The distribution of the investment fund units began in the Bank's approximately 200 branches in January 2003.

The other new product is the "OTP Real Estate Investment Fund", which is a public, open-end fund that pays yields on an annual basis and invests in real estate. The purpose of the fund is to offer an alternative to investments in the stock market and direct real estate investments, and to benefit from the rise in real estate prices that are expected to approximate western European levels as we approach EU membership, and from rental fees which consistently exceed inflation and provide competitive yields for real estate investment funds. The distribution of investment fund units began on 10 December 2002 with the assistance of OTP Bank's branch network.

PRIVATE BANKING

In the course of 2002, OTP Bank repositioned its private banking services, offering its customers more clearly defined services and a more attractive overall value proposition, significant aspects of which are personalised investment advice, standardised portfolio reports, and model portfolios created by the Bank's analysts. Thanks to the new package, at the end of 2002, the Bank was serving almost 7,500 private banking customers, which represents a rise of 9.7% over the previous year's figure. At the same time, total private banking customer assets managed by the Bank grew by 26%, and assets per customer rose by approximately 15%.

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

Since November 2002 the Bank, besides restructuring its private banking services, has been offering preferential private banking services to customers who invest at least HUF 50 million through the Bank. In addition to this private banking offer, this service addresses individual customer needs, for example by offering advice regarding art, real estate and taxes, by creating individualised investment portfolios and strategies, and by offering personalised fee packages in order to fully meet customer requirements.

BANKCARD BUSINESS

At year-end 2002, the number of bankcards issued by the Bank was 3.3 million, a 7.4% increase over the previous year. The Bank's estimated market share in terms of bankcards issued exceeded 60%. Compared to 3.0 million cards

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at the end of 2001, the number of bankcards issued in conjunction with retail current accounts exceeded 3.2 million as of year-end 2002. Of this total, by the end of 2002 the number of cards used purely for customer identification purposes, issued to current-account holders, had fallen to 73,000, the number of "B" overdraft-facility cards was 177,000 and the number of cards associated with "C" overdraft facilities was 109,000. The number of cards issued for company or institutional customer accounts was 74,000.

In 2002 the Bank introduced the prepaid Surprise Card with the intention of offering a gift idea to its customers. The number of Surprise Cards sold by the end of the year was 580. The card can be used in precisely the same way as traditional bankcards and can be "filled" with a balance

2002, and the transacted volume was HUF 1,530.1 billion, respectively 8.1% and 22.7% more than in 2001.

By 31 December 2002, the number of POS terminals had reached 18,041, representing an increase of 1,711 compared to the previous year. The Bank operated 2,657 of these terminals in its own branch offices, and 10,647 were operated at retail and other commercial outlets. In 2002 the number of cash withdrawal transactions made through OTP Bank's own POS network was 2.9 million, and the total transacted volume was close to HUF 813.6 billion. Turnover at commercial-outlet POS terminals continued to grow dynamically in 2002, with 31.9 million purchases transacted (a 43.7% increase), worth a total of some HUF 262 billion. These purchases accounted for 10.4% of the Bank's total card-acceptance turnover in 2002.

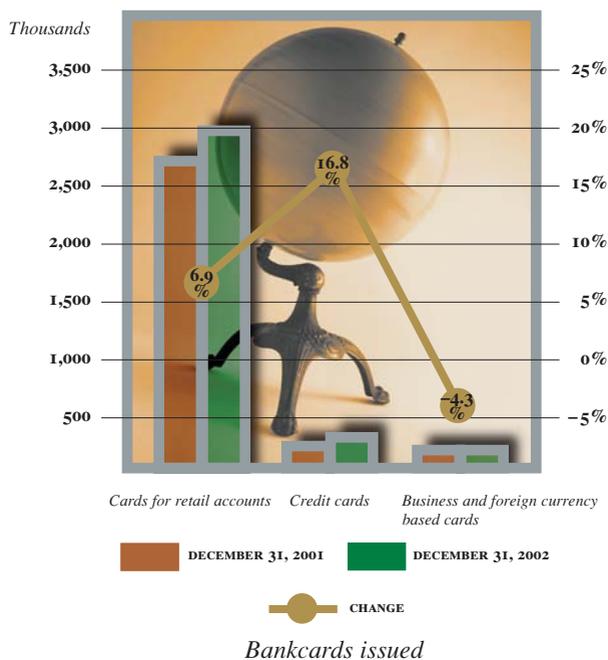
More than 70% of the volume of cash withdrawals in Hungary and nearly half the card-initiated turnover at retail and other commercial outlets was transacted through OTP Bank's network.

ELECTRONIC SERVICES

In 2002 the Bank again retained its market-leading position with respect to electronic channels and the number of users of electronic services. Over the course of the year, the number of customers who had signed contracts for the use of the OTPdirekt internet service increased 60%, the number of those with contracts to use the OTPdirekt Mobil Telebank service rose by 55%, while the number of customers using the OTPdirekt TeleBank service increased by 26%. By year-end 2002, 435,000 customers were using the OTPdirekt telephone-based service, and had together made a total of over 841,000 calls during the year. The 210,000 users of the OTPdirekt Házibank service initiated 4.8 million transactions, while the mobile phone-based service was used by 152,000 customers.

In 2002 the number of commercial-bank clients using customer terminals also increased, with 10,900 corporate clients and 3,638 municipality clients using the customer terminal system to initiate their account transactions during the year.

A fundamental change was brought about in the operation of the electronic channels in 2002 by the introduction of middleware technology, which accelerates the flow of information and allows new, more up-to-date services to be introduced.

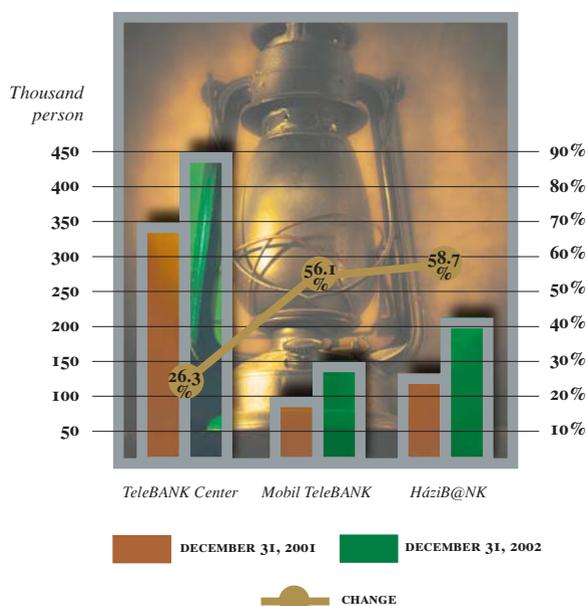


of up to HUF 250,000. The card fee includes the cost of issuing the card and the related transaction fees, and therefore no additional fee is charged by the Bank for transactions carried out. The card is valid until the expiry date indicated on the card or until the amount on the card has been spent.

Compared to the previous year, by year-end 2002 the number of OTP-operated ATMs increased from 1,091 to 1,168, which means that OTP Bank now owns more than 40% of all the ATMs operating in Hungary and nearly 50% of the ATMs operated by banks. The number of transactions carried out on OTP Bank's own ATMs was 67.7 million in

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On the basis of the middleware system, the Bank successfully renewed and upgraded the OTPdirekt internet service. The outstanding achievement of the year was the newly introduced, "active" SMS and WAP mobile phone service, a first both in the Hungarian and the international market, and which enables customers to carry out active



Usage of electronic banking services

banking operations through all the distribution channels. These services allow for routine transactions to be performed via a mobile phone. The WAP service is based on the internet service, and the majority of transactions that can be conducted on the internet can now also be carried out on WAP. Transactions performed on WAP are covered by full and customised security. The Bank launched the active SMS service, which enables customers to perform transfers, open time deposits, and recharge phone cards, in cooperation with Westel, although the Bank intends to involve other mobile-phone service providers in the near future. The launch of these services contributed to the Bank's being awarded the title of "Mobile Bank of the Year" in 2002. Currently in Hungary, OTP Bank offers the widest range of services available via mobile phone.

CORPORATE BANKING DIVISION

In 2002, OTP Bank further strengthened its position in the corporate banking market. Taking into account the new sector-breakdown guidelines introduced by the National

Bank of Hungary in 2001, the Bank's share of the market for corporate deposits grew by 1.6 percentage points, to 13.3%, while its share of the corporate loans market increased by 0.9 percentage points, to 12.7%.

Total corporate deposits stood at HUF 341.9 billion at the end of 2002, representing a 34.8% increase over the previous year. The share of foreign currency deposits within total corporate deposits was 6%. Of the corporate deposit total, 42% came from corporations with a legal personality, 12.8% from small, privately held businesses, 14.7% from non-profit organisations, and 10.7% from the investment-fund deposit portfolio. The volume of deposits from "private entrepreneurs" (sole traders) increased by 20.7% to exceed HUF 20.6 billion.

Total corporate loans stood at HUF 558.6 billion at the end of 2002, representing an increase of 20.2% over the previous year. The share of foreign-currency loans within the total was 36%, with the volume of these loans increasing 44.5% over the previous year's figure. Total loans to corporations with a legal personality rose by 17.9%, to stand at HUF 455 billion, and within this total, foreign-currency loans grew 32.2% over the year, current account loans (overdrafts) by 39.4%, and loans for constructing homes for sale by 25.6%. Loans to small businesses amounted to HUF 16.7 billion, increased over 5%. Within this figure, loans to sole traders attained a volume of HUF 9.2 billion, corresponding to an increase of 4.2%. As of year-end 2002, loan placements to financial, investment and insurance service providers exceeded HUF 64 billion, representing an increase of 81.9%, while loan placements to non-profit organisations amounted to HUF 22.7 billion.

As of year-end 2002, the highest percentage of the corporate loan portfolio, 18.4%, had been extended to companies from the real estate and business services sector, 18.1% had gone to companies in the manufacturing sector and 17% to construction firms. The share of the agricultural sector in the corporate portfolio amounted to 5.1%. In the course of 2002, the most dynamic growth in loan placements was seen in the construction industry (HUF 35.8 billion), but there was also a notable increase in loans to the electricity, gas, heat and water supply sector, as well as to companies in the manufacturing sector (HUF 20.5 billion and 12 billion respectively).

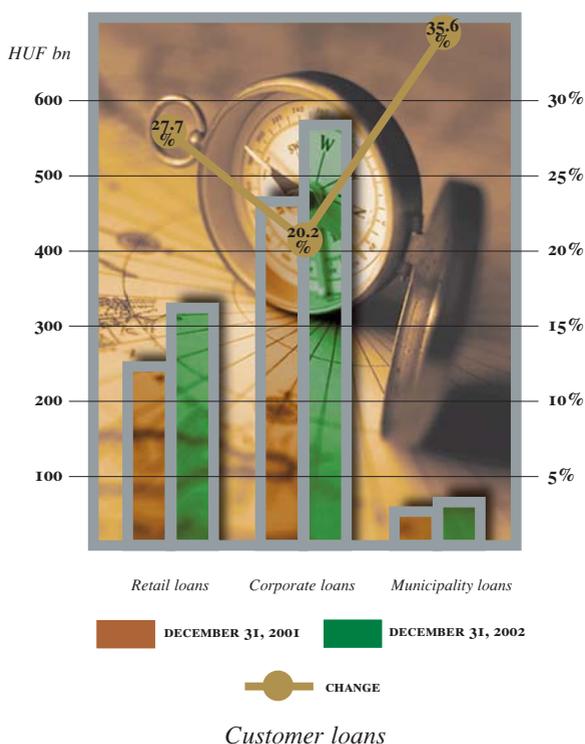
The most successful corporate product of 2002 was the Megtakarítási számla (Savings Account). As of year-end, the number of these accounts exceeded 1,000, and their combined balance was HUF 20 billion.

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Also in 2002 the Bank introduced the Medicin-plusz loan product, which plays an important role in providing the fullest possible range of services to physicians, treated by the Bank as a key customer group.

OTP Bank also participated in the issue of Széchenyi Cards to small enterprises. Outperforming its competitors, by the end of 2002 the Bank had issued more than 700 cards of this type, a result that also provided clear evidence of the

145.4 billion, 4.3% down on the previous year. The Bank's market share of municipality deposits dropped to 66.2%, owing to a decrease in the volume of deposits and intensive market acquisition campaigns by competitors. The Bank's portfolio of municipality loans, which has been continuously increasing since the end of 2001, grew by 35.6% in 2002, reaching HUF 63.3 billion. Although the total volume of placements grew, the Bank's share of the municipality loans market fell to around 55%.



effectiveness of the new small business credit scoring system. This newly introduced scoring system allows for a creditworthiness appraisal that is more suited to the characteristics of small business customers, and that is also faster.

MUNICIPALITY BANKING

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

At year-end 2002, the total balance of deposits held at the Bank by the municipalities and their institutions was HUF

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

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

CUSTOMS SERVICES

OTP Bank's customs services division leads its segment of the market, and continues to strengthen its position through a constant development of its network, products and services. By year-end 2002, the division's services were available at 168 locations throughout Hungary, which represents an 8% increase in the number of network units providing customs cashier services. By the end of the year, the number of Automated Customs Cashier System units had increased by 30.9%, to 72.

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

The use of Customs Cards grew in popularity. By the end of 2002 their number had grown by 24.6%, to nearly 2,500, and during 2002, 49.5% of the total payment turnover was transacted using these cards. This is in line with

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the Bank's objective of increasing the frequency of product use and promoting funds transfer turnover as opposed to the use of cash.

INTERNATIONAL BANKING

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

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

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

In 2002, commission revenues from international payment transactions exceeded HUF 828 million.

TREASURY

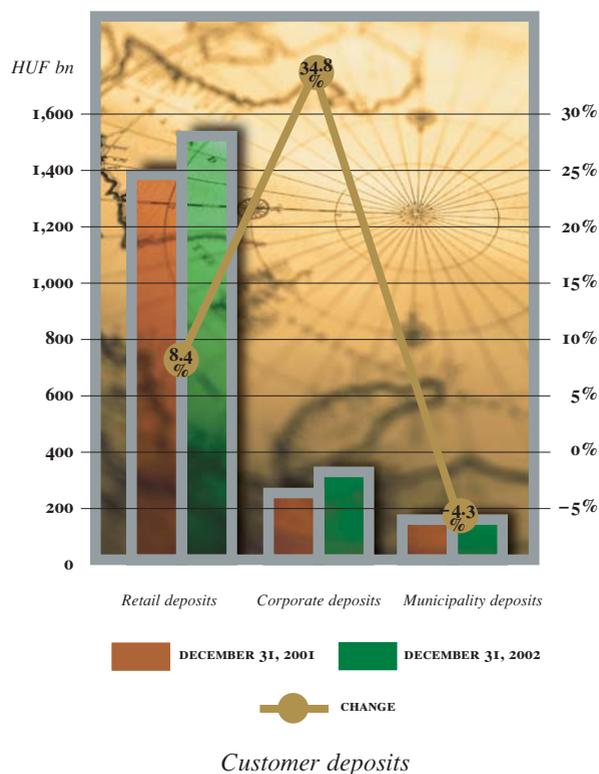
In 2002 the integration of OTP Securities Ltd. into OTP Bank continued and was successfully completed, in the course of which currency futures and equities brokerage transactions were added to the Bank's activities, and in addition to this, the Bank now manages the stock market relations of the Bank Group.

In 2002, the average balance of the investment portfolio managed by Treasury was HUF 516.3 billion, which represents 21.6% of the Bank's total assets. Treasury realised an interest income of HUF 41 billion on its total portfolio. The average 2002 balance of the trading securities portfolio was HUF 26 billion, which represents a decrease of 23.5% compared to 2001. The total in price gains, interest income and commission revenue realised on the trading portfolio was HUF 3.1 billion.

The money market and foreign exchange trading division had a successful year, exceeding its targets in terms of margin and exchange-rate gains. The Bank's profit from

own-account and customer-account derivatives deals (futures and forward deals, FX swap and FX option deals) was HUF 4.6 billion. In 2002, Treasury's profit from FX trading amounted to HUF 781 million, and OTP Bank maintained its position among the 10 largest FX traders in the Hungarian spot FX market.

2002 was the first full year of business for the government securities trading division following the merger. In terms of government securities auction turnover, the Bank was again among the first three distributors in 2002 and at the end of the year was awarded the title of best government securities trader by the State Debt Management Centre (ÁKK), based on the votes of the market participants.



Besides taking orders at its branches, the Bank has, since March 2002, provided its customers with the facility to give instructions directly over the telephone. At present, FX futures orders can only be given in this way.

As a result of the merger and the Bank's own customer acquisition efforts, the number of active customers at the Arbitrage Department increased from 300 in 2001 to over 750 in 2002. Due to the increase in the number of customers and in turnover, the net profit from sales activity was over HUF 400 million.

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STRUCTURED FINANCE

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

In 2002, the Bank's Structured Finance division was the first in Hungary to carry out a bond investment program secured with an international corporate asset portfolio, which it did in a value of USD 30 million.

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

The Bank's corporate-bond-issue operations achieved outstanding results during the course of 2002. In the corporate finance area, four bond-issue programs (MOL, MFB, OTP Bank, OTP Mortgage Bank) were organised. In 2002 the first capital-protected share-index-linked bond was issued to institutional investors, in a value of HUF 2.1 billion. The volume of mortgage notes issued for OTP Mortgage Bank exceeded HUF 177 billion. Most of these mortgage notes were subscribed by OTP Bank, in a value of HUF 135.9 billion.

PROJECT FINANCE

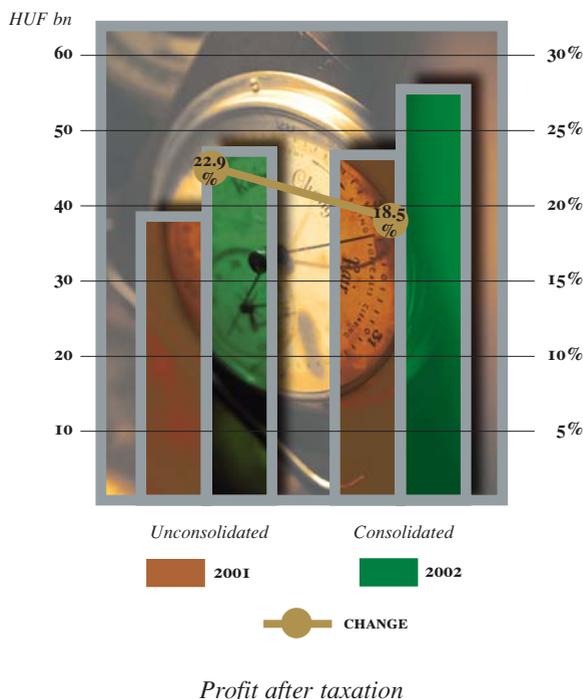
The overall value of project-finance and special deals also rose significantly over the course of 2002. The volume of (signed) contracts increased from HUF 122.7 billion at year-end 2001 to HUF 188.9 billion, which represents a growth of 53.9%. In the same period, the outstanding loan portfolio grew by 46.7%, from HUF 86.4 billion to HUF 126.8 billion.

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

CAPITAL INVESTMENTS

In 2002 the gross book value of the Bank's participations in various companies grew from HUF 40.5 billion to HUF

49.4 billion. The growth in the investment portfolio is primarily attributable to capital increases in existing strategic investments and to the founding of new companies. As of 31 December 2002, OTP Bank Group investments, which constitute the bulk of the Bank's strategic investments, totalled HUF 45.7 billion in value.



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

THE OTP BANK GROUP

In the course of 2002, significant changes occurred in the composition of the OTP Bank Group, with the following companies being added to the Group:

- OTP Banka Slovensko a. s. (OBS), as the first stage in OTP Bank's international expansion strategy

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- The subsidiaries of OBS – OTP Factoring Slovensko a. s. and OTP Leasing a. s.
- OTP Real Estate Fund Management Ltd., which aims to attain a leading position in the Hungarian real estate fund market
- Merkantil Real Estate Leasing Ltd., which represents the Merkantil Group's debut on the real estate financing market
- OTP Health Care Services Ltd., which supports the activities of the OTP National Health Fund, whose task, in turn, is to implement the OTP Health Program

The operations of the subsidiaries in 2002 essentially met the targets and other requirements set by the Bank and its owners. The aggregate balance sheet total of the fully consolidated OTP Bank Group members was HUF 658 billion and their combined preliminary pre-tax profit was HUF 10 billion in 2002.

MERKANTIL BANK LTD.

The Merkantil Group continues to retain its market-leading position in its core business, car financing, and further strengthened its relationships with dealers in 2002. Merkantil Bank Ltd. closed the year with a balance sheet total of HUF 60.9 billion and a pre-tax profit of HUF 2,375 million; 23.3% higher than in the previous year. Of the Company's assets, vehicle loans accounted for 72.1%, while dealer financing accounted for 9.3%.

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

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

MERKANTIL CAR LTD.

In 2002, the car market expanded 15%, a rate significantly higher than had been forecast. While car financing was still strictly limited to financial leasing in 2001, the beginning of 2002 saw the introduction of foreign-currency-based

loans which, in less than a year, became the leading product in the market, pushing financial leasing into the background.

As of year-end 2002, the Company's balance sheet total was HUF 62.2 billion, representing an increase of 82.3% in the Company's assets. The volume of receivables grew from HUF 33.2 billion to HUF 61.2 billion. The Company's pre-tax profit in 2002 was HUF 629 million.

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

MERKANTIL LEASE LTD.

Merkantil Lease Ltd., a member of the Merkantil Group, conducts the administration of long-term leasing transactions. The recording of these transactions in a separate company was made necessary by the provisions of the Credit Institutions Act.

OTP BUILDING SOCIETY LTD.

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

As of 31 December 2002, OTP Building Society Ltd. had a 46% share of the building society savings market, while its market share in terms of contract numbers was 41% and in terms of contractual volumes, 38%.

OTP MORTGAGE BANK LTD.

OTP Mortgage Bank Ltd. launched its operations on 1 February 2002, and since 11 April has been granting loans, subsidised on the liabilities side, in the form of a consortium through OTP Bank's branch network. The Bank's aim in founding the Mortgage Bank was to make the full range of home-purchase subsidies available to its customers, and to fully exploit the business opportunities presented by the system of government housing subsidies.

The volume of loans subsidised on the liabilities side ("Source Loans") and placed through OTP Bank's network increased steadily throughout the year, and – thanks to developments in the IT infrastructure – by the end of the year the speed at

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which loans were transferred from OTP Bank to the Mortgage Bank also accelerated. In the course of 2002, the Mortgage Bank took over more than 49,000 loans from OTP Bank, worth a total of HUF 189.4 billion. OTP Mortgage Bank's year-end portfolio of HUF 186.7 billion represented a share of almost 24% of total bank-sector housing loans, and a 60% share of the market for mortgage-bank housing loans.

During the course of the year, the Mortgage Bank – in line with its plans – issued mortgage notes in a total value of HUF 177.1 billion, which represented a 61.4% share of the market and assured it of the number one position in the mortgage-note issuing market as well.

