MANAGEMENT'S ANALYSIS

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

RESULTS ACCORDING TO HAR

CONSOLIDATED FINANCIAL RESULTS OF OTP BANK

CONSOLIDATED BALANCE SHEET

The balance sheet total of the group as of December 31, 2004 amounted to HUF 4,182.4 billion, which was 19.4%, or HUF 679.8 billion higher than in the previous year, and which exceeded the Bank's non-consolidated year-end 2004 balance sheet total by 37.4%.

The main factors behind the 2004 growth in the consolidated balance sheet total **on the liability side** were the HUF 557.0 billion increase in liabilities, and, within this, the HUF 212.5 billion increase in customer liabilities, the HUF 128.3 billion increase in liabilities to credit institutions, the HUF 84.2 billion increase in equity and the HUF 19.1 billion increase in provisions. Liabilities increased by 18.3% over the previous year, and within this, long-term liabilities increased by the greatest margin, exceeding the year-end 2003 total by 71.1%. As a result, the share of short-term liabilities within total liabilities declined slightly in 2004, though they still represented 87.6% of total liabilities. More than 80% of liabilities consisted of liabilities to customers, with these amounting to HUF 2,910.4 billion at year-end 2004. Customer deposits grew 7.8% to HUF 2,914.8 billion by the end of 2004, with retail deposits accounting for more than 75% of this total. As of year-end 2004, the share of corporate deposits within total customer deposits was 18.5%, while that of municipalities was 6.4%. The contribution of the group's foreign subsidiaries to the consolidated total of deposits was HUF 500 billion, equivalent to a share of 17.2%, which is 3 percentage points higher than the year-end figure for 2003 (HUF 384.7 billion, or 14.2%).

Consolidated volume of deposits by subsidiaries according to HAR on Dec 31, 2004 in HUF mn

	OTP Bank Ltd.	OTP Building Society	Merkantil Bank Ltd.	Merkantil Car Ltd.	OTP Banka Slovenso a.s.	DSK Bank EAD	Robank SA	Total	Total consolidated
Corporate	421,098	2,441	2,163	103	58,626	41,805	15,939	542,175	538,495
Municipality	159,679	7	0	0	19,434	6,642	0	185,762	185,762
Retail	1,737,751	57,044	37,576	728	61,793	282,900	12,764	2,190,556	2,190,556
Total	**2,318,528**	**59,492**	**39,739**	**831**	**139,853**	**331,347**	**28,703**	**2,918,493**	**2,914,813**

Compared with the previous year, funds from credit institutions more than doubled, reaching HUF 254.6 billion, although the share of such borrowings within the total of liabilities was just 6.1%. Among the liabilities of the consolidated balance sheet, total provisions increased by HUF 19.1 billion, to HUF 135.3 billion. Equity rose by HUF 84.2 billion, or 27.6%, during 2004, and at the end of the year represented 9.3% of liabilities (year-end 2003: 8.7%).

The most important change on **the asset side** of the consolidated balance sheet was the 24.0%, or HUF 485.4 billion, increase in receivables from customers, as a result of which the share of customer receivables within total assets grew from 57.8% in 2003 to 60.0% in 2004.

Consolidated gross loan volume by subsidiaries according to HAR on Dec 31, 2004 in HUF mn

	OTP Bank Ltd.	OTP Factoring	OTP Building Society	Merkantil Bank Ltd.	Merkantil Car Ltd.	HIF Ltd.	OTP Mortgage Bank	OTP Banka Slovensko a.s.	DSK Bank EAD	Robank SA	Total	Total consolidated
Corporate	806,280	1,995	0	16,199	19,983	11,766	0	114,809	63,082	16,087	1,050,201	927,112
Municipality	94,565	447	0	21	255	0	0	1,095	183	0	96,568	96,568
Total retail	371,259	6,491	7,929	34,287	116,890	0	770,265	26,722	210,799	258	1,544,899	1,559,740
Consumer	200,889	417	0	34,287	116,890	0	0	4,366	163,209	257	520,313	535,154
Mortgage/ Housing	170,370	6,074	7,929	0	0	0	770,265	22,355	47,590	1	1,024,586	1,024,586
Total	**1,272,104**	**8,933**	**7,929**	**50,507**	**137,127**	**11,766**	**770,265**	**142,626**	**274,065**	**16,345**	**2,691,667**	**2,583,419**

* Based on audited financial statements

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

Customer loans grew by HUF 505 billion, or more than 24%, with close to 70% of this increase coming from the expansion in the retail loan portfolio. Of the HUF 2,583.4 billion portfolio of customer loans, the share of retail loans was 60.4%, with the total volume of such loans reaching HUF 1,559.7 billion. The HUF 927.1 billion corporate loan portfolio represented 35.9% of all customer loans, while loans to municipalities, at HUF 96.6 billion, represented 3.7% of the entire customer loan portfolio. The share of the foreign subsidiary banks within the consolidated loan portfolio was 17.2% (HUF 444.8 billion), compared to 13.5% in the previous year (HUF 280 billion).