OTP BANKA SLOVENSKO, A. S.

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

After the privatisation of the Slovakian Bank, OTP Bank, as a strategic investor, carried out substantial changes throughout the rest of the year. As a first step, the now re-named OTP Banka Slovensko (OBS) underwent a corporate logo change, which was followed by the start of the reorganisation of the retail banking division, the launch of new products and the addition of mortgage-based loans to its palette of lending products. The transformation project was finished in November 2002 successfully.

In order to ensure as broad a coverage as possible of the Slovakian financial market, at the end of the year the Bank began to build out the OBS Group. It transformed its fully-owned subsidiary, IRB Credit (new name: OTP Factoring Slovensko a. s.) into a company that specialises exclusively in factoring, and founded OTP Leasing a. s., which specialises in vehicle financing, an activity it performs in cooperation with Merkantil Bank Ltd.

As of 31 December 2002, the balance sheet total of OBS was HUF 110.1 billion, giving it a 2.1% share of the Slovakian market. The Company closed 2002 with a loss of HUF 3,504 million, which was due to one-time costs associated with the takeover, the revaluation of real estate properties and the provisions set aside for customer receivables.

OTP-GARANCIA INSURANCE LTD.

In 2002, OTP Garancia Insurance Ltd. achieved premium revenue of HUF 53.9 billion, 27.7% up on the previous year's

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

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

In 2002 the Insurance Company launched several new products. The Source ("Forrás") mortgage loan insurance, the New Granite ("Új Gránit") mixed life insurance and the Rapid Casco insurance all achieved considerable success. The promotional drive aimed at the restructuring of home insurance agreements and the extra indexing of Granite life insurance policies also proved to be a success. In the course of this promotion, customers had the opportunity to obtain comprehensive insurance protection by increasing the insured value of their home or by purchasing supplementary insurance, which meant a considerable increase, above the rate of inflation, in the Granite life insurance premium.

In 2002, in the context of the cooperation between the Insurance Company and OTP Bank, the revenue from the premiums of bank insurance products exceeded HUF 18 billion, and the Bank sold nearly 49,000 home insurance products due to its increasingly intensive home-financing activities. At the same time, the Insurance Company concluded more than 5,000 pension-fund and nearly 6,000 building-society agreements, in addition to achieving considerable sales of retail current accounts and other bank products.

OTP FUND MANAGEMENT LTD.

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

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increased to HUF 474.4 billion (a growth of 28.9%), giving the Company a 51% share of the investment fund market by year-end. Towards the end of 2002, the Company transformed the Platina International Equities Fund – which was already under its management – into a new fund named "OTP International Equities – UBS Fund of Funds." Consequently, this fund no longer invests directly in foreign shares, but in the investment funds managed by UBS Global Asset Management, which in turn invests in the equity markets of OECD countries.

In compliance with the provisions stipulated in the Capital Market Act, all OTP funds were dematerialised in December 2002.

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

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

HUNGARIAN INTERNATIONAL FINANCE LTD.

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

The Company's business activity continues to focus on the markets of Central and Eastern Europe, with 67.7% of total asset and liability assumption transactions and guarantees

originating from this region. Within this, instruments from EU accession candidates accounted for 12% of the portfolio, while deals from Romania accounted for 27.4%. By the end of the period under review, deals concluded in the Middle East and North Africa had increased to 19% of the total portfolio.

OTP REAL ESTATE LTD.

In 2002, the Company's net sales revenue was HUF 10,619 million. Some 30% of the net sales revenue came from the fulfilment of contracts concluded with members of the OTP Group, while 70% came from sales to external markets. The largest share of net sales revenue originated from real estate investments and sales (HUF 5,203.9 million), and from real estate appraisal activities (HUF 2,246.2 million).

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

In 2002, the number of flats built or sold by OTP Real Estate Ltd. amounted to 432 and 360 respectively. Both in the case of construction activities and sales, 24% were in Budapest and 76% in areas outside the capital. Compared to 2001, the number of flats built by the Company decreased by 15.5%, while the number of units sold fell 10.4%.

OTP Real Estate won the FIABCI International Quality Award for the accomplishment of the Szombathely Town Planning and Construction Project, and received the title of "Best Real Estate Enterprise of 2002", awarded by the Hungarian Real Estate Association for its outstanding results in real estate development, valuation and management.

OTP FACTORING RECEIVABLES MANAGEMENT LTD.

During 2002, the processes involved in the purchasing by OTP Factoring Ltd. of receivables from OTP Bank, and their subsequent recovery, changed significantly in response to a survey carried out by consulting firm McKinsey aimed at improving the effectiveness of these activities at group level. In accordance with the recommendations of this survey, overdue and cancelled receivables of less than HUF 10 million are automatically transferred to OTP Factoring Ltd.

BUSINESS REVIEW

In the course of 2002, the Company bought nearly 113,000 qualified receivables in a value of approximately HUF 21 billion, while the gross value of 12,000 receivables purchased from external organisations approached HUF 4 billion.

Thanks to an increased collection capacity, which was expanded in order to cope with the additional recovery workload, the net 2002 revenue from debt recovery grew by 39.6% year on year.

OTP FACTORING ASSET MANAGEMENT LTD.

In the course of 2002, OTP Factoring Asset Management Ltd. purchased real estate from OTP Bank and its debtors in a value of nearly HUF 350 million. A total of 68% of its portfolio was sold during the year (calculated on the basis of net book value), yielding net revenues of more than HUF 100 million.

In connection with mortgage type lending activities, the Company made more than 900 collateral appraisals for the Bank, and performed nearly 6,500 value estimations and appraisals related to Source loans provided by OTP Mortgage Bank in 2002, in addition to which it regularly performs value estimations for OTP Factoring Liabilities Management Ltd.

In 2002, the liability management activities of the Company primarily consisted of the tasks related to municipality schemes to aid insolvent debtors with housing loans offered under the previous system of mortgage lending. In the framework of these activities, agreements were concluded with more than 9,000 debtors by the end of the year.

OTP FUND SERVICES LTD.

In 2002 OTP Fund Services Ltd. retained its dominant market position in terms of the value of the assets in the funds and the number of individual accounts it managed. At year-end 2002, the Company was managing 772,000 individual accounts and total fund assets of HUF 142.5 billion, which corresponds to an increase of nearly 40% over the previous year.

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

605,000 persons. This was the result (among other factors) of legislative changes. At year-end 2002, the Company's market share in terms of membership numbers was 27.4%, and 24.4% in terms of managed assets.

OTP HEALTH CARE SERVICES LTD.

OTP Health Care Services Ltd. launched its nationwide activities in April 2002. The Company's task is to organise the health promotion services of the Health Program elaborated by OTP National Health Fund, to control the quality of these services, perform other representation tasks that arise in connection with health fund members, as well as to set up, develop and continuously roll out the service network.

The Company's most important challenge during the year was the setting up of a service system and the development of preventive healthcare programs. Within this framework, the Company commenced development of a service system that differs greatly from other systems currently present in the market, in that the services it offers extend to all the three levels of healthcare.

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

OTP TRAVEL LTD.

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

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

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

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



MANAGEMENT'S
Analysis

MANAGEMENT'S ANALYSIS OF THE BANK'S FINANCIAL POSITION AND THE RESULTS OF OPERATION*

CAPITALISATION, CAPITAL ADEQUACY

OTP Bank's capitalisation continued to improve during 2002. Shareholder's equity increased from HUF 158.5 billion on 31 December 2001 to HUF 205.8 billion at the end of 2002, an increase of 29.9%, which represents a substantially higher rate of growth than that of the balance sheet total. As a consequence, the ratio of shareholder's equity to total assets increased from 7.45% at the end of 2001 to 8.61% by year-end 2002.

SHAREHOLDER'S EQUITY

| | 31 Dec. 2001 | | 31 Dec. 2002 | | Change | |
|-----------------------------|----------------|---------------|----------------|---------------|---------------|--------------|
| | HUF mn | prop. % | HUF mn | prop. % | HUF mn | % |
| Subscribed capital | 28,000 | 17.7% | 28,000 | 13.6% | 0 | 0.0% |
| Capital reserve | 52 | 0.0% | 52 | 0.0% | 0 | 0.0% |
| Profit reserve | 55,981 | 35.3% | 84,261 | 40.9% | 28,280 | 50.5% |
| Tied-down reserve | 17,750 | 11.2% | 16,883 | 8.2% | - 867 | - 4.9% |
| General reserve | 29,450 | 18.6% | 34,169 | 16.6% | 4,719 | 16.0% |
| Balance sheet profit | 27,283 | 17.2% | 42,478 | 20.7% | 15,195 | 55.7% |
| SHAREHOLDER'S EQUITY | 158,516 | 100.0% | 205,843 | 100.0% | 47,327 | 29.9% |

Of the various components of shareholder's equity, the amount of subscribed capital remained unchanged in 2002. The primary source of the growth in the Bank's shareholder's equity was the net balance sheet profit of the reporting year and the growth in the general reserve. Of the HUF 47.3 billion growth in shareholder's equity, HUF 42.5 billion originates from the Bank's balance sheet profit and HUF 4.7 billion from the increase in the general reserve. The Bank completed the accumulation of the general reserves, provided for by Hungarian accounting regulations, back in 1994, and fully complied with its statutory reserve obligation in 2002, too. Equity per share (each with a nominal value of HUF 100) was HUF 735.2 as of 31 December 2002.

The Bank's capital adequacy ratio decreased from 14.11% at the end of 2001 to 13.43% on 31 December 2002, although this value remains well in excess of the 8% ratio prescribed by the Credit Institutions Act.

The main reason for the above decrease was a substantial increase in the Bank's lending and off-balance-sheet activities. This is reflected by the 30.5% expansion in the risk-weighted total assets, which exceeded the 24.1% growth in guarantee capital.

* Based on the audited financial statements prepared according to Hungarian Accounting Standards (HAS).

Note: Due to rounding, in some cases the grand totals in the tables of the analysis may show a slight discrepancy from the sum of the subtotals and, for the same reason, there may be variances between the lines of the different tables on the same subject.

MANAGEMENT'S ANALYSIS

CALCULATION OF THE CAPITAL ADEQUACY RATIO*

| | 31 Dec. 2001 HUF mn | 31 Dec. 2002 HUF mn | Change | |
|--|------------------------|------------------------|---------|---------|
| | | | HUF mn | % |
| I. Primary capital elements | 169,446 | 220,097 | 50,651 | 29.9% |
| A) subscribed capital | 28,000 | 28,000 | 0 | 0.0% |
| B) capital reserve | 52 | 52 | 0 | 0.0% |
| C) profit reserve | 55,981 | 84,261 | 28,280 | 50.5% |
| D) tied-down reserve | 17,750 | 16,883 | - 867 | - 4.9% |
| E) general reserve | 29,450 | 34,169 | 4,719 | 16.0% |
| F) general risk reserve | 10,930 | 14,254 | 3,324 | 30.4% |
| G) balance sheet profit | 27,283 | 42,478 | 15,195 | 55.7% |
| II. Modification of primary capital | 31,583 | 33,242 | 1,659 | 5.3% |
| A) capital subscribed not yet paid | - | - | - | - |
| B) deductible part of intangible assets excluding lease rights | 11,866 | 13,793 | 1,927 | 16.2% |
| C) repurchased own shares | 17,750 | 16,883 | - 867 | - 4.9% |
| D) tax component of the general risk reserve | 1,967 | 2,566 | 599 | 30.5% |
| III. Primary capital (I-II.) | 137,863 | 186,855 | 48,992 | 35.5% |
| IV. Secondary capital | 12,376 | 9,204 | - 3,172 | - 25.6% |
| V. Guarantee capital to be adjusted (III+IV.) | 150,239 | 196,059 | 45,820 | 30.5% |
| VI. Capital adjustment due to investment in financial institutions, insurance and investment companies | 14,555 | 31,250 | 16,695 | 114.7% |
| VII. Guarantee capital according to the rules of prudence (V-VI.) | 135,684 | 164,809 | 29,125 | 21.5% |
| VIII. Capital requirement of limit breaches and sovereign risk | 11,475 | 8,730 | - 2,745 | - 23.9% |
| IX. Guarantee capital for financial and investment services (VII-VIII.) | 124,209 | 156,079 | 31,870 | 25.7% |
| X. Capital for the trading book and foreign currency exchange rate | 1,320 | 3,523 | 2,203 | 166.9% |
| XI. Guarantee capital for calculating the capital adequacy ratio (IX-X.) | 122,889 | 152,556 | 29,667 | 24.1% |
| XII. Risk-weighted total asset | 870,968 | 1,136,200 | 265,232 | 30.5% |
| XIII. Capital adequacy ratio | 14.11% | 13.43% | | |

Of the various elements taken into account in the calculation of the numerator of the capital adequacy ratio, the primary capital elements increased by 29.9% in 2002, while the growth of the modifying factors that, according to the regulations, must be taken into account in the primary capital calculation, was lower than that, at 5.3%. Thus, the Bank's primary capital increased 35.5% in 2002, while the secondary capital decreased 25.6% due to the strengthening of the forint and the amortisation (in terms of the capital adequacy ratio calculation) of subordinated loan capital. As of year-end 2002, the guarantee capital to be modified was HUF 196.1 billion, which represents an increase of 30.5% over the previous year. Of the various modifying factors, in 2002 investments in financial institutions, insurance companies and investor companies grew by HUF 16.7 billion, corresponding to an increase of 114.7%, while that part of the breaches of limits as defined by the Credit Institutions Act, and of the sovereign risk, that must be covered with capital grew by HUF 2.7 billion, or 23.9%. Thus the guarantee capital providing the requisite cover for financial and investment services had reached HUF 156.1 billion by the end of 2002 (up 25.7% on the previous year), of which HUF 3,523 million served as cover for trading book and exchange rate risk. By year-end 2002, the guarantee capital that could be taken into account when calculating the Bank's capital adequacy ratio had reached HUF 152.6 billion, which represents an increase of HUF 29.7 billion (24.1%) over the previous year.

Of the increase in the volume of risk-weighted assets (the adjusted balance sheet total), 83.8% is attributable to the change in the risk-weighted value of assets and 16.2% to the change in risk-weighted off-balance sheet items.

By year-end 2002, the risk-weighted value of assets had increased by HUF 222.2 billion (29.9%) year on year, to HUF 964.5 billion – alongside a 12.4% increase in the balance sheet total over the same period – due to the fact that, as the result of an increase in the share of customer placements, there has been a slight shift towards placements with a higher risk weighting. The risk-weighted value of off-balance-sheet items and the contingent and future liabilities used for calculating the risk-weighted balance sheet total increased by HUF 43.0 billion, or by nearly 33.4%, compared with the previous year. This change is attributable to the increase in contingent liabilities (primarily the unused part of credit lines and assumed guarantees).

MANAGEMENT'S ANALYSIS

INCOME STRUCTURE, PROFITABILITY

The Bank's pre-tax profit increased by 22.6%, from the previous year's HUF 47.4 billion to HUF 58.1 billion. Total revenue reached HUF 167.2 billion in 2002, which represents an 18.5% year-on-year increase. This was achieved alongside a 4.4% increase in net interest income and a 50.7% increase in non-interest income. The 12.1% growth in non-interest expenses, which was significantly lower than the increase in total revenue, resulted in a 28.1% increase in operating income. Due to the HUF 15.7 billion increase in operating income, as well as the fact that total risk provisioning, value losses and loan losses were HUF 5.0 billion higher than in the previous year, pre-tax profit was HUF 10.7 billion (22.6%) higher than in the previous year.

The distribution and details of total income are shown in the table below:

INCOME*

| | 2001 | | 2002 | | Change | |
|---|----------------|---------------|----------------|---------------|---------------|--------------|
| | HUF mn | prop. % | HUF mn | prop. % | HUF mn | % |
| Net interest income | 98,342 | 69.7% | 102,715 | 61.4% | 4,373 | 4.4% |
| Total interest income | 193,802 | | 188,780 | | - 5,022 | - 2.6% |
| Total interest expense | 95,460 | | 86,065 | | - 9,395 | - 9.8% |
| Non-interest income | 42,775 | 30.3% | 64,447 | 38.6% | 21,672 | 50.7% |
| Net fees and commissions | 40,022 | 28.4% | 56,846 | 34.0% | 16,824 | 42.0% |
| Net income from securities trading | - 1,642 | - 1.2% | - 617 | - 0.4% | 1,025 | - |
| Net income from foreign currency trading | 2,999 | 2.1% | 3,552 | 2.1% | 553 | 18.4% |
| Net income from real estate transactions | - 168 | - 0.1% | 22 | 0.0% | 190 | - |
| Other non-interest income | 1,564 | 1.1% | 4,644 | 2.8% | 3,080 | 196.9% |
| Total income | 141,117 | 100.0% | 167,162 | 100.0% | 26,045 | 18.5% |
| Non-interest expense | 85,214 | 60.4% | 95,557 | 57.2% | 10,343 | 12.1% |
| Operating income | 55,903 | 39.6% | 71,605 | 42.8% | 15,702 | 28.1% |
| Diminution in value, provisions and loan losses | 8,534 | 6.0% | 13,523 | 8.1% | 4,989 | 58.5% |
| Profit before taxation | 47,369 | 33.6% | 58,082 | 34.7% | 10,713 | 22.6% |
| Taxes | 8,971 | 6.4% | 10,885 | 6.5% | 1,914 | 21.3% |
| Profit after taxation | 38,398 | 27.2% | 47,197 | 28.2% | 8,799 | 22.9% |

*In a break-down that is somewhat different from HAS.

The Bank's after-tax profit grew 22.9%, from HUF 38.4 billion to HUF 47.2 billion, in 2002, under a lower effective tax liability (18.7%) than in the previous year.

Within the increase in total revenue, the various elements of income developed differently over the course of the year. The proportion of net interest income within total income decreased from 69.7% to 61.4%, while the proportion of non-interest income – due to a dynamic volume increase in this type of revenue – increased from 30.3% to 38.6%.

The Bank's net interest income was HUF 102.7 billion in 2002. The HUF 4.4 billion increase was the aggregate result of HUF 188.8 billion in interest income (down 2.6%) and HUF 86.1 billion in interest expense (down 9.8%).

MANAGEMENT'S ANALYSIS

THE SOURCES AND STRUCTURE OF INTEREST INCOME AND EXPENSE

| | 2001 | | 2002 | | Change | |
|-------------------------------|----------------|---------------|----------------|---------------|----------------|---------------|
| | HUF mn | prop. % | HUF mn | prop. % | HUF mn | % |
| Interest income from | | | | | | |
| interbank accounts | 46,885 | 24.2% | 35,128 | 18.6% | - 11,757 | - 25.1% |
| retail accounts | 43,488 | 22.4% | 51,898 | 27.5% | 8,410 | 19.3% |
| corporate accounts | 42,960 | 22.2% | 47,865 | 25.4% | 4,905 | 11.4% |
| municipal accounts | 5,830 | 3.0% | 6,152 | 3.3% | 322 | 5.5% |
| securities | 50,189 | 25.9% | 42,879 | 22.7% | - 7,310 | - 14.6% |
| statutory reserves | 4,450 | 2.3% | 4,858 | 2.6% | 408 | 9.2% |
| Total interest income | 193,802 | 100.0% | 188,780 | 100.0% | - 5,022 | - 2.6% |
| Interest expenses on | | | | | | |
| interbank accounts | 3,456 | 3.6% | 4,087 | 4.7% | 631 | 18.3% |
| retail accounts | 74,780 | 78.3% | 65,656 | 76.3% | - 9,124 | - 12.2% |
| corporate accounts | 8,397 | 8.8% | 9,168 | 10.7% | 771 | 9.2% |
| municipal accounts | 5,959 | 6.2% | 5,476 | 6.4% | - 483 | - 8.1% |
| securities | 1,476 | 1.5% | 714 | 0.8% | - 762 | - 51.6% |
| subordinated capital | 1,392 | 1.5% | 964 | 1.1% | - 428 | - 30.7% |
| Total interest expense | 95,460 | 100.0% | 86,065 | 100.0% | - 9,395 | - 9.8% |
| Net interest income | 98,342 | | 102,715 | | 4,373 | 4.4% |

While the net income on swap deals increased by HUF 6.3 billion, interest income from interbank placements decreased by 25.1%, due to a 15.6% fall in average placements and a 104-basis-point fall in the interbank interest rate. (Without the income generated by the swaps, interest income would have declined by 40.6%.) As a consequence, the share of interbank interest income within total interest income dropped to 18.6%. Due to the 51.8% increase in the average volume of retail deposits, and despite the significant 4-percentage-point drop in the interest margin, the net interest income realised on retail accounts increased by 19.3%, to reach 27.5% of the total interest income. Due to a more than 30% increase in corporate and municipality lending, interest income from these two activities grew by 11.4% and 5.5% respectively, and accounted for 25.4% and 3.3% of the total interest income. Compared with 2001, the interest earned from securities decreased by more than 7 billion, or 14.6%, reflecting the combined effects of decreasing average volumes and interest yields. Interest on securities represented 22.7% of total interest income. In 2002, the yields on total average interest-bearing assets in forint and foreign currency reached 9.69%, which is 124 basis points lower than in 2001.

Interest expenses decreased in all the account groups, with the exception of interbank and corporate accounts. Interest paid on corporate accounts increased by 9.2% due to a significant, more than 25%, increase in the average total balance of these accounts. Primarily due to an increase in forint liabilities, interest paid on interbank accounts increased by 18.3% compared with the previous year, which also reflects the increase in losses recorded under this heading as a result of the growth in swap transactions. Interest paid on securities funding and retail accounts fell by the largest margin (51.6% and 12.2% respectively). Interest expense related to municipality funds dropped 8.1%, although the average volume of these funds increased by 21.5%. The share of interest paid on retail funds within the total of interest expense was 76.3%, which is in harmony with the Bank's funding structure. In 2002, the cost of funds calculated on average interest-bearing forint and foreign currency funding amounted to 4.54%, or 1 percentage point down on the 2001 figure.

In 2002, the interest spread calculated on average total interest-bearing assets and liabilities was 5.15%, or 24 basis points lower than in 2001, while the interest margin computed on the average balance sheet total was 4.70%, or 38 basis points lower than in 2001.

MANAGEMENT'S ANALYSIS

AVERAGE INTEREST RATES ON ASSETS AND LIABILITIES

| | 2001 | | 2002 | |
|---|---------------------------|---------------|---------------------------|--------------|
| | Average balance HUF mn | Rates | Average balance HUF mn | Rates |
| <i>Assets</i> | | | | |
| Interbank placements | 508,061 | 9.23% | 428,755 | 8.19% |
| Retail placements | 205,376 | 21.17% | 311,817 | 16.64% |
| Corporate placements | 420,201 | 10.22% | 554,470 | 8.63% |
| Municipal placements | 48,481 | 12.03% | 63,921 | 9.62% |
| Securities | 482,703 | 10.40% | 483,683 | 8.87% |
| Statutory reserves | 108,580 | 4.10% | 106,320 | 4.57% |
| <i>Total interest-bearing assets</i> | <i>1,773,402</i> | <i>10.93%</i> | <i>1,948,966</i> | <i>9.69%</i> |
| Non-interest-bearing assets | 163,501 | – | 238,094 | – |
| Total assets: | 1,936,903 | 10.01% | 2,187,060 | 8.63% |
| <i>Liabilities</i> | | | | |
| Interbank liabilities | 37,303 | 9.26% | 35,614 | 11.48% |
| Retail liabilities | 1,327,197 | 5.63% | 1,429,162 | 4.59% |
| Corporate liabilities | 234,584 | 3.58% | 293,715 | 3.12% |
| Municipal liabilities | 91,181 | 6.54% | 110,772 | 4.94% |
| Securities | 17,187 | 8.59% | 11,240 | 6.35% |
| Subordinated loans | 17,681 | 7.87% | 16,608 | 5.80% |
| <i>Total interest-bearing liabilities</i> | <i>1,725,133</i> | <i>5.53%</i> | <i>1,897,111</i> | <i>4.54%</i> |
| Non-interest-bearing liabilities | 211,770 | – | 289,949 | – |
| Total liabilities | 1,936,903 | 4.93% | 2,187,060 | 3.94% |
| Interest spread | | 5.39% | | 5.15% |
| Net interest margin | | 5.08% | | 4.70% |

The table below shows in detail how much of the change in the net interest income is attributable to changes in interest rates and how much to changes in volumes.

INCREASE (DECREASE) IN THE NET INTEREST INCOME*

| | Total net change HUF mn | Effect of interest rate change HUF mn | Effect of volume change HUF mn |
|---------------------------------------|-------------------------------|---|--------------------------------------|
| Interest-earning assets | | | |
| Interbank placements | – 11,757 | – 4,916 | – 6,841 |
| Retail placements | 8,410 | – 10,715 | 19,125 |
| Corporate placements | 4,905 | – 7,386 | 12,291 |
| Municipal placements | 322 | – 1,307 | 1,629 |
| Securities | – 7,310 | – 7,412 | 102 |
| Statutory reserves | 408 | 502 | – 94 |
| Total interest-earning assets: | – 5,022 | – 31,233 | 26,211 |

*The effect of the change in the structure is proportionately divided between the two components

MANAGEMENT'S ANALYSIS

| <i>(continued from page 31)</i> | Total net change HUF mn | Effect of interest rate change HUF mn | Effect of volume change HUF mn |
|--|--|--|---|
| Interest-bearing liabilities | | | |
| Interbank liabilities | 631 | 793 | - 162 |
| Retail liabilities | - 9,124 | - 14,557 | 5,433 |
| Corporate liabilities | 771 | - 1,166 | 1,937 |
| Municipal liabilities | - 483 | - 1,617 | 1,134 |
| Securities | - 762 | - 327 | - 435 |
| Subordinated loans | - 428 | - 348 | - 80 |
| Total interest-bearing liabilities: | - 9,395 | - 17,222 | 7,827 |
| Change in net interest income | 4,373 | - 14,011 | 18,384 |

Changes to interest rates reduced the net interest income by HUF 14.0 billion. Although the changes to the interest rates reduced both interest income and interest expense, income decreased more sharply than expense as a result of the changes. The change in volume substantially increased both income and expense, and, overall, it increased the net interest income by HUF 18.4 billion. Changes in interest rates reduced the interest margin by 73 basis points, while the increase in volume increased it by 26 basis points. The change in the structure of assets and liabilities increased the margin by 9 basis points.

In 2002 the Bank's **non-interest income** showed an exceptionally dynamic increase of 50.7%, or HUF 21.7 billion, while its proportion within total income also increased significantly, by 8.3 percentage points. The most important contributing factor to the favourable non-interest income figure was the increase in net commission revenue, but the favourable changes in other types of non-interest income also exerted a positive influence.

From among the various types of **non-interest income, net commission and fee income** increased by HUF 16.8 billion to HUF 56.8 billion. As a consequence of a 42.0% increase, the proportion of net fee and commission income within total revenue was 34.0%, while the corresponding figure for 2001 was 28.4%. Commissions and fees received were 39.2% higher than in 2001, while paid fees and commissions were 21.3% higher than in the previous year. Among the commissions and fees received, income from the bankcard business rose by a significant 29.9%, amounting to more than HUF 18 billion. Most of the HUF 4 billion growth in card revenues originated from increases in ATM cash withdrawal transaction fees and commission revenues from merchants, which in turn resulted from an increase in turnover. Due to the dynamic growth in lending activity, the increase in commission revenues related to loans was outstandingly high (191%). The growth in commission revenues from funds transfer transactions was 13.9%. Commission revenues on retail current account transactions increased 16.2% during the year, while the commission revenue related to other types of deposit decreased by 13.4%. In 2002, commission revenue from securities trading was 34.1% higher than in the previous year.

The **net result of securities trading** was a loss of HUF 0.6 billion, compared with a loss of HUF 1.6 billion in 2001. In 2002, the Bank realised a loss of HUF 1.1 billion on Hungarian Government Bonds, of which HUF 0.3 billion originated from trading and HUF 0.8 billion was the realised and/or accrued premium of bonds bought above their nominal value. The value gain on foreign government bonds was HUF 0.4 billion, while on Discount Treasury Bills and other domestic investment notes the Bank realised gains of HUF 0.2 billion and HUF 0.1 billion respectively. Compared with 2001, the value loss on Hungarian Government Bonds fell by a substantial HUF 1.3 billion, while the gain on foreign government bonds increased by HUF 0.4 billion. The value gain on Discount Treasury Bills increased by HUF 0.1 billion, while the gain on other domestic bonds and investment notes decreased by HUF 0.2 billion. The overall loss of HUF 0.6 billion on securities trading originates from the HUF 0.3 billion price loss on shares and equity stakes held by the Bank, the HUF 0.1 billion gain on trading activities, and the HUF 0.1 billion realised premium and the HUF -0.5 billion accrued premium on the portfolio purchased at above the nominal value.

MANAGEMENT'S ANALYSIS

In 2002, the net gain from **foreign exchange trading** was HUF 3.6 billion, 18.4% up on the previous year. Due to favourable exchange rate trends, the loss resulting from the revaluation of assets and liabilities was approximately HUF 1.7 billion less than in the previous year, while the HUF 4.8 billion gain on the foreign exchange spread in 2002 represents a reduction of HUF 3.3 billion compared with 2001. The net gain from foreign exchange trading was increased by a currency spread of HUF 0.9 billion and a spread of HUF 0.1 billion on cheques, while the Bank incurred a loss of HUF 1.5 billion on non-hedged forward transactions. The net gain from option deals was HUF 0.2 billion. Due to, among others, the increased volume of foreign exchange swap transactions, the Bank had a significant, long balance sheet position. The combined net gain from foreign exchange trading and swap deals increased from HUF 4.6 billion in 2001 to HUF 9.5 billion in 2002, and thus swap deals had a favourable impact on the Bank's profitability.

In 2002, the net gain from real estate trading was HUF 22 million, as opposed to a loss of HUF 168 million in 2001. Other non-interest income grew substantially, to approximately three times the HUF 4.6 billion figure for 2001.

In 2002, non-interest income covered 67.4% of non-interest expenses, compared to a ratio of 50.2% in 2001.

The Bank's **total income** in 2002 amounted to HUF 167.2 billion, which represents an increase of HUF 26.0 billion, or 18.5%, over the previous year. The change in net interest income contributed HUF 4.4 billion, while the change in non-interest income contributed HUF 21.7 billion, to the increase in total income.

The structure of **the use of total income** improved further in 2002. Non-interest expenses grew at a rate of 12.1%, which was higher than the average annual inflation rate, but significantly lower than the rate of increase in total income. Non-interest expenses compared with total income, i.e. the expense/income ratio, decreased by 3.2 percentage points, to 57.2%. The combined amount of provisions, value losses and lending losses grew by HUF 5.0 billion compared with the previous year, and their proportion within total income increased from 6.0% to 8.1%.

The increase in non-interest expenses at a rate slower than that of total income, i.e. the significant fall in the ratio of such expenses to total income, combined with the increase in total provisions, value losses and lending losses, resulted in an increase in the ratio of pre-tax profits to total income of 1.1 percentage points, with pre-tax profits amounting to 34.7% of total income in 2002.

The ratio of the various components of income to the average balance sheet total, as well the changes in these components, are shown in the table below:

INCOME ELEMENTS AS A PERCENTAGE OF AVERAGE TOTAL ASSETS*

| | 2001 | | 2002 | |
|-------------------------------|--------|-------|---------|-------|
| | HUF mn | % | HUF mn | % |
| Net interest income | 98,342 | 5.08% | 102,715 | 4.70% |
| Net fee and commission income | 40,022 | 2.07% | 56,846 | 2.60% |
| Operating expense | 85,214 | 4.40% | 95,557 | 4.37% |
| Provision | 8,534 | 0.44% | 13,523 | 0.62% |
| Pre-tax profit | 47,369 | 2.45% | 58,082 | 2.66% |

*Average balance sheet total in 2001: HUF 1,936.9 billion, in 2002 HUF 2,187.1 billion

In 2002, the interest differential (i.e. the net interest margin) computed on the average balance sheet total was 4.70%, or 38 basis points lower than in 2001. The increase in the ratio of net commission revenue in terms of the average balance sheet total continued: from 2.07% in 2001 to 2.60% in 2002. The average ratio of provisions, value losses and lending losses within the balance sheet total increased from 0.44% to 0.62%. The ratio of non-interest expenses to the average balance sheet total decreased slightly, to 4.37%. Due to the combined effect of these changes, the average ratio of pre-tax profit to the balance sheet total increased substantially.

MANAGEMENT'S ANALYSIS

The Bank's return on average assets (**ROAA**) was **2.09%** in 2002, while the return on average equity (**ROAE**) was **25.9%** (2001: 1.89% and 26.9%). The ROAE in real terms¹ was 20.6%, compared with 17.7% in 2001. **Undiluted earnings per share (EPS)**² were HUF 178.98 in 2002, 22.8% higher than a year earlier, while the diluted³ figure was HUF 168.56, or 22.9% higher than in 2001.

COST MANAGEMENT

In 2002, the Bank's non-interest expenses amounted to HUF 95.6 billion, a 12.1% increase over the previous year's figure. Due to various IT and branch network development projects, this cost increase exceeded the rate of inflation, but still remained well below the rate of increase in revenues.

NON-INTEREST EXPENSES

| | 2001 | | 2002 | | Change | |
|------------------------------------|---------------|---------------|---------------|---------------|---------------|--------------|
| | HUF mn | prop. % | HUF mn | prop. % | HUF mn | % |
| Personnel costs | 32,551 | 38.2% | 37,571 | 39.3% | 5,020 | 15.4% |
| Depreciation | 11,129 | 13.1% | 11,088 | 11.6% | - 41 | - 0.4% |
| Other administration expenses | 27,512 | 32.3% | 31,636 | 33.1% | 4,124 | 15.0% |
| Other non-interest expenses | 14,022 | 16.4% | 15,263 | 16.0% | 1,241 | 8.9% |
| Total non-interest expenses | 85,214 | 100.0% | 95,557 | 100.0% | 10,343 | 12.1% |

The largest item among non-interest type expenses, representing a share of 39.3%, was **personnel costs**. In 2002 the Bank's personnel costs increased 15.4%, which means that the share of these costs within the total of non-interest type expenses grew by 1.1 percentage points. In addition to employees' average salary increase of 10% at the beginning of the year, a significant contributory factor in this was the increase in staff numbers and the costs of the option and bonus share programmes. The proportion of personnel costs to total revenue was 22.5% in 2002, compared to 23.1% in 2001.

STAFF LEVEL OF THE BANK LTD. (PERSONS)

| | Closing | | Average | | Change | | Average | |
|--------------------|--------------|--------------|--------------|--------------|-----------------|-------------|------------|-------------|
| | 2001 | 2002 | 2001 | 2002 | closing persons | % | persons | % |
| Full-time employee | 7,895 | 8,296 | 7,792 | 8,153 | 401 | 5.1% | 361 | 4.6% |
| Part-time employee | 398 | 474 | 396 | 411 | 76 | 19.1% | 15 | 3.8% |
| Total | 8,293 | 8,770 | 8,188 | 8,564 | 477 | 5.8% | 376 | 4.6% |

At the end of 2002, the Bank's total headcount was 8,770, i.e. 477, or 5.8%, more than in 2001. The average annual headcount for the period increased by 376, or 4.6%.

EMPLOYEE PRODUCTIVITY INDICATORS

| | 2001 HUF mn | 2002 HUF mn | Change % |
|-----------------------------|----------------|----------------|-------------|
| Per capita | | | |
| Total assets at 31 December | 256,5 | 272,5 | 6.3% |
| Average total assets | 236,6 | 255,4 | 8.0% |
| After-tax profit | 4,7 | 5,5 | 17.5% |
| Total income | 17,2 | 19,5 | 13.3% |
| Personnel expenses | 4,0 | 4,4 | 10.4% |

¹ Calculation method: ROAE - inflation (%)

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

³ Calculation method: adjusted after-tax profit / total ordinary shares

MANAGEMENT'S ANALYSIS

The improvement in staff efficiency continued in 2002. Per capita after-tax profits increased by 17.5%, while the per capita average balance sheet total increased 8.0% and per capita income was 13.3% higher in 2002 than in the previous year. However, per capita personnel costs increased by 10.4%.

Among the components of material costs, **depreciation** remained virtually unchanged in 2002, decreasing by HUF 41 million, or 0.4%. Other administration expenses (material and material-type expenses) increased by 15.0% in 2002, while other non-interest expenses increased by 8.9%.

ASSET-LIABILITY STRUCTURE

On 31 December 2002, the total assets of OTP Bank Ltd. amounted to HUF 2,390.1 billion, which represents a 12.4%, or HUF 263.0 billion, increase compared to the HUF 2,127.2 billion figure for 31 December 2001. Within the Hungarian banking sector, OTP Bank Ltd. had the largest balance sheet total, and its market share amounted to 22.1%.

The Bank's liability structure did not change in the course of the year, as it continued to be characterised by the high ratio of customer funding to total liabilities. On the asset side, the ratio of customer placements to total assets continued to increase, and a substantial growth occurred in the share, within total assets, of securities representing a lending relationship. At the same time, the share of interbank placements, government securities and cash within total assets decreased slightly.

THE DISTRIBUTION OF ASSET-LIABILITY COMPONENTS*

| | 31 Dec. 2001 | | 31 Dec. 2002 | | Change | |
|---|------------------|---------------|------------------|---------------|-----------------|----------------|
| | HUF mn | prop. % | HUF mn | prop. % | HUF mn | % |
| Cash and Bank | 372,593 | 17.5% | 346,963 | 14.5% | - 25,630 | - 6.9% |
| NBH clearing account | 104,931 | 4.9% | 94,113 | 3.9% | 10,818 | - 10.3% |
| NBH short-term placements | 212,500 | 10.0% | 205,000 | 8.6% | 7,500 | - 3.5% |
| Other | 55,162 | 2.6% | 47,850 | 2.0% | -7,312 | 13.3% |
| Government securities | 481,079 | 22.6% | 401,855 | 16.8% | - 79,224 | - 16.5% |
| Trading securities | 136,325 | 6.4% | 111,072 | 4.6% | - 25,253 | - 18.5% |
| Investment securities | 344,754 | 16.2% | 290,783 | 12.2% | - 53,971 | - 15.7% |
| Securities representing a lending relationship | 17,636 | 0.8% | 153,188 | 6.4% | 135,552 | 768.6% |
| Interbank placements** | 329,948 | 15.5% | 263,320 | 11.0% | - 66,628 | - 20.2% |
| Customer placements | 769,782 | 36.2% | 951,746 | 39.8% | 181,964 | 23.6% |
| Retail | 258,246 | 12.1% | 329,829 | 13.8% | 71,583 | 27.7% |
| Corporate | 464,818 | 21.9% | 558,590 | 23.4% | 93,772 | 20.2% |
| Municipal | 46,718 | 2.2% | 63,327 | 2.6% | 16,609 | 35.6% |
| Investments | 40,455 | 1.9% | 49,361 | 2.1% | 8,906 | 22.0% |
| Other | 29,890 | 1.4% | 125,393 | 5.2% | 95,503 | 319.5% |
| Intangible and tangible assets | 54,246 | 2.6% | 63,679 | 2.7% | 9,433 | 17.4% |
| Accrued and deferred items | 31,529 | 1.5% | 34,615 | 1.4% | 3,086 | 9.8% |
| TOTAL ASSETS | 2,127,158 | 100.0% | 2,390,120 | 100.0% | 262,962 | 12.4% |

* The asset-liability items are analysed in a structure somewhat different from that of the balance sheet.

** Includes short-term placements and those over one year to financial institutions and placements over one year to NBH.

MANAGEMENT'S ANALYSIS

(continued from page 35)

| | 31 Dec. 2001 | | 31 Dec. 2002 | | Change | |
|-----------------------------------|------------------|---------------|------------------|---------------|----------------|----------------|
| | HUF mn | prop. % | HUF mn | prop. % | HUF mn | % |
| Interbank liabilities | 25,133 | 1.2% | 28,220 | 1.2% | 3,087 | 12.3% |
| Customer liabilities | 1,811,221 | 85.1% | 2,011,043 | 84.1% | 199,822 | 11.0% |
| Retail | 1,405,642 | 66.1% | 1,523,725 | 63.8% | 118,083 | 8.4% |
| Corporate | 253,568 | 11.9% | 341,903 | 14.3% | 88,334 | 34.8% |
| Municipal | 152,011 | 7.1% | 145,415 | 6.1% | - 6,595 | - 4.3% |
| Securities | 14,864 | 0.7% | 9,419 | 0.4% | - 5,445 | - 36.6% |
| Provisions | 14,598 | 0.7% | 20,974 | 0.9% | 6,376 | 43.7% |
| Accrued and deferred items | 22,288 | 1.0% | 23,108 | 1.0% | 820 | 3.7% |
| Other | 80,538 | 3.8% | 91,513 | 3.8% | 10,975 | 13.6% |
| Shareholder's equity | 158,516 | 7.5% | 205,843 | 8.6% | 47,327 | 29.9% |
| TOTAL LIABILITIES | 2,127,158 | 100.0% | 2,390,120 | 100.0% | 262,962 | 12.4% |

ASSETS

Cash and bank. The volume of the Bank's cash and bank decreased, partly in response to the change in the mandatory reserves. As of 31 December 2002, it stood at HUF 25.6 billion less than in the previous year, reducing its ratio to total assets from 17.5% to 14.5%. Of the various liquid assets, short-term placements at the National Bank decreased by close to HUF 8 billion and thus their proportion within total assets fell from 10.0% to 8.6%. The balance on the NBH clearing account was 10.3%, or HUF 10.8 billion, less than the balance on 31 December 2001. Other liquid assets decreased from HUF 55.2 billion to HUF 47.9 billion.

Government securities. The proportion of government securities within the Bank's portfolio decreased from 22.6% at the end of 2001 to 16.8% on 31 December 2002, due to the increase within the portfolio of the volume of customer placements and securities embodying a lending relationship. The volume decreased by 16.5%, from HUF 481.1 billion on 31 December 2001 to HUF 401.9 billion on 31 December 2002. Within total government securities, trading securities decreased by 18.5%, to HUF 111.1 billion, while investment securities fell by 15.7%, to HUF 290.8 billion. With this, the share of trading securities within the total portfolio of government securities increased slightly, from 71.7% in 2001 to 72.4% in 2002.

STRUCTURE OF GOVERNMENT SECURITIES

| | 31 Dec. 2001 | | 31 Dec. 2002 | | Change | |
|---|----------------|--------------|----------------|--------------|-----------------|----------------|
| | HUF mn | prop. % | HUF mn | prop. % | HUF mn | % |
| Trading securities | | | | | | |
| Discounted T-Bills | 26,589 | 5.5% | 17,905 | 4.5% | - 8,684 | - 32.7% |
| Hungarian Government Bonds | 87,342 | 18.2% | 82,358 | 20.5% | - 4,984 | - 5.7% |
| Interest-bearing T-bills | 1,318 | 0.3% | 1,911 | 0.5% | 593 | 45.0% |
| Bonds issued by NBH | 7,597 | 1.6% | 0 | 0.0% | - 7,597 | - 100.0% |
| Foreign Government Bonds | 4,962 | 1.0% | 2,963 | 0.7% | - 1,999 | - 40.3% |
| Foreign currency bonds issued by the Hungarian Republic | 4,548 | 0.9% | 2,760 | 0.7% | - 1,788 | - |
| Treasury Government Bonds | 3,969 | 0.8% | 3,175 | 0.8% | - 794 | - 20.0% |
| Total | 136,325 | 28.3% | 111,072 | 27.6% | - 25,253 | - 18.5% |

MANAGEMENT'S ANALYSIS

| <i>(continued from page 36)</i> | 31 Dec. 2001 | | 31 Dec. 2002 | | Change | |
|--|----------------|---------------|----------------|---------------|-----------------|----------------|
| | HUF mn | prop. % | HUF mn | prop. % | HUF mn | % |
| Investment securities | | | | | | |
| Home fund financing bond | 711 | 0.1% | 474 | 0.1% | - 237 | - 33.4% |
| Hungarian Government Bonds, Social Security Bonds | 254,413 | 52.9% | 216,226 | 53.8% | - 38,187 | - 15.0% |
| Loan Consolidation State Bonds | 17,287 | 3.6% | 17,300 | 4.3% | 13 | 0.1% |
| NBH foreign currency bonds | 5,320 | 1.1% | 1,783 | 0.4% | - 3,537 | - 66.5% |
| NBH interest-bearing bonds | 9,816 | 2.0% | 9,816 | 2.4% | 0 | - |
| Foreign currency bonds issued by the Hungarian Republic | 2,772 | 0.6% | 2,237 | 0.6% | - 535 | - 19.3% |
| Treasury Government Bonds | 46,123 | 9.6% | 42,947 | 10.7% | - 3,176 | - |
| Foreign Government Bonds | 8,312 | 1.7% | 0 | 0.0% | - 8,312 | - |
| Total | 344,754 | 71.7% | 290,783 | 72.4% | - 53,971 | - 15.7% |
| Total government securities | 481,079 | 100.0% | 401,855 | 100.0% | - 79,224 | - 16.5% |

More than 80% of the HUF 25.3 billion decrease in trading securities originates from the substantial decrease in the volume of Discounted Treasury Bills, bonds issued by the NBH, and Hungarian Government Bonds. The volume of all investment securities in the portfolio decreased, with the largest fall occurring in the volume of Hungarian Government Bonds and social security bonds (HUF 38.2 billion). Within the investment portfolio, the balance of foreign government bonds decreased by HUF 8.3 billion, to stand at zero by year-end 2002.

As of 31 December 2002, nearly three quarters (74.3%) of the total government securities portfolio consisted of Hungarian Government Bonds and social security bonds, a 3.3 percentage-point increase compared to the end of 2001. Some 11.5% of the government securities were Treasury Bonds, which increased their share of the government securities portfolio by 1.1 percentage-points in comparison to the end of 2001. The share of NBH bonds, Discount Treasury Bills and foreign currency bonds issued by the Republic of Hungary decreased slightly within the portfolio.

Other securities embodying a lending relationship. As of year-end 2002, 6.4% of the Bank's assets were other securities embodying a lending relationship, in contrast to the previous year's 0.8%. Of the various asset groups, this has experienced the highest (almost nine-fold) growth. The bulk of this HUF 135.6 billion increase originates from the inclusion of the mortgage notes in the portfolio, worth HUF 134 billion, issued by OTP Mortgage Bank. These securities assure the Bank a more favourable yield than government securities, with an almost equally low level of risk.

Interbank placements. Interbank placements represented 11.0% of total assets on 31 December 2002, 4.5 percentage-points less than in 2001. Their volume decreased by 20.2%, to HUF 263.3 billion. The HUF 66.6 billion decrease in the volume is the result of a HUF 123.6 billion fall in foreign currency placements and a HUF 57.0 billion increase in forint placements, partly due to the higher yields on forint placements and partly to the dynamic growth in foreign-currency customer loans. At the end of 2002, the great majority of placements (94.5%) were loans maturing within one year (2001: 93.9%). The increase in the proportion of placements with a maturity of less than one year within the interbank portfolio was accompanied by a decrease of 19.7%, or more than HUF 61 billion, in the volume of the portfolio. The volume of interbank placements with a maturity of over one year decreased by 28.0%, and thus their proportion within total interbank placements also decreased (to 5.5%). Within the total of interbank placements, the volume of forint placements increased by 70.1%, and thus their share within the total portfolio increased to 52.5% (2001: 24.6%), while the volume of foreign currency placements dropped significantly, by 49.7%, with their share of total placements falling to 47.5%. In 2002, the Bank remained a net lender on the interbank market, which can be attributed to its liquidity resulting from its traditionally high volume of retail deposits. The volume of interbank placements exceeded interbank liabilities by over HUF 235 billion.

MANAGEMENT'S ANALYSIS

Customer loans. In line with the Bank's business policy, the portfolio of customer loans increased by HUF 182 billion, or 23.6%, in 2002, substantially exceeding the rate of increase of the balance sheet total, and thus their share within the total of assets increased from 36.2% to 39.8%. Within customer lending, loan placements to municipalities and the retail sector increased at well above the average rate. The volume of retail loans grew by HUF 71.6 billion, to total HUF 329.8 billion as of year-end 2002; a 27.7% increase over the previous year. Most of this increase (86%) resulted from the growth in the volume of housing loans. Loans to the corporate sector grew by 20.2%, to stand at HUF 558.6 billion on 31 December 2002. The Bank's portfolio of municipality loans grew by 35.6% in 2002. The share of corporate loans within total customer placements dropped from 60.4% to 58.7%, while the share of retail loans grew from 33.5% to 34.7%. As at year-end 2002, municipality loans accounted for 6.7% of total customer placements.

The share of loans given to financial and investment firms, insurance companies and special money and capital market institutions (PBBS) was HUF 64.1 billion, (almost double the figure for the previous year) within corporate loans, which increased 20.2% to reach HUF 558.6 billion by year-end. The total of loans granted to other business organisations grew by 15.1%, reaching HUF 494.5 billion, within which loans to businesses with a legal personality showed the most dynamic increase (17.9%). Within the loans granted to business organisations with a legal personality, foreign-currency loans grew by 32.2%, overdrafts by 39.4% and other loans by 134.6%, while the volume of investment loans decreased by 24.6% and the volume of working capital loans by 0.6%. The volume of loans granted to small businesses increased by 5.8%, while loans to non-profit organisations decreased by HUF 5 billion. The share of loans granted to business enterprises within the corporate loan portfolio was 81.4%, while that of small business loans was 3.0%, that of non-profit organisations 4.1% and that of PBBS loans 11.5%.

The growth of the retail loan portfolio, which began in previous years, accelerated in 2002, and by the end of the year the retail portfolio had grown significantly, by 27.7%, due to the 40.8% expansion in housing loans and the 9.3% growth in other retail loans. The increase in state subsidies for housing loans had a favourable impact on lending activities. During 2002, the balance of housing loans grew by 40.8%, reaching HUF 212.4 billion by year-end, which corresponds to an increase of HUF 61.6 billion over the previous year. The rate of growth in consumer loans was 9.3%. As of year-end 2002, the combined balance of consumer and mortgage loans was HUF 117.4 billion, within which, in line with the Bank's strategy, overdraft loans linked to retail current accounts increased substantially, by 23.3%, with their volume amounting to almost HUF 70 billion. The volume of mortgage loans was HUF 45.4 billion as of year-end 2002, with the slight (1.9%) year-on-year reduction attributable to the increased importance of subsidised housing loans.

The volume of municipality loans grew by HUF 16.6 billion, or 35.6%, compared to the previous year. The Bank thus retained its market-leading position in the municipality lending market.

An examination of the maturity structure of the customer loan portfolio shows that, due to an above-average volume growth of 33.1% in 2002, the share of receivables with a maturity of over one year within the total of receivables had reached 75.6% by the end of the year. The most dynamic growth (57.4%) was achieved in retail placements within the total of placements with a maturity of over one year. Placements with a maturity of less than one year grew by just 1.3% year on year, and their share within the total of receivables dropped from 29.7% to 24.4% .

CUSTOMER PLACEMENTS BY MATURITY (BASED ON GROSS LOAN RECEIVABLES)

| | 31 Dec. 2001 | | 31 Dec. 2002 | | Change | |
|------------------------------|----------------|--------------|----------------|--------------|--------------|-------------|
| | HUF mn | prop. % | HUF mn | prop. % | HUF mn | % |
| Shorter than one year | | | | | | |
| retail | 59,029 | 7.7% | 16,311 | 1.7% | - 42,718 | - 72.4% |
| corporate | 158,120 | 20.5% | 200,055 | 21.0% | 41,935 | 26.5% |
| municipal | 11,846 | 1.5% | 15,586 | 1.6% | 3,740 | 31.6% |
| Total | 228,995 | 29.7% | 231,952 | 24.4% | 2,957 | 1.3% |

MANAGEMENT'S ANALYSIS

| | 31 Dec. 2001 | | 31 Dec. 2002 | | Change | |
|----------------------------------|----------------|---------------|----------------|---------------|----------------|--------------|
| | HUF mn | prop. % | HUF mn | prop. % | HUF mn | % |
| <i>(continued from page 38)</i> | | | | | | |
| Over one year | | | | | | |
| retail | 199,217 | 25.9% | 313,518 | 32.9% | 114,301 | 57.4% |
| corporate | 306,698 | 39.8% | 358,535 | 37.7% | 51,837 | 16.9% |
| municipal | 34,872 | 4.5% | 47,741 | 5.0% | 12,869 | 36.9% |
| Total | 540,787 | 70.3% | 719,794 | 75.6% | 179,007 | 33.1% |
| Total customer placements | 769,782 | 100.0% | 951,746 | 100.0% | 181,964 | 23.6% |

The HUF 2.9 billion increase in short-term customer receivables is the net result of a HUF 42.7 billion drop in retail receivables, an increase of nearly the same magnitude – HUF 41.9 billion – in corporate lending and an increase of HUF 3.7 billion in municipality lending. Retail loans with a maturity of less than one year were down 72.4% from the previous year, and their share within the total of loans with a maturity of less than one year decreased to 7.0%. With a significant, 26.5%, increase in volume, corporate loans accounted for 86.2% of the short-term loan portfolio, and their share in 2002 was 17.2 percentage-points higher than at the end of the previous year. Short-term municipality loans increased by HUF 3.7 billion, or 31.6%, over the year, and their share within the total of short-term placements was 6.7% as at 31 December 2002.

Retail loans showed the highest growth rate (57.4%) within placements with a maturity of over one year. Thus, the volume of retail loans was HUF 114.3 billion higher as at 31 December 2002 than it had been a year earlier, and the share of retail loans within the total of long-term loans grew from 36.8% to 43.6%. Corporate loans accounted for 49.8% of the total of loans with a maturity of over one year, 6.9 percentage-points lower than at the end of 2001, due to a below-average growth rate of 16.9%. As of year-end 2002, the volume of municipality loans with a maturity of more than one year was 36.9% more than at the end of the previous year, and the share of these loans within total loans of a maturity of over one year had increased to 6.6%.

Investments. At the end of 2002, the gross book value of the Bank's investments amounted to HUF 49.3 billion, representing a HUF 8.9 billion, or 22%, increase over the previous year. Management of the OTP Group and the realisation of strategic investments continued to be of major importance in the investment operations of OTP Bank in 2002. Permanent financial investments grew by HUF 14.4 billion in 2002 and within this, the increase in the OTP Group's permanent investments exceeded HUF 12 billion. As of 31 December 2002 the volume of non-permanent investments was HUF 50 million. (On 31 December 2001, non-permanent investments amounted to HUF 5.5 billion. This figure included the shares of Zagrabecka Banka, which were purchased with the aim of realising a price gain. This transaction was successfully concluded in the first quarter of 2002.) In the course of the year, the Bank had no forced investments. In 2002 the dividends on investments amounted to HUF 146 million.

CHANGES IN INVESTMENTS*

| | 31 Dec. 2001 | 31 Dec. 2002 | Change | |
|---------------------------------|---------------|---------------|--------------|--------------|
| | HUF mn | HUF mn | HUF mn | % |
| Permanent financial investments | 34,918 | 49,311 | 14,393 | 41.2% |
| of this: OTP Group | 33,394 | 45,702 | 12,308 | 36.9% |
| Trading investments | 5,537 | 50 | - 5,487 | - 99.1% |
| Forced investments | 0 | 0 | 0 | - |
| Total investments | 40,455 | 49,361 | 8,906 | 22.0% |

*Gross book-value

LIABILITIES

Interbank liabilities. Interbank liabilities grew at approximately the same rate as total liabilities, thus their share (1.2%) within total liabilities remained the same. The volume of interbank liabilities was HUF 28.2 billion as at 31 December 2002. Although the Bank was a net lender on the interbank HUF market, it also remained constantly active as a borrower.

MANAGEMENT'S ANALYSIS

Customer deposits. On 31 December 2002, customer deposits accounted for 84.1% of the Bank's total liabilities, as opposed to 85.1% a year earlier. In 2002, 85.4% of customer deposits were forint deposits as opposed to 80.2% in the previous year. As the Bank's primary business line is retail banking, the majority of customer deposits (75.8%) came from retail customers, representing a dominant proportion (63.8% in 2002 and 66.1% in 2001), even within total liabilities.

As the continuation of a trend that began in the previous year, retail deposits underwent a substantial restructuring in favour of forint deposits and deposits linked to current accounts, and there were substantial differences in the way the various types of deposit changed in volume over the year. Forint deposits grew at above the average rate, by HUF 181.8 billion, or 16.9%, thus their share within the total of retail deposits grew from 76.6% in 2001 to 82.6% in 2002. In response to strengthening forint and the more favourable yields on forint savings, foreign currency deposits decreased by 19.4% in forint terms, or by HUF 63.7 billion, and their proportion within total retail deposits decreased to 17.4%. In a strengthening of the trend that began in previous years, the volume of traditional savings schemes within forint deposits (interest-bearing passbook deposits, savings notes, premium deposits) decreased by 4.6%, or HUF 18.7 billion, reducing their share of total forint deposits by 6.9 percentage-points, to 31.0%. Following stagnation in the previous year, the volume of savings schemes based on deposits made at regular intervals decreased by 9.7% in 2002, due to the phasing out of these products. In line with the Bank's intentions, the volume of retail current account deposits showed an outstanding growth of 32.4%, increasing from HUF 630.2 billion to HUF 834.4 billion, and its share of total retail deposits reached 66.3% by the end of 2002.

Corporate deposits rose by 34.8%, that is, at a significantly higher rate than that of customer liabilities, and their proportion within total customer liabilities grew from 14.0% to 17.0%. Within corporate deposits, foreign currency deposits grew at a more dynamic rate of 37.8%, while the growth of forint deposits was 34.6%. As of year-end 2002, 94% of corporate deposits were forint deposits.

The volume of municipality deposits decreased by 4.3%, and their proportion within total customer funding reached 7.2% by the end of 2002. At year-end 2002, 95% of municipality deposits were forint deposits.

CUSTOMER LIABILITIES BY MATURITY

| | 31 Dec. 2001 | | 31 Dec. 2002 | | Change | |
|-----------------------------------|------------------|---------------|------------------|---------------|-----------------|----------------|
| | HUF mn | prop. % | HUF mn | prop. % | HUF mn | % |
| Shorter than one year | | | | | | |
| retail | 1,297,240 | 71.6% | 1,431,901 | 71.2% | 134,661 | 10.4% |
| corporate | 253,316 | 14.0% | 341,660 | 17.0% | 88,344 | 34.9% |
| municipal | 151,302 | 8.4% | 144,749 | 7.2% | - 6,553 | - 4.3% |
| Total | 1,701,858 | 94.0% | 1,918,310 | 95.4% | 216,452 | 12.7% |
| Over one year | | | | | | |
| retail | 108,402 | 6.0% | 91,824 | 4.6% | - 16,578 | - 15.3% |
| corporate | 252 | 0.0% | 242 | 0.0% | - 10 | - 4.0% |
| municipal | 709 | 0.0% | 667 | 0.0% | - 42 | - 5.9% |
| Total | 109,363 | 6.0% | 92,733 | 4.6% | - 16,630 | - 15.2% |
| Total customer liabilities | 1,811,221 | 100.0% | 2,011,043 | 100.0% | 199,822 | 11.0% |

Within customer deposits, deposits with a maturity of less than one year increased by 12.7%, while those with a maturity of more than one year decreased by 15.2%, further increasing the share of liabilities with a maturity of less than one year within the total of customer liabilities, to 95.4% by year-end. The almost HUF 200 billion increase in total customer liabilities was the result of an increase of over HUF 216 billion in short-term liabilities and a decrease of more than HUF 16 billion in long-term liabilities. Close to 70% of the increase in short-term liabilities resulted from an increase in retail liabilities, while nearly all the reduction in long-term customer liabilities resulted from a decrease in retail liabilities with a maturity of over one year.

MANAGEMENT'S ANALYSIS

Securities and deposit certificates. The volume of securities and deposit certificates issued by the Bank amounted to HUF 9.4 billion as of 31 December 2002, 36.6% lower than in 2001 – in line with the Bank's business policy objectives. Their proportion within liabilities fell from 0.7% to 0.4%.

Equity. On 31 December 2002 OTP Bank Ltd.'s equity was HUF 205.8 billion, and the share of equity within the total of liabilities and equity increased from 7.5% in 2001 to 8.6% in 2002. Of the HUF 47.3 billion increase in equity, HUF 42.5 billion can be attributed to the Bank's balance sheet profit and HUF 4.7 billion to the increase in general reserves. The Bank's equity calculated on one share of HUF 100 nominal value was HUF 735, corresponding to an increase of 29.9% over the previous year.

Provisions. Within the Bank's liabilities, the volume of provisions increased from HUF 14.6 billion to HUF 21.0 billion.

CHANGES IN PROVISIONS

| | 31 Dec. 2001 HUF mn | 31 Dec. 2002 HUF mn | Change HUF mn | % |
|--|------------------------|------------------------|------------------|--------------|
| Provisions for early retirement and severance payments | 0 | 1,000 | 1,000 | – |
| Provisions for contingent and future liabilities | 2,032 | 3,732 | 1,700 | 83.7% |
| General risk provision | 10,930 | 14,254 | 3,324 | 30.4% |
| Other provisions | 1,636 | 1,988 | 352 | 21.5% |
| Total provisions | 14,598 | 20,974 | 6,376 | 43.7% |

By 31 December 2002, the Bank had entirely completed the generation of general risk reserves (prescribed by the Credit Institutions Act), representing 1.25% of the risk-weighted total assets (the amount generated in 2002 was HUF 3.3 billion), and, as a result, the volume of general risk reserves increased to HUF 14.3 billion by the end of the year. The volume of reserves set aside for contingent and future liabilities increased by HUF 1.7 billion, reaching HUF 3.7 billion. HUF 1 billion in provisions was set aside for employees' early retirement and severance pay. Other provisions amounted to HUF 2.0 billion on 31 December 2002.

OFF-BALANCE SHEET LIABILITIES

The 2002 year-end volume of off-balance sheet liabilities increased by more than 50%, from HUF 507.8 billion to HUF 787.6 billion. This change is attributable to the HUF 233.2 billion, or 73.2%, increase in contingent liabilities and the HUF 46.7 billion, or 24.7% increase in future liabilities. Due to this, the share of contingent liabilities within the total of off-balance sheet liabilities increased slightly, from 62.8% to 70.1%. The most significant item of contingent liabilities, amounting to close to 40% of the Bank's off-balance sheet liabilities, is the volume of commitments originating from loan facility contracts, which increased by HUF 58.5 billion, or 22.9%. The most important change was the more than eight-fold increase, from HUF 19.3 billion to HUF 164.7 billion, in the volume of liabilities arising from options. The value of guarantees assumed in the course of bank activities grew by 29.9%, to HUF 47.4 billion, while the volume of confirmed letters of credit decreased from HUF 3.8 billion to HUF 0.8 billion.

OFF-BALANCE SHEET LIABILITIES

| | 31 Dec. 2001 | | 31 Dec. 2002 | | Change | |
|--|----------------|--------------|----------------|--------------|----------------|--------------|
| | HUF mn | prop. % | HUF mn | prop. % | HUF mn | % |
| Contingent liabilities | | | | | | |
| Guarantees from bank activities | 36,487 | 7.2% | 47,401 | 6.0% | 10,914 | 29.9% |
| Confirmed L/C | 3,798 | 0.7% | 787 | 0.1% | – 3,011 | – 79.3% |
| Non-used part of credit line | 255,630 | 50.3% | 314,127 | 39.9% | 58,497 | 22.9% |
| Options | 19,310 | 3.8% | 164,658 | 20.9% | 145,348 | 752.7% |
| Liabilities expected from pending lawsuits | 3,487 | 0.7% | 4,846 | 0.6% | 1,359 | 39.0% |
| Other contingent liabilities | 1 | 0.0% | 20,051 | 2.5% | 20,050 | 2,005,000.0% |
| Total | 318,713 | 62.8% | 551,870 | 70.1% | 233,157 | 73.2% |

MANAGEMENT'S ANALYSIS

| <i>(continued from page 41)</i> | 31 Dec. 2001 | | 31 Dec. 2002 | | Change | |
|--|----------------|---------------|----------------|---------------|----------------|--------------|
| | HUF mn | prop. % | HUF mn | prop. % | HUF mn | % |
| Absolutely certain (future) liabilities | | | | | | |
| Forward foreign currency purchase | 189,087 | 37.2% | 235,369 | 29.9% | 46,282 | 24.5% |
| Other future liabilities | 0 | 0.0% | 374 | 0.0% | 374 | – |
| Total | 189,087 | 37.2% | 235,743 | 29.9% | 46,656 | 24.7% |
| Total off-balance sheet liabilities | 507,800 | 100.0% | 787,613 | 100.0% | 279,813 | 55.1% |

The growth in future liabilities originated entirely from the growth in the volume of forward foreign exchange purchases. As of year-end, the volume of commitments due to forward foreign exchange purchases was HUF 235.4 billion, corresponding to 29.9% of the total of off-balance sheet commitments.

LOAN PORTFOLIO QUALITY, PROVISIONING

As at 31 December 2002, OTP Bank Ltd.'s total loan portfolio to be qualified was HUF 2,239.82 billion, representing an increase of close to HUF 750 billion, or 50.3%, over 2001. The ratio of qualified loans to the total loan portfolio fell in 2002, from 4.6% in 2001, to 3.5%.

OTP BANK LTD'S QUALIFIED LOAN PORTFOLIO

| | 31 Dec. 2001 | | 31 Dec. 2002 | | Change | |
|---|------------------|---------------|------------------|---------------|----------------|---------------|
| | HUF mn | prop. % | HUF mn | prop. % | HUF mn | % |
| Securities (excluding Hungarian government securities) | | | | | | |
| Problem-free | 27,784 | 98.8% | 161,596 | 99.6% | 133,812 | 481.6% |
| Qualified | 335 | 1.2% | 599 | 0.4% | 264 | 79.0% |
| of this: bad | 293 | 1.0% | 599 | 0.4% | 306 | 104.4% |
| Total | 28,119 | 100.0% | 162,195 | 100.0% | 134,077 | 476.8% |
| Loans and interbank transactions (receivables) | | | | | | |
| Problem-free | 1,074,121 | 96.0% | 1,183,374 | 95.8% | 109,253 | 10.2% |
| Qualified | 44,606 | 4.0% | 51,398 | 4.2% | 6,792 | 15.2% |
| of this: bad | 26,913 | 2.4% | 33,459 | 2.7% | 6,546 | 24.3% |
| Total | 1,118,727 | 100.0% | 1,234,772 | 100.0% | 116,045 | 10.4% |
| Ownership stakes | | | | | | |
| Problem-free | 17,650 | 51.4% | 30,360 | 62.3% | 12,710 | 72.0% |
| Qualified | 16,717 | 48.6% | 18,400 | 37.7% | 1,683 | 10.1% |
| of this: bad | 16,717 | 48.6% | 18,400 | 37.7% | 1,683 | 10.1% |
| Total | 34,367 | 100.0% | 48,760 | 100.0% | 14,393 | 41.9% |
| Other | | | | | | |
| Problem-free | 8,328 | 96.2% | 29,830 | 99.2% | 21,501 | 258.2% |
| Qualified | 328 | 3.8% | 236 | 0.8% | – 91 | – 27.9% |
| of this: bad | 324 | 3.7% | 232 | 0.8% | – 92 | – 28.5% |
| Total | 8,656 | 100.0% | 30,066 | 100.0% | 21,410 | 247.3% |
| Off-balance sheet items | | | | | | |
| Problem-free | 293,034 | 97.7% | 755,891 | 98.9% | 462,857 | 158.0% |
| Qualified | 7,038 | 2.3% | 8,135 | 1.1% | 1,097 | 15.6% |
| of this: bad | 2,289 | 0.8% | 4,694 | 0.6% | 2,404 | 105.0% |
| Total | 300,072 | 100.0% | 764,026 | 100.0% | 463,954 | 154.6% |
| Grand total | | | | | | |
| Problem-free | 1,420,917 | 95.4% | 2,161,051 | 96.5% | 740,134 | 52.1% |
| Qualified | 69,023 | 4.6% | 78,769 | 3.5% | 9,746 | 14.1% |
| of this: bad | 46,537 | 3.1% | 57,384 | 2.6% | 10,847 | 23.3% |
| Total | 1,489,940 | 100.0% | 2,239,820 | 100.0% | 749,880 | 50.3% |

MANAGEMENT'S ANALYSIS

Of the Bank's total **portfolio to be qualified**, 55.1% consisted of loan receivables as at the end of 2002 (31 December 2001: 75.1%), and 65.3% of the total qualified portfolio consisted of qualified claims related to the loan receivables. 67.9% of the combined volume of provisions and value losses were related to qualified claims.

In 2002, **the total receivables** of OTP Bank increased by 10.4%, reaching HUF 1,234.8 billion by year-end. The quality of receivables did not show any significant change, with the proportion of "problem-free" receivables decreasing only slightly, from 96.0% as at the end of 2001 to 95.8% as at the end of 2002. The share of the "to be monitored" category within the total receivables portfolio was 1.5% as at year-end 2001, compared with 1.6% at the end of 2001, while the share of the "below-average" category increased from 2.4% to 2.7%.

The share of **customer receivables** within the total of receivables increased by HUF 182 billion, or 23.0%, reaching HUF 974.9 billion by the end of 2002, within which the share of the "qualified" portfolio dropped from 5.6% in the previous year to 5.3%. Portfolio quality improved in the retail business and deteriorated in the corporate and municipality businesses.

In the retail division, under circumstances of a 26.5% increase in receivables, the qualified volume decreased by 26.2%, which means that within the total of consumer receivables, the share of qualified receivables dropped from 5.7% to 3.3%. Receivables with a "bad" qualification showed a particularly marked (HUF 3.3 billion, or 39.8%) decrease in volume.

In the corporate division, under circumstances of a 20.9% increase in receivables, the qualified volume increased by 31.4% and thus, within the total of corporate receivables, the share of "qualified" receivables increased from 6.3% in 2001 to 6.9% by the end of 2002. Within the qualified portfolio, the volume of the to be monitored category decreased by HUF 1.1 billion, and its proportion within the total portfolio of corporate loans fell from 3.2% to 2.5%. Due to a HUF 10.3 billion increase in the volume of problematic loans, their share within the total portfolio of corporate loans increased from 3.1% to 4.4%.

In the municipality division, under circumstances of a 23.4% increase in receivables, the qualified volume rose by more than six-fold over the previous year. In spite of this, the share of the "qualified" volume within the total municipality portfolio was the lowest among the various categories of customer receivables, amounting to 2.2% (year-end 2001: 0.5%).

Receivables from financial institutions decreased by HUF 66.3 billion, or 20.3%, in 2002, while the volume of the "qualified" portfolio dropped by 4.1%, bringing its ratio to the total financial institutions portfolio to 0.1%, similarly to the previous year.

QUALIFIED LOANS BY BUSINESS LINES

| | 31 Dec. 2001 | | 31 Dec. 2002 | | Change | |
|--------------------------|----------------|---------------|----------------|---------------|---------------|--------------|
| | HUF mn | prop. % | HUF mn | prop. % | HUF mn | % |
| Retail banking | | | | | | |
| Problem-free | 248,203 | 94.3% | 321,891 | 96.7% | 73,688 | 29.7% |
| Qualified | 14,926 | 5.7% | 11,008 | 3.3% | - 3,918 | - 26.2% |
| To be monitored | 2,830 | 1.1% | 2,566 | 0.8% | - 264 | - 9.3% |
| Bad | 12,096 | 4.6% | 8,442 | 2.5% | - 3,654 | - 30.2% |
| Total | 263,129 | 100.0% | 332,899 | 100.0% | 69,770 | 26.5% |
| Corporate banking | | | | | | |
| Problem-free | 430,971 | 93.7% | 518,198 | 93.1% | 87,227 | 20.2% |
| Qualified | 29,184 | 6.3% | 38,359 | 6.9% | 9,175 | 31.4% |
| To be monitored | 14,857 | 3.2% | 13,770 | 2.5% | - 1,087 | - 7.3% |
| Bad | 14,327 | 3.1% | 24,589 | 4.4% | 10,262 | 71.6% |
| Total | 460,155 | 100.0% | 556,557 | 100.0% | 96,402 | 20.9% |
| Municipal banking | | | | | | |
| Problem-free | 68,893 | 99.5% | 83,574 | 97.8% | 14,681 | 21.3% |
| Qualified | 326 | 0.5% | 1,868 | 2.2% | 1,542 | 473.0% |
| To be monitored | 6 | 0.0% | 1,603 | 1.9% | 1,597 | 26.616.7% |
| Bad | 320 | 0.5% | 265 | 0.3% | - 55 | - 17.2% |
| Total | 69,219 | 100.0% | 85,442 | 100.0% | 16,223 | 23.4% |

MANAGEMENT'S ANALYSIS

| <i>(continued from page 43)</i> | | 31 Dec. 2001 | | 31 Dec. 2002 | | Change | |
|---------------------------------|--|------------------|---------------|------------------|---------------|-----------------|----------------|
| | | HUF mn | prop. % | HUF mn | prop. % | HUF mn | % |
| Financial institutions | | | | | | | |
| Problem-free | | 326,054 | 99.9% | 259,711 | 99.9% | - 66,343 | - 20.3% |
| Qualified | | 170 | 0.1% | 163 | 0.1% | - 7 | - 4.1% |
| To be monitored | | 0 | 0.0% | 0 | 0.0% | 0 | - |
| Bad | | 170 | 0.1% | 163 | 0.1% | - 7 | - 4.1% |
| Total | | 326,224 | 100.0% | 259,874 | 100.0% | - 66,350 | - 20.3% |
| Total | | | | | | | |
| Problem-free | | 1,074,121 | 96.0% | 1,183,374 | 95.8% | 109,253 | 10.2% |
| Qualified | | 44,606 | 4.0% | 51,398 | 4.2% | 6,792 | 15.2% |
| To be monitored | | 17,693 | 1.6% | 17,939 | 1.5% | 246 | 1.4% |
| Bad | | 26,913 | 2.4% | 33,459 | 2.7% | 6,546 | 24.3% |
| Total | | 1,118,727 | 100.0% | 1,234,772 | 100.0% | 116,045 | 10.4% |

The distribution of qualified loans by the various categories of qualification underwent a major transformation during the year. A substantial increase occurred in the "doubtful" category, which increased by close to 150% during the year, and its proportion within the total of the qualified volume grew from 17.0% to 35.1%. The entire amount of this change is attributable to the growth of the qualified volume in the corporate business, where the volume of the "to be monitored" category grew by HUF 10.8 billion. The volume of loans in the below average category more than doubled (an increase of HUF 3.9 billion), and thus their share within the total qualified volume grew from 5.8% in the previous year to 12.6% as of year-end 2002. This change, too, originates from the growth of the qualified volume in the corporate business. At the same time, both the volume and the share within the total qualified volume of loans in the "bad" category fell substantially. Down nearly 50% from the previous year, the "bad" category decreased by a total of HUF 7.8 billion, HUF 4.5 billion of which was due to the decrease in this qualification category in the corporate business, while HUF 3.3 billion was due to the decrease of "bad" loans in the retail business. Within the total of qualified loans, the share of loans in the "bad" category fell from 37.5% in 2001 to 17.4% in 2002.

In 2002, as a consequence of the introduction of a new, partially automatic transfer procedure, the Bank sold 113,000 written-off and/or problematic receivables, with a gross value of HUF 20.7 billion, to OTP Factoring Management Ltd. This amount is substantially higher than in the previous year (33,000 receivables in a total value of HUF 8.6 billion).

THE STRUCTURE OF QUALIFIED LOANS

| | 31 Dec. 2001 | | 31 Dec. 2002 | | Change | | Percentage-point change in proportion |
|------------------------|---------------|---------------|---------------|---------------|--------------|--------------|---------------------------------------|
| | HUF mn | prop. % | HUF mn | prop. % | HUF mn | % | |
| To be monitored | 17,693 | 39.7% | 17,939 | 34.9% | 246 | 1.4% | - 4.8% |
| Below average | 2,593 | 5.8% | 6,489 | 12.6% | 3,896 | 150.3% | 6.8% |
| Doubtful | 7,578 | 17.0% | 18,037 | 35.1% | 10,459 | 138.0% | 18.1% |
| Bad | 16,742 | 37.5% | 8,933 | 17.4% | - 7,809 | - 46.6% | - 20.2% |
| Total qualified | 44,606 | 100.0% | 51,398 | 100.0% | 6,792 | 15.2% | - |

With the 15.2% increase in the qualified volume – due to a favourable change in the structure of the qualified volume – the volume of provisions and value loss dropped from HUF 21.7 billion to HUF 20.6 billion, and thus the provision coverage ratio dropped from 48.6% to 40.1%.

MANAGEMENT'S ANALYSIS

THE COVERAGE OF QUALIFIED RECEIVABLES BY RISK PROVISIONS

| | 31 Dec. 2001 | | 31 Dec. 2002 | | Change | |
|-------------------------------|---------------|----|---------------|----|----------------|---------------|
| | HUF | mn | HUF | mn | HUF | % |
| Total receivables | 1,118,727 | | 1,234,772 | | 116,045 | 10.4% |
| Problem-free receivables | 1,074,121 | | 1,183,374 | | 109,253 | 10.2% |
| Qualified volume | 44,606 | | 51,398 | | 6,792 | 15.2% |
| Value loss, provisions | 21,683 | | 20,606 | | - 1,077 | - 5.0% |
| Coverage ratio | 48.6% | | 40.1% | | | |

The distribution of value loss and risk provision by the various lines of business is shown in the table below.

VALUE LOSS AND RISK PROVISIONS BY BUSINESS LINE

| | 31 Dec. 2001 | | 31 Dec. 2002 | | Change | |
|--------------|---------------|---------------|---------------|---------------|----------------|---------------|
| | HUF | prop. % | HUF | prop. % | HUF | % |
| Retail | 9,982 | 46.0% | 6,406 | 31.1% | - 3,576 | - 35.8% |
| Corporate | 11,331 | 52.3% | 13,850 | 67.2% | 2,519 | 22.2% |
| Municipal | 200 | 0.9% | 187 | 0.9% | - 13 | - 6.5% |
| Interbank | 170 | 0.8% | 163 | 0.8% | - 7 | - 4.1% |
| Total | 21,683 | 100.0% | 20,606 | 100.0% | - 1,077 | - 5.0% |

In line with the change in the distribution of the qualified volume by the various lines of business, the volume of value loss and risk provisions dropped by HUF 3.6 billion in the retail business, while in the corporate business it increased by HUF 2.5 billion, and in the financial institutions and municipality businesses it remained at a low level. Consequently, the share of the retail business within the total combined amount of recorded value losses and provisions on receivables decreased to 31.1%, while the share of the corporate division increased to 67.2%.

Within the total of **trading and investment securities** (excluding Hungarian government securities), the share of the qualified portfolio was just 0.4%, or HUF 599 million. Within the total portfolio of assets examined in terms of qualification, the highest ratio of the qualified volume occurred in **equity stakes**. Of the year-end volume of HUF 48.8 billion, HUF 18.4 billion (37.7%) was not problem-free, which is, however, substantially lower than in the previous year (2001: HUF 48.6%). The Bank recorded a value loss of HUF 5.5 billion on this qualified volume of HUF 18.4 billion, which corresponds to a coverage ratio of 29.9%. Of the HUF 30.1 billion year-end volume of the portfolio that has been categorised as belonging to the **other** category (other receivables and other assets besides equity stakes), the share of the qualified portfolio was HUF 0.2 billion (0.8%).

Within **off-balance sheet items**, accounting for close to one fifth of the total asset portfolio examined in terms of qualification, the volume of the qualified portfolio was 1.1%.

CONSOLIDATED FINANCIAL STATEMENTS

CONSOLIDATED BALANCE SHEET

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

On the liabilities side, the major contributing factors to the 2002 increase in the consolidated balance sheet total were the HUF 332 billion increase in liabilities, and within this a HUF 273 billion increase in liabilities to customers, a HUF 55 billion increase in equity and a HUF 26 billion increase in provisions. Compared to the previous year, liabilities increased by 16.3%, and within this figure, long-term liabilities saw the most dynamic volume increase, of 40.5% year on year. Consequently,

MANAGEMENT'S ANALYSIS

although the share of short-term liabilities within total liabilities decreased slightly in 2002, it nevertheless remained close to 94%. Liabilities to customers accounted for over 90% of total liabilities, with a volume of over HUF 2,140 billion. Funds originating from credit institutions increased by HUF 24 billion, or 69.4%, although their share within total liabilities was just 2.2%. Of the consolidated balance sheet liabilities, the balance of provisions grew by HUF 26 billion to HUF 96.6 billion. In the course of 2002, equity increased by HUF 55.4 billion, or 30.4%, to represent 8.7% of liabilities at year-end 2002, as opposed to 7.8% at the end of 2001.

The most significant change in the asset side of the consolidated balance sheet was the almost HUF 500 billion, or over 60%, increase in receivables from customers, with the result that the share of this type of receivable within the total of assets rose from 35.5% in 2001 to 48.4% in 2002. Among customer receivables, the largest increase, of almost HUF 450 billion, was in long-term receivables, which was accompanied by a decrease in the volume of receivables from credit institutions, government securities and liquid assets. The volume of receivables from credit institutions showed the greatest decline, of HUF 54 billion, or 16%, to HUF 281 billion at year-end. Owing to a volume decrease of over 8%, government securities represented 19.5% of total assets at year-end 2002, with a volume of HUF 532 billion. Investment securities accounted for more than 66% of the portfolio of government securities. The total of liquid assets decreased by 6.6%, from HUF 379 billion at the end of 2001 to HUF 354 billion at year-end 2002.

CONSOLIDATED PROFIT

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

INCOME*

| | 2001 | | 2002 | | Change | |
|---|----------------|---------------|----------------|---------------|---------------|--------------|
| | HUF mn | prop. % | HUF mn | prop. % | HUF mn | % |
| Net interest income | 110,940 | 54.0% | 123,413 | 49.3% | 12,473 | 11.2% |
| Total interest income | 211,521 | | 220,987 | | 9,466 | 4.5% |
| Total interest expense | 100,581 | | 97,574 | | - 3,007 | - 3.0% |
| Non-interest income | 94,478 | 46.0% | 126,695 | 50.7% | 32,217 | 34.1% |
| Net fees and commissions | 40,134 | 19.5% | 50,638 | 20.2% | 10,504 | 26.2% |
| Net income from securities trading | - 1,049 | - 0.5% | 561 | 0.2% | 1,610 | - 153.5% |
| Net income from foreign currency trading | 3,618 | 1.8% | 4,342 | 1.7% | 724 | 20.0% |
| Net income from real estate transactions | 2,076 | 1.0% | 590 | 0.2% | - 1,486 | - 71.6% |
| Insurance free income | 41,530 | 20.2% | 53,058 | 21.2% | 11,528 | 27.8% |
| Other non-interest income | 8,169 | 4.0% | 17,506 | 7.0% | 9,337 | 114.3% |
| Total income | 205,418 | 100.0% | 250,108 | 100.0% | 44,690 | 21.8% |
| Personnel costs | 41,359 | 20.1% | 50,501 | 20.2% | 9,142 | 22.1% |
| Depreciation | 14,593 | 7.1% | 16,102 | 6.4% | 1,509 | 10.3% |
| Insurance costs | 32,787 | 16.0% | 41,140 | 16.4% | 8,353 | 25.5% |
| Other non-interest expenses | 48,756 | 23.7% | 61,319 | 24.5% | 12,563 | 25.8% |
| Non-interest expense | 137,495 | 66.9% | 169,062 | 67.6% | 31,567 | 23.0% |
| Operating profit | 67,923 | 33.1% | 81,046 | 32.4% | 13,123 | 19.3% |
| Diminution in value, provisions and loan losses | 10,633 | 5.2% | 12,871 | 5.1% | 2,238 | 21.0% |
| Profit before taxation | 57,290 | 27.9% | 68,175 | 27.3% | 10,885 | 19.0% |
| Taxes | 10,938 | 5.3% | 13,599 | 5.4% | 2,661 | 24.3% |
| Taxes due to consolidation | - 52 | 0.0% | - 409 | - 0.2% | - 357 | 686.5% |
| Profit after taxation | 46,404 | 22.6% | 54,985 | 22.0% | 8,581 | 18.5% |

* In a break-down that is somewhat different from HAR.

MANAGEMENT'S ANALYSIS

In 2002, the group's net interest income was HUF 123.4 billion, which represents an 11.2% year-on-year increase. The increase in net interest income was the result of HUF 221 billion in interest revenue (a 4.5% increase) and HUF 97.6 billion in interest expenses (a 3% decrease). Non-interest type revenues saw exceptionally dynamic growth of 34.1%, and reached HUF 126.7 billion. The most important items within this figure are the increase in net fees and commissions, insurance premium revenue and other non-interest type revenues. Consequently, the Group's total revenue grew from HUF 205.4 billion in 2001 to HUF 250.1 billion in 2002, which represents an increase of 21.8%. Within the total revenue, the share of non-interest income was 50.7% in 2002, compared to 46% in 2001. The group's non-interest expenses increased by 23%, which points to a slight deterioration in the expense/income ratio, from 66.9% to 67.6%. The one-off costs arising from the integration of OTP Banka Slovensko (OBS) into the OTP Group had an impact on expenses.

Under circumstances of a slight increase in the tax rate (from 19% in 2001 to 19.9% in 2002), **consolidated after-tax profit** was HUF 55 billion; a year-on-year increase of HUF 8.6 billion, or 18.5%.

Consolidated undiluted earnings per share (EPS)⁴ were HUF 214.64 in 2002, while the diluted figure⁵ was HUF 196.37; respectively 18.4% and 18.5% higher than in the previous year.

The Bank's consolidated return on average assets (ROAA) was 2.18% in 2002, while its return on average equity (ROAE) was 26.2% (2001: 2.11% and 28.5% respectively). The ROAE in real terms⁶ was 20.9%, in contrast to 19.3% in 2001.

RESULTS OF THE MOST IMPORTANT SUBSIDIARIES

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

Merkantil Bank Ltd. expanded its activities primarily through its subsidiaries in the course of 2002, and thus its balance sheet total increased slightly, from HUF 59.4 billion at year-end 2001 to HUF 60.9 billion. The volume of the Company's customer placements amounted to HUF 53.2 billion, or 87% of total assets as of year-end 2002. The Bank's customer funding decreased slightly throughout the year, reaching HUF 46.4 billion as of 31 December 2002. The Bank closed the year with a pre-tax profit of HUF 2,375 million, representing an increase of HUF 450 million over the previous year. The Bank's financial indicators were extremely favourable, with a return on average assets (ROAA) of 3.1% and return on average equity (ROAE) of 23.1%. Equity increased by 26%, from HUF 7.0 billion to HUF 8.8 billion, while equity as a percentage of the balance sheet total increased from 11.7% in 2001 to 14.4% in 2002.

MERKANTIL BANK LTD.

| | 31 Dec. 2001 HUF mn | 31 Dec. 2002 HUF mn | Change HUF mn | % |
|------------------------|------------------------|------------------------|------------------|--------|
| Total assets | 59,367 | 60,904 | 1,537 | 2.6% |
| Loans | 52,662 | 53,237 | 575 | 1.1% |
| Deposits | 47,138 | 46,392 | - 746 | - 1.6% |
| Shareholder's equity | 6,954 | 8,758 | 1,804 | 26.0% |
| Subscribed capital | 1,500 | 2,000 | 500 | 33.3% |
| Profit before taxation | 1,925 | 2,375 | 450 | 23.3% |
| Profit after taxation | 1,527 | 1,816 | 289 | 18.9% |
| ROAA | 2.80% | 3.10% | | |
| ROAE | 24.3% | 23.1% | | |
| Cost/income ratio | 44.9% | 55.6% | | |

⁴ The method for calculating undiluted earnings per share: adjusted after-tax profit / (ordinary shares - own shares)

⁵ Calculation method: adjusted after-tax profit / total ordinary shares

⁶ Calculation method: ROAE - inflation (%)

MANAGEMENT'S ANALYSIS

Merkantil Car Ltd.'s balance sheet total increased by HUF 28.1 billion, to nearly twice the figure of 2001. The volume of financial leasing increased by 89,0%, from HUF 31.9 billion to HUF 60.3 billion. By year-end 2002, the volume of production-tool financing transactions exceeded HUF 5.4 billion, which corresponds to a more than 85% volume increase. The Company's pre-tax profits grew by more than 36%, to reach HUF 629 million in 2002.

MERKANTIL CAR LTD.

| | 31 Dec. 2001 HUF mn | 31 Dec. 2002 HUF mn | Change HUF mn | % |
|------------------------|------------------------|------------------------|------------------|--------|
| Total assets | 34,109 | 62,172 | 28,063 | 82.3% |
| Loans | 33,237 | 61,226 | 27,989 | 84.2% |
| Deposits | 32,525 | 59,352 | 26,827 | 82.5% |
| Shareholder's equity | 742 | 1,149 | 407 | 54.9% |
| Subscribed capital | 20 | 50 | 30 | 150.0% |
| Profit before taxation | 462 | 629 | 167 | 36.2% |
| Profit after taxation | 232 | 407 | 175 | 75.4% |
| ROAA | 0.81% | 0.85% | | |
| ROAE | 37.1% | 43.5% | | |
| Cost/income ratio | 25.7% | 28.2% | | |

Merkantil Lease Ltd. conducts the administration of long-term leasing deals within the Merkantil Group. As of 31 December 2002, the balance sheet total of Merkantil Leasing Ltd. was HUF 5.7 billion. In 2002, the Company's pre-tax profit was HUF 82 million.

OTP Building Society Ltd. In the course of 2002, OTP Building Society Ltd. concluded close to 70,000 new contracts in a total value of HUF 53 billion, while disbursements were made in relation to approximately 41,000 contracts in a total value of HUF 35.6 billion. As a result, the volume of OTP Building Society Ltd.'s deposit portfolio decreased to HUF 42.6 billion, while the loan portfolio volume grew to HUF 8 billion. As of 31 December 2002, the Company's balance sheet total was HUF 49.8 billion. The Building Society's equity reached HUF 2.8 billion, or 5.6% of the balance sheet total. The Company closed 2002 with pre-tax profits of HUF 1,604 million, only slightly down on the previous year. OTP Building Society Ltd.'s average return on assets (ROA) was 2.53% and its return on equity (ROE) was 43%.

OTP BUILDING SOCIETY LTD.

| | 31 Dec. 2001 HUF mn | 31 Dec. 2002 HUF mn | Change HUF mn | % |
|------------------------|------------------------|------------------------|------------------|----------|
| Total assets | 54,081 | 49,835 | - 4,246 | - 7.9% |
| Loans | 521 | 8,004 | 7,483 | 1,436.3% |
| Deposits | 48,079 | 42,569 | - 5,510 | - 11.5% |
| Shareholder's equity | 3,301 | 2,816 | - 485 | - 14.7% |
| Subscribed capital | 1,500 | 2,000 | 500 | 33.3% |
| Profit before taxation | 1,652 | 1,604 | - 48 | - 2.9% |
| Profit after taxation | 1,354 | 1,315 | - 39 | - 2.9% |
| ROAA | 2.96% | 2.53% | | |
| ROAE | 51.7% | 43.0% | | |

MANAGEMENT'S ANALYSIS

OTP Mortgage Bank Ltd. commenced operation on 1 February 2002, and since 11 April has been granting loans, subsidised on the liabilities side, in the form of a consortium through OTP Bank's branch network. By the end of 2002, the volume of loans taken over from OTP Bank had reached HUF 186.7 billion, while the volume of mortgage notes issued was HUF 177.1 billion. As of 31 December 2002, the balance sheet total of OTP Mortgage Bank was HUF 213.4 billion, while its pre-tax profit amounted to HUF 651 million

OTP MORTGAGE BANK LTD.

| | 31 Dec. 2001 HUF mn | 31 Dec. 2002 HUF mn | Change HUF mn | % |
|------------------------|------------------------|------------------------|------------------|----------|
| Total assets | 3,129 | 213,368 | 210,239 | 6,719.0% |
| Loans | 0 | 186,666 | 186,666 | – |
| Deposits | 0 | 0 | 0 | – |
| Issued mortgage bonds | 0 | 177,100 | 177,100 | – |
| Shareholder's equity | 3,119 | 5,554 | 2,435 | 78.0% |
| Subscribed capital | 3,000 | 4,900 | 1,900 | 63.3% |
| Profit before taxation | 55 | 651 | 596 | 1,083.6% |
| Profit after taxation | 45 | 534 | 489 | 1,086.7% |
| ROAA | 1.44% | 0.50% | | |
| ROAE | 1.4% | 12.3% | | |
| Cost/income ratio | 10.6% | 88.2% | | |

OTP Banka Slovensko, a. s. has been a member of the OTP Bank Group since April 2002. OTP Bank Ltd., as strategic investor, holds 95.74% of the shares of this Slovak universal bank (formerly: IRB). After the Bank's takeover a new strategy was formulated, and following completion of the corporate logo change, the restructuring project and the Bank's integration into the OTP Bank Group were commenced.

OTP BANKA SLOVENSKO, A.S.

| | 31 Dec. 2001 SKK mn | 31 Dec. 2002 SKK mn | Change SKK mn | % |
|------------------------|------------------------|------------------------|------------------|-------------|
| Total assets | 22,883 | 19,389 | – 3,494 | – 15.3% |
| Loans | 12,593 | 12,037 | – 556 | – 4.4% |
| Deposits | 12,436 | 12,184 | – 252 | – 2.0% |
| Shareholder's equity | 1,855 | 1,219 | – 636 | – 34.3% |
| Subscribed capital | 1,044 | 1,044 | 0 | 0.0% |
| Profit before taxation | 5,395 | – 635 | – 6,030 | – 111.8% |
| Profit after taxation | 5 | – 635 | – 640 | – 12,160.5% |

As of 31 December 2002, the balance sheet total of OBS was HUF 110.1 billion. The Company closed 2002 with a loss of HUF 3.5 billion, which originates from the one-time costs incurred as a result of the takeover, the revaluation of real estate properties and the provisions set aside for customer receivables.

OTP Garancia Insurance Ltd. achieved insurance premium revenues of HUF 53.9 billion in 2002, a 27.7% increase over the previous year's figure. Of this revenue, the premium revenue from insurance policies sold in the branches of OTP Bank Ltd. was higher than HUF 18 billion. In other words, over 30% of the insurance premium revenue originated from sales via the Bank. Of the total in premium revenue, revenue from the life and bank insurance businesses reached HUF 27 billion, which

MANAGEMENT'S ANALYSIS

represents a 25.6% increase over the previous year. Revenue from the non-life insurance business was HUF 26.9 billion, 29.8% up on the previous year. In 2002, the value of gross damages was HUF 24.8 billion. Damage payments amounted to 49.3% of premium revenues in the non-life insurance business, while – taking into account the change in the amount of reserves – the damage ratio was 58.7%. Reserves increased by HUF 16.6 billion, or 31.9%, compared to the previous year, with the result that technical reserves stood at HUF 68.6 billion on 31 December 2002.

OTP-GARANCIA INSURANCE LTD.

| | 31 Dec. 2001 | 31 Dec. 2002 | Change | |
|---|--------------|--------------|--------|-------|
| | HUF mn | HUF mn | HUF mn | % |
| Insurance technical reserves | 51,980 | 68,584 | 16,604 | 31.9% |
| Shareholder's equity | 5,633 | 8,491 | 2,858 | 50.7% |
| Subscribed capital | 5,851 | 7,351 | 1,500 | 25.6% |
| Total assets | 61,723 | 80,408 | 18,685 | 30.3% |
| Insurance free income | 42,255 | 53,946 | 11,691 | 27.7% |
| Life-insurance free income | 21,515 | 27,017 | 5,502 | 25.6% |
| of this: life-insurance with single fee payment | 15,851 | 19,444 | 3,593 | 22.7% |
| Profit before taxation | 1,254 | 1,602 | 348 | 27.8% |
| Profit after taxation | 1,214 | 1,358 | 144 | 11.8% |
| ROAA | 2.25% | 1.91% | | |
| ROAE | 24.2% | 19.2% | | |
| Cost/income ratio | 97.2% | 97.1% | | |

The Company's pre-tax profit was HUF 1,602 million in 2002, a 27.8% increase over the previous year. By year-end 2002 the Company's balance sheet total had grown by 30.3%, to HUF 80.4 billion, while its equity capital had reached HUF 8.5 billion.

OTP Fund Management Ltd. increased its pre-tax profit by HUF 1 billion, to HUF 3,501 million, due to the dynamic increase, from HUF 368.2 billion to HUF 474.4 billion, in the net asset value of the investment funds managed by the Company. This gave the Company a 51% share of the investment fund market as at the end of 2002. As of 31 December 2002, the pension funds assets and other assets under the Company's management amounted to HUF 159.7 billion, and with this the total of assets under the Company's management exceeded HUF 634 billion. In 2002, the Company's return on average assets (ROAA) was in excess of 30%, and its return on average equity (ROAE) was 39.2%

OTP FUND MANAGEMENT LTD.

| | 31 Dec. 2001 | 31 Dec. 2002 | Change | |
|-----------------------------------|----------------|----------------|----------------|--------------|
| | HUF mn | HUF mn | HUF mn | % |
| Total assets under management | 469,850 | 634,100 | 164,250 | 35.0% |
| <i>Assets of investment funds</i> | <i>368,150</i> | <i>474,399</i> | <i>106,249</i> | <i>28.9%</i> |
| <i>Assets of pension funds</i> | <i>101,694</i> | <i>144,756</i> | <i>43,062</i> | <i>42.3%</i> |
| Total assets | 8,029 | 11,070 | 3,041 | 37.9% |
| Shareholder's equity | 7,378 | 7,378 | 0 | 0.0% |
| Subscribed capital | 900 | 900 | 0 | 0.0% |
| Profit before taxation | 2,414 | 3,501 | 1,087 | 45.1% |
| Profit after taxation | 1,952 | 2,894 | 942 | 48.3% |
| ROAA | 27.80% | 30.30% | | |
| ROAE | 30.5% | 39.2% | | |
| Cost/income ratio | 17.8% | 12.9% | | |

MANAGEMENT'S ANALYSIS

OTP Fund Services Ltd. retained its dominant market position in terms of the number of individual accounts and the value of the assets in the funds under its management. At year-end 2002, the Company was managing 772,000 individual accounts, while the total of fund assets under its management increased by 42.8% year on year, to HUF 142.2 billion. The Company closed the year with profit of HUF 19 million, and a balance sheet total of HUF 1,506 million.

OTP FUND SERVICES LTD.

| | 31 Dec. 2001 | 31 Dec. 2002 | Change | |
|--|--------------|--------------|--------|---------|
| | HUF mn | HUF mn | HUF mn | % |
| Total assets of pension funds administered | 99,585 | 142,224 | 42,639 | 42.8% |
| Total assets | 1,511 | 1,506 | - 5 | - 0.3% |
| Shareholder's equity | 341 | 1,330 | 989 | 290.0% |
| Subscribed capital | 305 | 1,275 | 970 | 318.1% |
| Profit before taxation | 77 | 19 | - 58 | - 75.3% |
| Profit after taxation | 77 | 19 | - 58 | - 75.3% |
| ROAA | 6.73% | 1.26% | | |
| ROAE | 30.8% | 2.27% | | |
| Cost/income ratio | 93.1% | 98.4% | | |

OTP Real Estate Ltd.'s pre-tax profit was HUF 1,076 million, which represents an increase of HUF 220 million, or 25.7%, compared to 2001. The Company's net sales revenue was HUF 10.6 billion, some 30% of which originated from the fulfilment of contracts concluded with members of the OTP Group, while almost 50% resulted from real estate projects and real estate sales, and the rest from real estate appraisal activities. In the course of 2002, the Company's balance sheet total increased by 43.7% to HUF 16.5 billion. The Company's equity increased by 21.3%, to reach HUF 5.0 billion by year-end 2002. In 2002, the Company's ROAA was 6.2% and its ROAE was 19.2%.

OTP REAL ESTATE LTD.

| | 31 Dec. 2001 | 31 Dec. 2002 | Change | |
|------------------------|--------------|--------------|--------|--------|
| | HUF mn | HUF mn | HUF mn | % |
| Total assets | 11,500 | 16,529 | 5,029 | 43.7% |
| Current assets | 9,994 | 14,816 | 4,822 | 48.3% |
| Liabilities | 7,048 | 10,938 | 3,890 | 55.2% |
| Shareholder's equity | 4,081 | 4,950 | 869 | 21.3% |
| Subscribed capital | 1,670 | 1,670 | 0 | 0.0% |
| Net sales revenue | 10,634 | 10,619 | - 15 | - 0.1% |
| Profit before taxation | 856 | 1,076 | 220 | 25.7% |
| Profit after taxation | 713 | 869 | 156 | 21.9% |
| ROAA | 6.35% | 6.20% | | |
| ROAE | 19.1% | 19.2% | | |

ASSET AND LIABILITY MANAGEMENT

LIQUIDITY AND MARKET RISK MANAGEMENT

The supreme forum for asset and liability management and market risk management within OTP Bank Ltd. is the Asset-Liability Committee (ALCO). Each year the Committee reviews the evaluation methods and the defined limits, which are set based on the maximum acceptable loss. In 2002, in addition to the bank-level regulations, ALCO also approved the separately formulated group-level risk management regulations. A report on the Bank's and Bank Group's liquidity, interest rate risk and market risk exposure is received by ALCO on a quarterly basis, and by the Bank's senior management every month.

In 2002, changes in the system of state housing loan subsidies led to the launch of, and higher-than-expected growth in, mortgage-based lending, which in turn had a significant impact on the liquidity and interest rate exposure of both the Bank and the Bank Group.

TRENDS IN OTP BANK LTD.'S LIQUIDITY POSITION

OTP Bank Ltd.'s liquidity policy: With a view to maintaining profitability, the objective of the Bank's liquidity policy is to meet the Bank's payment obligations as and when they fall due and to ensure that the required transactions are carried out.

In order to be able to calculate its liquidity exposure, the Bank analyses the balance of the compulsory reserve account and Treasury's portfolio on a daily basis and prepares a cash-flow analysis for eight days ahead. The Bank prepares a maturity balance sheet each month, and determines Treasury's fund placement opportunities or its funding requirement on the basis of plans. The organisational units involved and the various heads of these units receive reports on risk exposure and the degree to which limits have been utilised.

The positive gap in the short-term maturities of the forint due balance sheet (which was set up through a regrouping of the deposits in accordance with their potential maturity dates) was once again substantial in 2002, despite certain changes to the structure of the due balance sheet resulting from the commencement of mortgage-based lending. Similarly to previous years, Treasury favoured the more profitable NBH deposits and, because of their typically negative yield-curve, high-yield short-term money market instruments, while the mortgage notes issued by OTP Group member OTP Mortgage Bank Ltd. also began to play an important role in Treasury's portfolio.

Also within maturity categories of less than three months of the foreign currency due balance sheet (prepared on the basis of potential maturity dates), the total of assets is higher than the value of liabilities. Customers' foreign currency deposits expressed in forint decreased by 22%, which was attributable to the fall in customers' foreign currency deposits and the strengthening of the forint exchange rate. Within the foreign currency deposit portfolio, the proportion of euro deposits continued to increase. Compared to 2001, the volume of foreign currency loans increased 25% and the proportion of these loans within the total of foreign currency assets increased from 39% in 2001 to 58% as at year-end 2002, while the portfolio of foreign currency securities for trading and investment purposes decreased by almost 50%. The ratio of euro loans to euro assets increased from 57% in 2001 to 89% in 2002. The decrease in euro deposits and the increase in euro loans were so great that the Bank took out a syndicated loan.

The Bank's rules for determining what it regards as large deposits are stricter than those required by law. While the statutory provisions define a large deposit as being higher than 15% of the Bank's guarantee capital, the Bank considers all deposits in excess of HUF 2 billion to be large deposits. The combined volume of the Bank's cash and securities accepted by the NBH and short-term NBH and interbank placements is more than eighteen times higher than the combined balance of all the large deposits. The combined value of the Bank's cash, trading securities and deposits with the NBH or other commercial banks account for 25% of the balance sheet total.

MANAGEMENT'S ANALYSIS

OTP BANK LTD.'S INTEREST RATE RISK EXPOSURE

The Bank aims to keep potential losses from unfavourable interest rate trends, and from decreases in interest income and the market value of the portfolio, within predetermined limits. To this end, the Bank continuously measures its interest rate risk exposure and informs the management of any breaches of the limit. OTP Bank's interest rate risk exposure is relatively low, as a large part of the interest rates on forint deposits and customer loans are not fixed, nor are they tied to money market instruments. Instead, these products are re-priced by the Bank in line with market trends, which means that, including the time required for technicalities, they may be re-priced within three months.

In 2002, as in 2001, the gap with respect to maturities of less than one year (i.e. the value of receivables net of the value of liabilities in the given maturity span) within the Bank's and trading book's forint re-pricing balance sheet remains short, i.e. it shows a surplus of liabilities over receivables. The main reason for this is that the volume of liabilities that may be re-priced in one year is higher than that of assets. The Bank's interest rate risk exposure arises from mortgage-based loans with a fixed-interest rate over five years, and to the fixed-interest securities portfolio (government securities and mortgage notes issued by OTP Mortgage Bank).

OTP BANK LTD.'S EXCHANGE RATE RISK EXPOSURE

In order to avoid potential losses resulting from adverse changes in exchange rates, the maximum level of the total (gross) open position is limited by the law (to 30% of the guarantee capital), while the Bank also has its own detailed internal exchange rate risk management regulations that are reviewed and updated on a yearly basis. The limit stipulated by ALCO for the total (gross) open position is stricter than that required by law, at 30% of the guarantee capital minus HUF 2 billion. In addition, ALCO imposes other position (day-end, overnight and intraday) and stop-loss limits, to further restrict exposure. Limits have also been determined for each currency.

The Bank participates both in the domestic and foreign exchange spot and derivative markets. The average volume of OTP Bank Ltd.'s gross foreign currency position was HUF 13.2 billion in 2002, in contrast with HUF 6.9 billion in the previous year, while the average net foreign currency position was a long position of HUF 8.5 billion in 2002, as opposed to the short position of HUF 2.5 billion in the previous year.

THE CAPITAL REQUIREMENT OF OTP BANK LTD.'S MARKET RISK

Pursuant to Government Decree 244/2000, since the second quarter of 2001, the Bank has been reporting on a daily basis to the State Financial Supervisory Authority the capital requirement of the interest, counterparty and bank foreign exchange risk (calculated using what is known as the standard method) of the trading book positions. The average volume of the capital requirement in 2002 was HUF 1,501 million higher than in the previous year, at HUF 2,662 million, of which a value equivalent to HUF 1,705 million was necessary due position exposure, HUF 318 million due to counterparty exposure and HUF 639 million due to foreign exchange exposure. The increase in the capital requirement is essentially attributable to the volume of derivative-product positions as well as to the size of open foreign currency positions.

The Bank also determines the capital requirement internally on a daily basis, using the Value at Risk (VaR) method, which is a relatively straightforward calculation model. The average (total) capital requirement calculated using the VaR model was HUF 3,970 million in 2002.



MANAGEMENT'S ANALYSIS

THE MARKET RISK EXPOSURE OF THE OTP GROUP

Within the OTP Group, and excluding OTP Bank Ltd., the following group members are of considerable significance in terms of market risk management: OTP Garancia Insurance Ltd., OTP Mortgage Bank Ltd., OTP Building Society Ltd., Merkantil Bank Ltd., OTP Banka Slovensko, a. s. and HIF Ltd.

The interest exposure of the OTP Group is essentially determined by the positions of OTP Mortgage Bank Ltd. and OTP Bank Ltd. The volume of liabilities that may be re-priced within one year is higher than that of assets, even in terms of the entire OTP Group. Given a drop in market interest rates, this position may be advantageous for the OTP Group.

Pursuant to Government Decree 244/2000, the capital requirement of the interest, counterparty and foreign exchange risk of the trading book positions must be consolidated in the case of OTP Mortgage Bank Ltd., OTP Building Society Ltd., Merkantil Bank Ltd., OTP Banka Slovensko, a. s. and HIF Ltd. However, with the exception of OTP Bank Ltd., all the other group members were exempted from keeping a trading book. From the beginning of 2003, the capital requirement of the foreign exchange positions of Merkantil Bank Ltd. and OTP Banka Slovensko, a. s. have been consolidated with those of OTP Bank Ltd.

In 2003, the Bank launched a project to further develop the IT system responsible for performing, among other functions, Value at Risk calculations. Upon completion of the project it will be possible to determine the market positions and the related value at risk for the above listed group members on a daily basis.

FINANCIAL SUMMARY*

BALANCE SHEET

| As at December 31 | 1998 | 1999 | 2000 | 2001 | (HUF bn) 2002 |
|---|----------------|----------------|----------------|----------------|------------------|
| Cash and bank | 350.1 | 557.4 | 482.4 | 372.6 | 347.0 |
| Government securities | 468.6 | 300.9 | 440.2 | 481.1 | 401.9 |
| Interbank deposits** | 246.8 | 277.7 | 233.9 | 329.9 | 263.3 |
| Loans and advances to customers | 444.9 | 478.4 | 614.1 | 769.8 | 951.7 |
| Retail | 133.1 | 150.8 | 180.2 | 258.3 | 329.8 |
| Corporate | 280.4 | 291.4 | 393.2 | 464.8 | 558.6 |
| Municipal | 31.4 | 36.2 | 40.7 | 46.7 | 63.3 |
| Intangible and fixed assets | 44.1 | 52.1 | 52.7 | 54.3 | 63.7 |
| Other | 81.3 | 101.0 | 108.0 | 119.5 | 362.5 |
| TOTAL ASSETS | 1,635.8 | 1,767.5 | 1,931.3 | 2,127.2 | 2,390.1 |
| Interbank liabilities | 42.8 | 42.2 | 44.4 | 25.1 | 28.2 |
| Deposits from customers | 1,401.3 | 1,507.6 | 1,633.0 | 1,811.2 | 2,011.0 |
| Retail | 1,119.6 | 1,214.0 | 1,308.1 | 1,405.7 | 1,523.7 |
| Corporate | 177.8 | 189.9 | 210.9 | 253.5 | 341.9 |
| Municipal | 103.9 | 103.7 | 114.0 | 152.0 | 145.4 |
| Securities issued | 30.9 | 22.9 | 19.6 | 14.9 | 9.4 |
| Provisions | 11.4 | 11.1 | 11.3 | 14.6 | 21.0 |
| Other | 70.8 | 83.0 | 95.5 | 102.9 | 114.7 |
| Shareholder's equity | 78.6 | 100.7 | 127.5 | 158.5 | 205.8 |
| TOTAL LIABILITIES | 1,635.8 | 1,767.5 | 1,931.3 | 2,127.2 | 2,390.1 |
| Net assets per share (NAV) (HUF, fully diluted) | 280.6 | 359.5 | 455.4 | 566.1 | 735.2 |

PROFIT AND LOSS ACCOUNT

| For the year ended December 31 | 1998 | 1999 | 2000 | 2001 | (HUF bn) 2002 |
|--|-------------|-------------|-------------|-------------|------------------|
| Net interest income | 86.5 | 84.0 | 86.9 | 98.3 | 102.7 |
| Non-interest income | 21.1 | 30.3 | 39.0 | 42.8 | 64.4 |
| Of wich: Net fee and comission income | 20.7 | 24.0 | 32.0 | 40.0 | 56.8 |
| Total income | 107.5 | 114.3 | 125.8 | 141.1 | 167.2 |
| Non-interest expenses | 70.7 | 74.6 | 77.7 | 85.2 | 95.6 |
| Operating income/profit | 36.8 | 39.7 | 48.1 | 55.9 | 71.6 |
| Provisions | 11.2 | 10.2 | 7.9 | 8.5 | 13.5 |
| Profit before taxation | 25.6 | 33.3 | 40.2 | 47.4 | 58.1 |
| Profit after taxation | 21.1 | 28.3 | 32.5 | 38.4 | 47.2 |
| Earnings per share (EPS) (HUF, undiluted)*** | 80.23 | 107.13 | 124.13 | 145.77 | 178.98 |

| KEY RATIOS | 1998 | 1999 | 2000 | 2001 | 2002 |
|---|-------|-------|-------|-------|-------|
| Loan to deposit ratio % | 32.4 | 31.7 | 38.6 | 42.5 | 47.3 |
| Cost/income ratio % | 65.8 | 65.3 | 61.7 | 60.4 | 57.2 |
| Capital adequacy ratio % | 13.33 | 15.23 | 15.45 | 14.11 | 13.43 |
| Return on average assets (ROAA) % | 1.37 | 1.67 | 1.76 | 1.89 | 2.09 |
| Return on average equity (ROAE) % | 30.1 | 31.6 | 28.5 | 26.9 | 25.9 |
| Dividend per share (HUF) | | | | | |
| Dividend per preference share (HUF)**** | 160 | 180 | 200 | — | — |
| Dividend per common share (HUF) | 160 | 180 | 200 | 275 | — |

* Unconsolidated, based on HAR

** Includes interbank short term and long term deposits and NBH long term deposits.

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

**** The Annual General Meeting of OTP Bank Ltd. held on 25 April 2001, decided to convert preference shares to common shares.

DIFFERENCES BETWEEN THE PROFIT AND LOSS ACCOUNT PREPARED ACCORDING TO HUNGARIAN AND INTERNATIONAL ACCOUNTING STANDARDS FOR THE YEAR ENDING 31 DECEMBER 2002

After the implementation of adjustments based on International Accounting Standards (IAS), the after-tax profit of the Bank shown in the profit and loss account prepared in accordance with Hungarian Accounting Rules (HAR) and presented in a structure approximating that prescribed by the international standards, changed as follows:

| | HAR | IAS amendments | (Figures in HUF million) IAS |
|---------------------------|----------|-------------------|---------------------------------|
| Pre-tax profits | 58,082 | 4,918 | 63,001 |
| Tax (deferred tax in IAS) | – 10,885 | – 215 | – 11,100 |
| After-tax profits | 47,197 | 4,703 | 51,901 |

After-tax profits according to IAS were HUF 4,703 million higher than according to HAR in 2002.

Adjustments corresponding to IAS which modify the after-tax profit are as follows:

CREATION OF THE GENERAL RISK RESERVE

In 2002, based on the value of risk-weighted (adjusted) total assets, **general risk provisions of HUF 3,324 million were generated** in the HAR profit and loss account.

The above provisions are not recognised by IAS, and thus the provision generated in HAR was ignored, resulting in a profit-increasing item of **HUF 3,324 million** in the IAS report.

AMORTISATION OF THE PREMIUMS AND DISCOUNTS ON INVESTMENT SECURITIES

According to IAS, in the case of securities to be held until maturity and purchased above or below the nominal value, the price gain equal to the difference between the nominal value and the cost value **must be amortized on a straight-line basis from the acquisition date to maturity**, and the sum of the amortization must be posted to the debit or to the credit of net income.

Similar regulations are also valid under HAR.

Adjustments implemented under IAS are as follows:

| | | | |
|---|-----|-------|---------|
| – Reversal of last year's IAS accrual: | HUF | + 3 | million |
| – Reversal of the HAR accrual as at 31 December 2002: | HUF | + 797 | million |
| – IAS accrual as at 31 December 2002 | HUF | – 845 | million |
| – Total: | HUF | – 45 | million |

Last year's IAS accrual is reversed, after which a new accrual calculation is carried out on the current securities portfolio, which, given the fact that the HAR report is the starting point, is performed in the following steps:

1. first, the HAR accrual is reversed, and then
2. the amount of the new IAS accrual is calculated.

MANAGEMENT'S ANALYSIS

Once again in 2002, the difference between the HAR and IAS figures was not substantial, the reason for this being that the Bank acquired the bulk of securities that, under IAS, are included in the category of saleable and non-amortisable securities at their nominal value.

The above items reduced the IAS profit by **HUF 45 million**.

RELEASE OF PROVISIONS FOR CONTINGENT AND FUTURE LIABILITIES

As a part of its business operations, the Bank financed and constructed residential properties for sale, and in connection with this it was obliged to guarantee against possible construction errors for 10 years. The Bank's guarantee liability related to the properties will stand until 2007.

In the previous years, HUF 1,500 million in provisions were set aside for possible future losses arising from house-guarantee claims.

In 1999, HUF 700 million, in 2000 HUF 350 million, in 2001 HUF 153 million and in 2002 HUF 69 million was released from the provisions generated in the previous years. This latter amount is identical with the expense paid by the Bank.

ACCOUNTING FOR FINANCIAL LEASING

The Bank has been leasing and paying rental fees for computers and other equipment since 1995. In contrast to HAR, IAS considers these transactions as financial leasing, and the equipment is registered among tangible assets. Part of this is equipment leased from AXIAL, and the rest is the leasing of ATMs.

IAS takes out the items shown according to HAR, and discloses them according to the international standards in the statement.

Due to the combined impact of the above items, the various leasing transactions reduced the IAS profit by a total of **HUF 486 million**.

Of this amount, some **HUF 207 million** is attributable to contracts cancelled in the first quarter of 2002. The depreciation accounted for during the entire tenor of the financial lease is approximately equal to the total of the interest and commissions calculated under HAR on rental fees and loans. As a result of the cancelled contracts, already in the IAS profits for the first quarter, an until then not recorded profit-decreasing item for the remaining period was recognised that originated from the time difference between the settlement of the fee payment liability and the settlement of depreciation.

In the first quarter of 2002, the Bank sold tangible and intangible assets to AXIAL Kft. that have been leased back from 1 April 2002. The time-span of the lease is 60 months. According to the HAR report, in the course of the sale, the Bank realised a gain of **HUF 205 million**. As IAS also treats this lease facility as a form of financial leasing, under IAS this amount is accrued for the 60-month period of the lease.

VALUATION OF FINANCIAL INSTRUMENTS UNDER IAS 39

Starting 1 January 2001, IAS 39 introduced new valuation principles related to the valuation of financial instruments, principles also applied by the Bank, which differ from the disclosure used under HAR.

At the Bank, this resulted in a change in the value of securities and off balance sheet financial instruments.

Within securities, a new category was introduced and included in the balance sheet under the name "Trading and saleable securities".

ESTABLISHING THE MARKET VALUE OF TRADING AND SALEABLE SECURITIES AND OF EQUITY INVESTMENTS

The trading and saleable securities, as well as equity investments that are disclosed under saleable financial assets, must be presented at the market value in the balance sheet. As a consequence of the market valuation as at 31 December 2002, the **2002 profits increased by HUF 2,949 million**. Of this increase, HUF 2,928 million originates from the market value of the mortgage notes issued by OTP Mortgage Bank Ltd.

DIFFERENCE IN ACCOUNTING FOR OFF BALANCE SHEET FINANCIAL INSTRUMENTS

As IAS 39 calls for the valuation of balance sheet financial instruments at their market value, the items listed below that are recognised under HAR must be taken out of the IAS report and then the result of the market valuation must be recognised:

- provision set aside for non-hedged futures deals
- the accrual of the revaluation result of the spot leg of swap deals
- the interest revenue and interest expense accrued in connection with swap deals

Adjustments under IAS (HUF million):

| | | | |
|--|-----|---------|---------|
| – reversal of last year's IAS accrual: | HUF | – 318 | million |
| – taking out the provision under HAR for non-hedged futures transactions: | HUF | 1,459 | million |
| – reversal of the revaluation loss accounted for on the spot leg of swap transactions: | HUF | – 6,506 | million |
| – reversal of the accrued interest revenue and interest expense of swap deals | HUF | – 1,497 | million |
| – Total: | HUF | – 6,862 | million |

Forwards, swaps and derivative-type options are considered trading instruments and liabilities, and therefore their value in the balance sheet should be their market value as at the closing date. The result of marking to market was **HUF +5,610 million**.

The modifications in the valuation of off balance sheet financial instruments **reduced** the IAS result (HUF – 6,862 million HUF + 5,610 million = HUF – 1,252 million) by **HUF 1,252 million**.

The aggregate effect of modifications based on IAS 39 was an increase in the IAS results of **HUF 1,697 million**.

PRICE GAINS ON REPURCHASED OWN SHARES AND THE EXCHANGE VALUE DIFFERENCE PAID ON THE TRANSFORMATION OF PREFERENCE SHARES INTO ORDINARY SHARES

Under HAR, the price loss of HUF 1,576 million from the sale of repurchased own shares, as well as the exchange value difference of HUF 474 million paid to the Bank due to the transformation of shares, were posted to annual profits, and their net effect was to reduce profits. IAS posts these items directly to reserves, and, as a result, the necessary adjustment increased the IAS profits by **HUF 1,102 million**.

NEGATIVE GOODWILL /COMPANY VALUE

Under HAR regulations on corporate acquisitions, provided that a certain set of conditions is met, a so-called negative goodwill (or company value) must be disclosed in the balance sheet of the purchasing company. These conditions are as follows:

- the company purchased is not listed on the stock exchange
- with the investment, the buyer acquires a direct controlling interest in the given company
- the price paid by the buyer is significantly lower than the proportional value of the purchased equity

Negative goodwill (or company value) is the difference between the price paid by the buyer and that proportion of the purchased company's equity that corresponds to the acquired stake.

Another related provision under HAR is that the negative goodwill (or company value) must be posted to profits for a period of at least five years (60 months).

Since on 4 April 2002 OTP Bank Ltd. purchased Investicna a Rozvojova Banka (IRB, whose name was changed to OTP Banka Slovensko (OBS) on 1 August 2002), in the HAR annual financial statements the negative goodwill (or company value) was accounted for as follows:

- the up-dated total value of the negative goodwill (or company value) as at 31 December 2002 was HUF 3,815 million, of which
- HUF 572 million was posted to the annual profit (this being 9/60 of the total amount, i.e. the pro rata value for the nine months from the date of the purchase until 31 December 2002).

The provisions of IAS on negative goodwill (or company value) are slightly different from those of HAR. Under IAS, the following possibilities exist for the valuation of equity investments, which may be shown in the financial statements:

- at the cost price, or
- at equity value, or
- at the value pursuant to IAS 39

Since to date the Bank has been disclosing its equity investments at the cost price, it is, in line with the principle of consistency, appropriate to also disclose IRB at the cost price in the Bank's IAS financial statements. It follows from this that in the Bank's IAS report a negative goodwill (or company value) does not need to be shown.

The IAS adjustment that is required as a result of this serves reduces profits by HUF 572 million.

ADJUSTMENT OF EQUITY INVESTMENTS RECORDED IN FOREIGN CURRENCY TO THE COST VALUE

Under HAR, equity investments recorded in foreign currency must be re-valued on the last day of every month based on the month-end exchange rate quoted by the national bank. Due to the revaluation of foreign investments (*HIF Ltd., TVM S.A, OBS*) that are included among participations the Bank incurred a loss of HUF 281 million in 2002.

Under IAS, equity investments recorded in foreign currency must be disclosed at the original cost price and at the exchange rate as at the transaction date. The IAS profit must be adjusted by the revaluation difference recorded under HAR, and this has the effect of increasing the IAS profit by HUF 281 million.

ADJUSTMENT DUE TO DELIVERY REPO TRANSACTIONS (IAS 39)

Delivery repo transactions are treated differently under IAS and HAR. We have attached the relevant HAR provision and the "standpoint" of the IAS Committee on IAS 39, as well as a summary of the differences between the two legal statutes.

Due to the settlement rules related to repo transactions, the IAS profits are reduced by a total of HUF 41 million, of which a HUF 70 million reduction is reflected in net interest income and a HUF 111 million increase is reflected in net price gain.

ITEMS ACCOUNTED DIRECTLY AGAINST RESERVES – SELF REVISION

Under HAR, corrections due to self-revision are posted against profit reserves. Under IAS, the self-revision items carried out by the Bank are not considered a material error, and thus they are posted to the debit of the reporting year's profit. The necessary IAS adjustment reduces profits by **HUF 411 million**.

DEFERRED TAXES

HAR do not, while IAS do, recognise and apply the principle of deferred taxation, which treats corporate taxation in the same manner as any other expense, and thus renders it subject to the principle of accrual and matching.

In the Bank's case, deferred taxation affects profit-modifying items of the IAS report that will almost certainly also be reflected in the Hungarian financial statements in the future, i.e. they will be accounted for as a cost, or posted to income. As a result of accounting for these items, tax payables may either increase or decrease.

The Bank began applying deferred taxation in its IAS reports in 1994. In 2002, due to the profit-adjusting items that must be used when calculating the deferred tax, the deferred tax (given a corporate tax rate of 18%) amounted to HUF 215 million, which is a profit-reducing item.

DIFFERENCES BETWEEN THE CONSOLIDATED PROFIT AND LOSS ACCOUNT PREPARED ACCORDING TO HUNGARIAN AND INTERNATIONAL ACCOUNTING STANDARDS FOR THE YEAR ENDING 31 DECEMBER 2002

Breakdown of consolidated pre-tax profit

| | HAR | IFRS (IAS) | (in HUF million) Change |
|--|---------------|----------------|----------------------------|
| OTP Bank Ltd. | 58,083 | 63,001 | 4,918 |
| Merkantil Group | 3,086 | 3,327 | 241 |
| HIF Ltd. | 236 | 238 | 2 |
| OTP Garancia Insurance Ltd. | 1,602 | 2,186 | 584 |
| Concordia Info Ltd. | 8 | 8 | 0 |
| OTP Real Estate Ltd. | 1,076 | 1,076 | 0 |
| OTP Securities Ltd. | - 65 | - 65 | 0 |
| OTP Factoring Asset Management Ltd. | 177 | 177 | 0 |
| OTP Factoring Ltd. | 880 | 880 | 0 |
| OTP LTP Ltd. | 1,604 | 1,627 | 23 |
| Bank Center No 1. Ltd. | 639 | 639 | 0 |
| Inga Ltd. Companies | 134 | 134 | 0 |
| OTP Fund Services Ltd. | 19 | 19 | 0 |
| OTP Mortgage Bank Ltd. | 651 | 651 | 0 |
| OTP Fund Management Ltd. | 3,501 | 3,501 | 0 |
| OTP Banka Slovensko, a. s. | - 3,505 | - 1,330 | 2,175 |
| I. Aggregated pre-tax profit | 68,126 | 76,069 | 7,943 |
| <i>Change compared with the Bank</i> | <i>13,548</i> | <i>14,398</i> | <i>-</i> |
| Equity method | 239 | 160 | - 79 |
| Capital consolidation | 1,113 | 699 | - 414 |
| Avoiding intra-group double reporting | - 1,303 | - 1,303 | 0 |
| II. Total consolidation effect | 49 | - 444 | - 493 |
| III. Effect of other differences (IAS 39) | - | - 2,497 | - 2,497 |
| Consolidated pre-tax profits | 68,175 | 73,128 | 4,953 |
| <i>Change compared with the Bank</i> | <i>10,092</i> | <i>10,127</i> | <i>35</i> |

Part of the differences revealed in a comparison of the consolidated financial statements of 31 December 2002 prepared according to Hungarian rules and those prepared according to international standards is attributable to the growth in OTP Bank Ltd.'s figures, with further contributory factors being the individual figures of the various subsidiaries, as well as the effect of the valuation of the financial instruments held by the subsidiaries (IAS 39), and of the steps taken in the course of performing the consolidation.

I. DIFFERENCES ARISING UPON CONSOLIDATION OF THE REPORTS¹

Merkantil Group

A basic difference between the reports prepared according to Hungarian rules and those prepared based on international standards is that in the IFRS (IAS) report Merkantil Group's operative leasing transactions concluded before 1997 are treated as financial leasing and must be shown under receivables. Thus, in 2002 the reclassification of these transactions has the effect of increasing pre-tax profit by HUF 229 million.

Merkantil Group and OTP Building Society Ltd.

The general risk reserve calculated according to the relevant government decree and included in the HAR-based report is ignored in the IFRS (IAS) report. In the IFRS (IAS) report, the release of the provision increases pre-tax profits by HUF 35 million.

| | |
|---------------------------|-----------------|
| Merkantil Group | HUF +12 million |
| OTP Building Society Ltd. | HUF +23 million |

HIF Ltd. and OTP Banka Slovensko, a. s.

In the IAS consolidated report, when translating the foreign currency P&L figures of HIF Ltd. and OTP Banka Slovensko, a. s. (OBS) into forint, the difference arising from the conversion must be posted to equity, while under HAR the revaluation difference from foreign currency translation must be posted to other revenue (expense). Due to the above, the IAS pre-tax profit is decreased by HUF 62 million.

| | |
|---------------------------|-----------------|
| HIF Ltd. | HUF +2 million |
| OTP Banka Slovensko, a.s. | HUF -64 million |

OTP Banka Slovensko, a. s.

Under IFRS (IAS), upon consolidation the entire loss that arose prior to the purchase of OBS is separated and taken off the books through a set-off against reserves. The fact that this loss is taken off the books increases profits by HUF 2,348 million. In the HAR-based report, upon consolidation the loss of HUF 1,866 million prior to the purchase of OBS remains in the individual company report, and it is taken off the books in the course of capital consolidation.

The general risk reserve calculated according to the relevant government decree and included in the HAR report is ignored in the IFRS (IAS) report. In the HAR report, the reserve set aside was higher than necessary, as in March 2002 the adjusted balance sheet total was higher than in December 2002. Under HAR, the release of risk reserve that took place due to the excess generation of reserves was HUF 103 million. This decreases the IAS after-tax profits by HUF 103 million.

Before it was purchased, OBS did not prepare an individual company IFRS (IAS) report, only an IFRS (IAS)-based consolidated report. For this reason, the profit generated by OBS's previously consolidated investments is taken off the IFRS (IAS) company report, resulting in a decrease in profits of HUF 149 million. The result of the revaluation due to IAS 39 is HUF +16 million. In the IFRS (IAS) report, the revenue from the distribution of bonds amounts to HUF 97 million. The effect of the adjustments related to other reserves increases profits by a total of HUF 28 million.

The above items increase the IAS profit by HUF 2,237 million.

¹ The differences with regard to the Bank are analysed in an earlier chapter of the report.

OTP Garancia Insurance Ltd.

Compared with the HAR figures, in the IFRS (IAS) report the deletion of the reporting year's amortisation of the capitalised value of restructuring is a profit-increasing factor (HUF +70 million). The value of restructuring capitalised in the previous years was accounted for in the IFRS (IAS) reports of the previous years as a profit-reducing item, and thus amortisation expenses are now deleted, as a profit-increasing item.

In the IFRS (IAS) reports of the previous years, OTP Garancia Insurance Ltd.'s receivable from re-insurance (stop-loss transactions) arising from compulsory car insurance was written off, as IAS did not recognise revenues from the transfer of compensation payments (recovered damages). Due to the decrease in receivables in the reporting year, in the IFRS (IAS) report the write-off of receivables had to be adjusted by a HUF 214 million profit-increasing item.

The release in the reporting year of the insurance technical reserve that was additionally generated in the previous years in the IFRS (IAS) reports, was a profit-increasing item (of HUF +300 million).

The combined effect of the above items is to increase the IAS after-tax profit by HUF 584 million.

II. DIFFERENCES IN THE EFFECTS OF CONSOLIDATION UNDER HAR AND IAS

Effect of the equity method

The basic difference between the equity method used in the HAR and in the IAS report is that in the HAR report both the relevant act and the Bank's accounting policy on consolidation specify which companies must be consolidated under this method. (These are subsidiaries that are exempt from full consolidation, as well as associated companies in which the Bank holds a significant interest that is equal to a nominal value of at least HUF 50 million of the share capital based on the ownership stake and that, at the minimum, represents a 10% ownership stake. There are a total of 20 such companies.)

In the international report, the equity method must be used, based on a case-by-case judgement, only with respect to some of the investments in which a stake of less than 50% is held and that are important in terms of profitability.

Overall, the companies that were included in the HAR consolidated report had a higher profit in 2002 than Nagybani Piac Ltd. (HUF 28 million) and GIRO Elszámolásforgalmi Központ Ltd. (HUF 132 million), which were included in the IFRS (IAS) report based on the equity method. It is due to this dissimilarity that there is a difference between the two reports in terms of the amount of profit posted as a change in equity in proportion to the equity held by the parent company.

The above items decrease the IAS results by HUF 79 million.

Effect of capital consolidation

One of the reasons that the effect of the capital consolidation is different in the two reports is the difference in the disclosure of the amortisation expense of the active capital consolidation differences.

Under HAR, the active capital consolidation difference from the Inga Ltd. companies, i.e. the difference between the cost price and the equity of these companies as at the purchase date, must be amortised on a straight-line basis over five years, while under IFRS (IAS) the complete amount of the difference was written off in 1998. For this reason, in the HAR report profits are decreased by the pro rata amortisation expense of HUF 15 million, while in the IFRS (IAS) reports after 1998 there is no such profit-decreasing item.

MANAGEMENT'S ANALYSIS

In the consolidated report according to HAR, the separation of the revenue (HUF –572 million) originating from the badwill that was accounted for in OTP's books, decreases profits. In contrast to this, that amount of the badwill that is accounted for in the IFRS (IAS) consolidated report as a revenue for the purpose of a set-off against incurred costs increases profits by HUF +892 million. As a result, the IFRS (IAS) report shows a difference of HUF +1,464 million compared to the HAR report.

In the course of capital consolidation, the value of the investment is taken off the books and set off against the equity of the investment. Under HAR, the loss (HUF +1,866 million) of OBS from the time before the purchase is taken off the books and set off against equity in the course of capital consolidation, while in the IFRS (IAS) report this had already been taken into account at the time of the consolidation of the reports. This explains why the IFRS (IAS) capital consolidation shows a difference of HUF –1,866 compared to the HAR capital consolidation.

In the HAR report, the separation of the losses accruing to external owners improved the profits by HUF +70 million, while in the IFRS (IAS) report it improved the results by HUF +55 million. Consequently, the difference between the two reports is HUF –15 million.

Other differences decreased the IAS after-tax profits by HUF 12 million.

The total capital consolidation difference decreases the IAS after-tax profits by HUF 414 million.

Effect of avoiding intra-group double reporting

There were no differences in the consolidation steps involved in preparing the consolidated HAS and IFRS (IAS) reports.

III. OTHER DIFFERENCES – EFFECT OF THE RE-VALUATION ACCORDING TO IAS 39

In the balance sheet prepared according to IFRS (IAS), trading and saleable securities as well as equity investments that qualify as saleable financial assets must be disclosed at their market value.

The market valuation, dated 31 December 2002, of OTP Mortgage Bank Ltd., OTP Building Society Ltd., OTP Garancia Insurance Ltd. and OTP Fund Management Ltd. increases the IAS pre-tax profit by a total of HUF 431 million with respect to the reporting year.

In OTP Bank's IFRS (IAS) company report, the market valuation of the portfolio of mortgage notes issued by OTP Mortgage Bank Ltd. and disclosed in OTP Bank's books increased the pre-tax profit by HUF 2,940 million. Based on the elimination of intra-group double reporting, the upward valuation was also deleted from the consolidated report. This decreases the IAS pre-tax profit by HUF 2,928 million.



FINANCIAL *Report*

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INDEPENDENT AUDITORS' REPORT

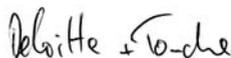
To the Shareholders and Board of Directors of National Savings and Commercial Bank Ltd.

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
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 |



FINANCIAL REPORT

| 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 |



FINANCIAL REPORT

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& 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

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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 |



FINANCIAL REPORT

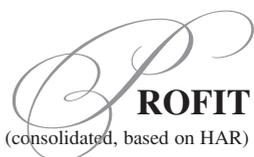
| ASSETS | 2001 | 2002 |
|---|------------------|------------------|
| 7. SHARES AND PARTICIPATING INTEREST AS FINANCIAL FIXED ASSETS | 4,911 | 5,681 |
| a) shares and participating interest as financial fixed assets | 4,911 | 5,681 |
| From this: – shares and participating interest in credit institutions | 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 |

FINANCIAL REPORT

| 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 |

FINANCIAL REPORT

| 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 |

FINANCIAL REPORT

| | 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 |

FINANCIAL REPORT

| | 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 |



FINANCIAL REPORT

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& 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.

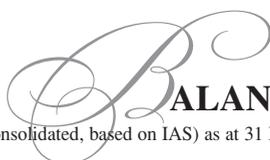
Consolidated financial statements have not been presented at the date of this report, as required by International Accounting Standard No. 27. We draw attention to Notes 2.3 and 2.7 to the unconsolidated financial statements, which explain why consolidated financial statements have not been presented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

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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 unconsolidated 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 unconsolidated 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 |
| <i>Adjustments to reconcile income after income taxes to net cash provided by operating activities:</i> | | |
| 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 |
| <i>Changes in operating assets and liabilities:</i> | | |
| 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 diminution 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 |
| <i>Cash and cash equivalents at the beginning of the year</i> | <i>268,003</i> | <i>309,361</i> |
| 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 unconsolidated 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 unconsolidated 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.



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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.



FINANCIAL REPORT

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



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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.

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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.

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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

| | | 2002 | 2001 |
|--|---------------------|--------------------|----------------|
| | | <i>(in HUF mn)</i> | |
| Cash on hand: | in HUF | 39,460 | 38,540 |
| | in foreign currency | 3,570 | 10,630 |
| | | <i>43,030</i> | <i>49,170</i> |
| Due from banks and balances with NBH: | | | |
| Short-term: | in HUF | 301,709 | 320,279 |
| | in foreign currency | 3,251 | 4,360 |
| | | <i>304,960</i> | <i>324,639</i> |
| 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.

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

| | | 2002 | (in HUF mn) 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:

| | 2002 | (in HUF mn) 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 |
|--|----------------|---------------------|
| 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.

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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:

| | 2002 | 2001 (in HUF mn) |
|---------------------------------|----------------|---------------------|
| 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

| | 2002 | 2001 (in HUF mn) |
|--|----------------|---------------------|
| 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.

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

| | 2002 | | (in HUF mn) 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:

| | 2002 | (in HUF mn) 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

| | 2002 | (in HUF mn) 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 | |

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(continued from page 90)

| | 31 Dec 2002 | | 31 Dec 2001 | | <i>(in HUF mn)</i> |
|--|--------------------------------------|---------------|--------------------------------------|---------------|--------------------|
| | Held <i>(direct and indirect)</i> | Cost | Held <i>(direct and indirect)</i> | 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:

| | 2002 | <i>(in HUF mn)</i> 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

| | 2002 | <i>(in HUF mn)</i> 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:

| | 2002 | <i>(in HUF mn)</i> 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 |

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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 | 2001 |
|---|--------------------|----------------|
| | <i>(in HUF mn)</i> | |
| 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 |
| | <i>131,456</i> | <i>113,440</i> |
| Accumulated depreciation and amortization | – 60,151 | – 56,713 |
| | 71,305 | 56,727 |

NOTE 10: OTHER ASSETS

| | 2002 | 2001 |
|--|--------------------|---------------|
| | <i>(in HUF mn)</i> | |
| 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 |
| | <i>61,326</i> | <i>20,813</i> |
| Allowance for possible losses on other assets | – 2,418 | – 1,669 |
| | 58,908 | 19,144 |

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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:

| | 2002 | (in HUF mn) 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

| | 2002 | (in HUF mn) 2001 |
|--------------------------------|---------------|---------------------|
| Within one year: in HUF | 29,920 | 4,783 |
| in foreign currency | 7,100 | 3,421 |
| | <i>37,020</i> | <i>8,204</i> |
| Over one year: in HUF | 4,774 | 7,821 |
| in foreign currency | 4,607 | 9,108 |
| | <i>9,381</i> | <i>16,929</i> |
| 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

| | 2002 | (in HUF mn) 2001 |
|--------------------------------|------------------|---------------------|
| Within one year: in HUF | 1,740,583 | 1,467,714 |
| in foreign currency | 293,597 | 359,052 |
| | <i>2,034,180</i> | <i>1,826,766</i> |
| Over one year: in HUF | 11,473 | 15,956 |
| | <i>11,473</i> | <i>15,956</i> |
| Total | 2,045,653 | 1,842,722 |

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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 | | (in HUF mn) 2001 | |
|-----------------------|------------------|-------------|---------------------|-------------|
| 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 | (in HUF mn) 2001 |
|-------------------------|--------------|---------------------|
| 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 | (in HUF mn) 2001 |
|---|---------------|---------------------|
| 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 |

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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 warranties | - 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.

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NOTE 16: SHARE CAPITAL

| | 2002 | (in HUF mn) 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

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

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NOTE 19: OTHER EXPENSES

| | 2002 | 2001 <i>(in HUF mn)</i> |
|--|---------------|----------------------------|
| 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 <i>(in HUF mn)</i> |
|--------------|---------------|----------------------------|
| 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 <i>(in HUF mn)</i> |
|----------------------------------|--------------|----------------------------|
| 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 <i>(in HUF mn)</i> |
|--|---------------|----------------------------|
| 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 |



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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.

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A) CONTINGENT LIABILITIES AND COMMITMENTS

| | 2002 | 2001 |
|--|---------|--------------------|
| | | <i>(in HUF mn)</i> |
| 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.

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B) DERIVATIVES

| | <i>(in HUF mn)</i> | |
|--|--------------------|---------|
| | 2002 | 2001 |
| 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.



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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 Securities 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.



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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

| | 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.



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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 | – |

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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 |

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As at December 31, 2001

| | USD | EUR | Others | (in HUF mn) 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.

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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 | |
| 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 |

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As at December 31, 2001

| 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) 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 | |
| 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 | |
| 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 |

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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

| | Retained Earnings and Reserves Jan. 1, 2002 | Net Income for the year ended Dec. 31, 2002 | Dividends | Direct Movements on Reserves | (in HUF mn) 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 |

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| <i>(continued from 108 page)</i> | <i>(in HUF mn)</i> | | | | |
|--|---|---|-----------|------------------------------------|--|
| | 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 |



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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 |
| <i>Adjustments to reconcile Net Income before income taxes to net cash provided by operating activities</i> | | |
| 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 | - |
| <i>Changes in operating assets and liabilities</i> | | |
| 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 |
| <i>Cash and cash equivalents at the beginning of the year</i> | <i>271,504</i> | <i>309,269</i> |
| 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.



FINANCIAL REPORT

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.

FINANCIAL REPORT

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.

FINANCIAL REPORT

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.

FINANCIAL REPORT

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 is 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.

FINANCIAL REPORT

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.

FINANCIAL REPORT

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.

FINANCIAL REPORT

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

| | | 2002 | (in HUF mn) 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

| | | 2002 | (in HUF mn) 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:

| | 2002 | (in HUF mn) 2001 |
|--------------------------------------|------------|---------------------|
| Balance as at January 1 | 170 | 183 |
| Credit for possible placement losses | - 7 | - 13 |
| Balance as at December 31 | 163 | 170 |

FINANCIAL REPORT

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

| | 2002 | 2001 <i>(in HUF mn)</i> |
|--|----------------|----------------------------|
| 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 |
| | <i>116,732</i> | <i>112,724</i> |
| 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 |
| | <i>103,359</i> | <i>115,839</i> |
| 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 | 2001 <i>(in HUF mn)</i> |
|---------------------------------|----------------|----------------------------|
| Within five years: | | |
| with variable interest | 50,669 | 66,966 |
| with fixed interest | 103,242 | 110,826 |
| | <i>153,911</i> | <i>177,792</i> |
| Over five years: | | |
| with variable interest | 17,950 | 1,360 |
| with fixed interest | 26,215 | 17,440 |
| | <i>44,165</i> | <i>18,800</i> |
| Non-interest bearing securities | 22,015 | 31,971 |
| Total | 220,091 | 228,563 |

FINANCIAL REPORT

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

| | 2002 | (in HUF mn) 2001 |
|---------------------------------------|------------------|---------------------|
| Loans and trade bills within one year | 401,895 | 342,822 |
| Loans and trade bills over one year | 935,050 | 478,883 |
| | <i>1,336,945</i> | <i>821,705</i> |
| 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 | | (in HUF mn) 2001 | |
|--------------------|------------------|-------------|---------------------|-------------|
| 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 | (in HUF mn) 2001 |
|------------------------------------|---------------|---------------------|
| 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 | (in HUF mn) 2001 |
|--|--------------|---------------------|
| Equity investments: | | |
| Unconsolidated subsidiaries | 1,450 | 1,217 |
| Associated companies | 4,357 | 3,391 |
| Other | 1,194 | 1,293 |
| | <i>7,001</i> | <i>5,901</i> |
| Allowance for permanent diminution in value | – 1,537 | – 3,085 |
| | 5,464 | 2,816 |
| Total assets of unconsolidated subsidiaries | 4,738 | 4,011 |

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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:

| | 2002 | (in HUF mn) 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

| | 2002 | (in HUF mn) 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:

| | 2002 | (in HUF mn) 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:

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

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NOTE 9: PREMISES, EQUIPMENT AND INTANGIBLE ASSETS, NET

| | 2002 | 2001 |
|--|--------------------|----------------|
| | <i>(in HUF mn)</i> | |
| 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 |
| | <i>176,841</i> | <i>136,949</i> |
| Accumulated depreciation and amortization | – 83,273 | – 63,615 |
| Total | 93,568 | 73,334 |

NOTE 10: OTHER ASSETS

| | 2002 | 2001 |
|--|--------------------|---------------|
| | <i>(in HUF mn)</i> | |
| 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 |
| | <i>88,786</i> | <i>72,125</i> |
| 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:

| | 2002 | 2001 |
|---|--------------------|--------------|
| | <i>(in HUF mn)</i> | |
| 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 |

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

| | | 2002 | (in HUF mn) 2001 |
|-------------------------|---------------------|---------------|---------------------|
| 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 | (in HUF mn) 2001 |
|-------------------------|---------------------|------------------|---------------------|
| 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%.

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

| | 2002 | | (in HUF mn) 2001 | |
|-----------------------|------------------|-------------|---------------------|-------------|
| 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% |
| Total | 2,151,169 | 100% | 1,891,512 | 100% |

NOTE 13: LIABILITIES FROM ISSUED SECURITIES

| | 2002 | (in HUF mn) 2001 |
|-------------------------|---------------|---------------------|
| 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 | (in HUF mn) 2001 |
|---|----------------|---------------------|
| 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 |

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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 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:

| | 2002 | (in HUF mn) 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:

| | 2002 | (in HUF mn) 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.

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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 <i>(in HUF mn)</i> |
|------------------------------------|---------------|----------------------------|
| 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 <i>(in HUF mn)</i> |
|--|----------------|----------------------------|
| 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

| | 2002 | 2001 <i>(in HUF mn)</i> |
|-------------------------------|--------|----------------------------|
| Nominal value (Common Shares) | 2,334 | 2,217 |
| Carrying value | 27,800 | 26,357 |

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NOTE 19: MINORITY INTEREST

| | 2002 | 2001 |
|--|--------------------|----------|
| | <i>(in HUF mn)</i> | |
| 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

| | 2002 | 2001 |
|---|--------------------|---------------|
| | <i>(in HUF mn)</i> | |
| 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:

| | 2002 | 2001 |
|--------------|--------------------|---------------|
| | <i>(in HUF mn)</i> | |
| Current tax | 13,870 | 11,088 |
| Deferred tax | 82 | 464 |
| Total | 13,952 | 11,552 |

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A reconciliation of the deferred tax liability is as follows:

| | 2002 | (in HUF mn) 2001 |
|----------------------------------|--------------|---------------------|
| 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 | (in HUF mn) 2001 |
|-------------------------------------|---------------|---------------------|
| 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.

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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

| | 2002 | 2001 |
|--|--------------------|----------------|
| | <i>(in HUF mn)</i> | |
| 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.

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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

| | 2002 | 2001 |
|--|-----------|-----------|
| <i>(in HUF mn)</i> | | |
| 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.

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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

| | 2002 | 2001 |
|---|----------------|--------------------|
| | | <i>(in HUF mn)</i> |
| 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 |

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NOTE 25: CASH FLOW STATEMENT

A) PURCHASE AND CONSOLIDATION OF SUBSIDIARY UNDERTAKINGS

| | 2002 | 2001 |
|---|--------------------|----------|
| | <i>(in HUF mn)</i> | |
| 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

| | 2002 | 2001 |
|-------------------------|--------------------|----------|
| | <i>(in HUF mn)</i> | |
| 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) | | Activity |
|-----------------------------|---------------------------------|---------|--|
| | 2002 | 2001 | |
| 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% | forfeiting |
| 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 |

FINANCIAL REPORT

| <i>(continued from 135 page)</i> | Ownership (Direct and Indirect) | | Activity |
|--|---------------------------------|---------|-----------------------------|
| | 2002 | 2001 | |
| 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

| | USD | EUR | Others | <i>(in HUF mn)</i> 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

| | USD | EUR | Others | <i>(in HUF mn)</i> 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.

FINANCIAL REPORT

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 | – |

FINANCIAL REPORT

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.

FINANCIAL REPORT

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 <i>(in HUF mn)</i> | | |
|---|------------------|---------------------|------------------------------|---------------------|-----------------------------|---------------------|----------------------------|---------------------|----------------|---------------------|--------------------------|---------------------|------------------|
| | 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 |

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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.



Shareholder
SHAREHOLDER
Information

BOARD OF DIRECTORS OF OTP BANK LTD.



DR. SÁNDOR CSÁNYI
Chairman-CEO
OTP Bank Ltd.



DR. ZOLTÁN SPÉDER
Vice Chairman, Deputy CEO
OTP Bank Ltd.



MIHÁLY BAUMSTARK
Chairman-CEO
Csányi Vinery Ltd.



DR. TIBOR BÍRÓ
Department Head
Budapest Business School



PÉTER BRAUN
Electrical Engineer, Former Deputy CEO
OTP Bank Ltd.



DR. ISTVÁN KOCSIS
CEO
Paks Nuclear Power Plant Ltd.



CSABA LANTOS
Deputy CEO
OTP Bank Ltd.



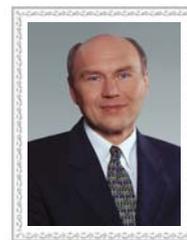
GÉZA LENK
Deputy CEO
OTP Bank Ltd.



DR. ANTAL PONGRÁCZ
Deputy CEO
OTP Bank Ltd.



DR. LÁSZLÓ UTASSY
Chairman-CEO
OTP-Garancia Insurance Ltd.



DR. JÓZSEF VÖRÖS
Professor
Pécs University, Faculty of Economics



UPERVISORY BOARD OF OTP BANK LTD.



TIBOR TOLNAY (CHAIRMAN)

*Chairman-CEO
Magyar Építők Ltd.*



DR. GÁBOR NAGY (VICE CHAIRMAN)

*Head of Codification Group
Ministry of Finance, Accounting Division*



MRS ZSÓFIA ZSAKÓ GYULAI

*Managing Director
OTP Bank Ltd., Banking Operations Directorate*



DR. GÁBOR HORVÁTH

Lawyer



DR. SÁNDOR PINTÉR

*CEO
CIVIL Biztonsági Szolgálat Ltd.*



KLÁRA VÉCSEI

*Deputy Managing Director
OTP Bank Ltd., Northern Hungary Region*



INFORMATION FOR SHAREHOLDERS

GENERAL COMPANY DATA

HEAD OFFICE OF OTP BANK LTD.:

1051 Budapest, Nádor utca 16. • Telephone: (+36-1) 353-1444 • Fax: (+36-1) 312-6858

OTP BANK LTD.

The Bank's share capital as at 31 December 2002 was HUF 28,000,001,000, consisting of 280,000,000 ordinary shares of HUF 100 nominal value each, and 1 voting-preference share of nominal value HUF 1,000. (On 11 March 2002 the dematerialisation of the Bank's shares had been completed, at which point OTP ordinary shares of HUF 1,000 nominal value were split into 10 ordinary shares with a nominal value of HUF 100 each.)

OWNERSHIP STRUCTURE AS AT 31 DECEMBER 2002

| Shareholder | | Participation as a % of registered capital (ownership share) |
|-----------------------|---------------------------------|--|
| Domestic shareholders | State | 1 voting preference share |
| | State budgetary organizations | 0.2% |
| | Managers and employees | 2.8% |
| | OTP Bank Ltd. | 5.5% |
| | Other domestic investors | 10.7% |
| | <i>Total domestic ownership</i> | <i>19.2%</i> |
| Foreign shareholders | Foreign investors | 80.8% |
| Total | | 100.0% |

DIVIDEND

OTP Bank Ltd.'s General Meeting of 25 April 2003 passed a resolution to the effect that no dividends would be paid on ordinary shares from the profits of the 2002 financial year.

STOCK EXCHANGE LISTING

The ordinary shares of OTP Bank Ltd. are listed on the Budapest Stock Exchange in category "A", and the global depository receipts (GDRs) representing the ordinary shares that are traded abroad are listed on the Luxembourg Stock Exchange. (1 GDR embodies 2 ordinary shares.) The Regulation S GDRs are traded on the London SEAQ International. The Rule 144A GDRs are traded in the PORTAL system. The custodian bank for the OTP GDRs is the Bank of New York, and the safekeeper is OTP Bank Ltd. (Stock exchange symbol for OTP Bank shares: OTP, Reuters: OTP.BU).

Private investors who have questions regarding shares or dividends, or about resolutions passed at the General Meeting, should contact the Secretariat of OTP Bank Ltd. Telephone: (+36-1) 312-5085.

SHAREHOLDER INFORMATION

PARTICIPATION AND VOTING RIGHTS AT THE GENERAL MEETING

Shareholders may exercise their right of participation and voting rights at the General Meeting personally, or by proxy.

Authorisations shall be granted in a notarised deed or a private document with full probative force. In the event that a shareholder is represented at the General Meeting by its legal representative (e.g. director, managing director, mayor etc.) the deed issued by the court or court of registration concerning the representation, or a certificate concerning the election of the mayor must be presented at the venue of the General Meeting.

Authorisations shall be handed over during the period and at the location specified in the invitation to the General Meeting. In the event that the authorisation was issued outside Hungary, its formal requirements must satisfy the statutes of law concerning the certification and/or legalisation of documents issued outside Hungary. Information on the subject may be obtained from the foreign representation of Hungary.

The participation in the General Meeting and exercising the right to vote are subject to the following:

- the holder of the registered share has been effectively entered into the Company's Share Book;
- the voting right relating to the ownership of the shares shall not violate the provisions of the Company's Articles of Association, which circumstance shall be verified through monitoring by the Company following the receipt of notification from KELER Ltd.;
- with respect to participation in the General Meeting and the exercising of voting rights on the part of the organisation exercising shareholders' rights on the basis of the voting-preference share (golden share) issued in favour of the Hungarian State, the general rules shall apply, with the proviso that, in the case of certain matters specified in the Articles of Association of OTP Bank Ltd., the consent of the holder of the golden share is required in order for the resolution to be passed;
- the rules on participation in the General Meeting and the exercising of voting rights on the part of GDR holders are contained in the Custody Agreement concluded between the Bank of New York and OTP Bank Ltd.

INVESTOR RELATIONS

Institutional shareholders of OTP Bank Ltd. should contact the following address if they require further information:

OTP Bank Ltd. Investor Relations

1051 Budapest, Nádor utca 16. Telephone: (+36-1) 269-1693 Fax: (+36-1) 331-6312

e-mail: investor.relations@otpbank.hu

ANNOUNCEMENTS

OTP Bank Ltd. fulfils its disclosure obligations related to corporate events and prescribed in Act CXX of 2001 in Magyar Tőkepiac [Hungarian Capital Market] and on the website of the Budapest Stock Exchange (www.bet.hu).

INTERNET

The address of the Bank's website is www.otpbank.hu.

COMMITMENT TO SOCIAL RESPONSIBILITIES

The Bank, as a responsible member of society and a successful business, has contributed to the development of a sponsorship culture. The Bank's participation in the community has focused on alleviating the health and social problems of children, and on supporting culture and sports.

OTP BANK'S COMMITMENT TO HEALTH

In 2002 the most important aspect of the Bank's social involvement continued to be its support of child healthcare. Since 1994 the Bank has had a close cooperation with the International Child Rescue Service, which provides health care services to over 10,000 Hungarian and foreign children. In the framework of this project the Bank continued its tradition of collecting donations in cash-collection boxes kept at its branches as well as on the bank account that was set up in order to simplify the process of making donations. The money collected this way was donated to national or regional initiatives selected the Bank together with the Child Rescue Service.

The Bank took the dentist's bus that it had purchased for the Child Rescue Service to numerous events sponsored by the Bank or held in the regions, where medical examinations were provided together with various entertainment programs. In addition, the Bank assisted the Child Rescue Service in its work by participating in local events, purchasing tickets, donating gifts, and sponsoring the Service's media appearances.

The OTP Health Fund established in 2002 plays a pioneering role in promoting health preservation. The Fund provides assistance to its members in creating healthy lifestyles, conducting regular health tests, and by giving financial support for treatments and the purchase of medication and medical equipment.

Because OTP Bank is concerned about preserving the health of its employees, the Bank supports the membership of its employees in the health fund by contributing to their membership fees.

OTP BANK'S SUPPORTS HUNGARIAN CULTURE

In 2002 OTP Bank was the primary sponsor of several cultural events in Hungary, mainly theatre festivals (e.g. the Summer Festival in Esztergom), theatrical performances (e.g. Petőfi Theatre, Vörösmarty Theatre), cultural city events (e.g. Pécs's Days, villages' days) musical events (e.g. LGT Festival, Sztevanovity Zorán concerts).

OTP BANK'S COMMITMENT TO SPORT

Of the various national sporting events, the Bank, in acknowledgement of its wide customer base, actively supports large, public sporting events.

In 2002 OTP Bank supported several high-ranking international and Hungarian sports events such as the World Gymnastics Championships, the National Volleyball Festival, and the OTP Bank Golf Cup.

In the field of professional sports OTP Bank concluded a cooperation agreement with Újpest Football Club and has also provided support to several sports clubs outside the capital (e.g. DVSC, Fotex Veszprém).

Furthermore the Bank is a Gold Sponsor of the recently opened Budapest Arena.

COMMITMENT TO SOCIAL RESPONSIBILITIES

OTP BANK'S COMMITMENT TO EDUCATION

The Bank also promotes cooperation with institutions of higher education by providing financial support for professional training.

In order to support talented young people, each second year the Bank's Fáy András Foundation rewards students who win the Pro Scientia Gold Medal of the Hungarian National Scientific Student Conference.

OTP BANK'S COMMITMENT TO CUSTOMERS

In keeping with its decades-old traditions, OTP Bank celebrates World Savings Day throughout Hungary on the last working day of October in order to reinforce its relationship with its customers and partners. On this occasion the Bank organizes exclusive events where attendance is restricted to its most important partners and customers, and the Bank gives out the Fáy András Award to acknowledge the efforts of its partners' employees who have played an outstanding role in the cooperative relationship.

The Bank puts emphasis on acknowledging and rewarding not only its customers but also its employees. Therefore, on World Savings Day the Bank awards the Fáy András Award, the "For OTP Bank" Award, and various other titles to our most outstanding employees.

The Bank has traditionally worked closely and enjoyed excellent relations with local civil and various other organisations (police, fire brigade, schools, municipalities, etc.), which suggests that the Bank's importance, its activities, and its supporting and advisory role are widely recognised and appreciated.

OTP BANK'S COMMITMENT TO THE ENVIRONMENT

The largest Hungarian financial institution is committed to respecting environmental concerns in the course of its activities. The Bank has supported several environmental protection initiatives and assisted municipalities in fulfilling their environmental duties.

The Bank recycles paper in order to contribute to the community's environmental projects. The Bank plans not just to encourage employees to selectively recycle waste but eventually to create a paper-free office.

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