THE STRUCTURE OF QUALIFIED LOANS

	Dec 31, 2003		Dec 31, 2004		Change		
	HUF mn	proportion %	HUF mn	proportion %	HUF mn	%	proportion %
Performing	1,768,347	85.1	2,249,755	87.1	481,408	27.2	2.0
Qualified	310,496	14.9	333,664	12.9	23,168	7.5	(2.0)
To-be-monitored	207,164	10.0	225,871	8.7	18,707	9.0	(1.3)
NPL	103,332	5.0	107,793	4.2	4,461	4.3	(0.8)
Below average	25,630	1.2	25,486	1.0	(144)	(0.6)	(0.2)
Doubtful	19,062	0.9	20,019	0.8	957	5.0	(0.1)
Bad	58,640	2.8	62,288	2.4	3,648	6.2	(0.4)
Total	**2,078,843**	**100.0**	**2,583,419**	**100.0**	**504,576**	**24.3**	

The quality of the consolidated loan portfolio improved in 2004, with 87.1% of the total gross loan portfolio consisting of performing receivables, as opposed to 85.1% in the previous year. The proportion of problematic receivables fell from 5.0% in 2003 to 4.2% in 2004.

THE COVERAGE OF QUALIFIED RECEIVABLES BY RISK PROVISIONS

	Dec 31, 2003 HUF mn	Dec 31, 2004 HUF mn	Change %
Qualified volume	310,496	333,664	7.5
Value loss, provisions	80,336	85,339	6.2
Coverage ratio %	25.9	25.6	(0.3)

The reserves coverage ratio of qualified customer receivables – in line with the favourable distribution of the qualified portfolio – was 25.6% as at December 31, 2004, which represents no significant change compared with the previous year (a 0.3 percentage-point fall).

The portfolio of receivables from credit institutions increased by 24.7%, to HUF 314.7 billion, while total liquid assets increased from HUF 276.5 billion at year-end 2003 to HUF 425.3 billion. Government securities – as a result of a fall of 13.0% – represented 13.1% of total assets as at the end of 2004, with a portfolio value of HUF 548.9 billion. Of the total government securities portfolio, 60% consisted of securities held-to-maturity.

Including the respective market shares of the Bank's fully-owned Hungarian subsidiaries engaged in credit institution activities, the market share, as of year-end 2004, of the bank group within the balance sheet total of the Hungarian banking sector was 25.8%. Its share of total deposits was 32.2% and its share of the loans market was 23.2%. The bank group managed more than 30% of total household savings in 2004, including investment bonds, but excluding non-credit institution securities.

CONSOLIDATED RESULTS

The consolidated pre-tax profit of 2004 was HUF 151.4 billion, which exceeded the previous year's figure by 47.3% and was 22.5% more than the parent company's pre-tax profit for the same period. This profit figure results from HUF 177.4 billion in operating profit, dividend revenues of HUF 0.6 billion, HUF 18.0 billion in provisioning, impairment and loan losses, and HUF 8.6 billion from goodwill write-offs. Compared to the base period, operating profit increased 50.9%, goodwill write-offs grew by HUF 6.6 billion, while provisioning and impairment rose 34.0% over the previous year. The value of provisioning and impairment as a proportion of the average loan portfolio was 0.77% (previous year: 0.79%).

INCOME*

	2003		2004		Change	
	HUF mn	proportion %	HUF mn	proportion %	HUF mn	%
Net interest income	**177,062**	**57.2**	**250,915**	**62.7**	**73,853**	**41.7**
Total interest income	279,087		424,120		145,033	52.0
Total interest expense	102,025		173,205		71,180	69.8
Non-interest income	**132,352**	**42.8**	**149,530**	**37.3**	**17,178**	**13.0**
Net fees and commissions	62,095	20.1	71,312	17.8	9,217	14.8
Net income from securities trading	(1,878)	(0.6)	7,528	1.9	9,406	–
Net income from foreign currency trading	(2,106)	(0.7)	4,885	1.2	6,991	–

(continued)	2003 HUF mn	2003 proportion %	2004 HUF mn	2004 proportion %	Change HUF mn	Change %
Net income from real estate transactions	1,382	0.4	1,688	0.4	306	22.1
Insurance fee income	60,171	19.4	54,547	13.6	(5,624)	(9.3)
Other non-interest income	12,688	4.1	9,570	2.4	(3,118)	(24.6)
Total income	**309,414**	**100.0**	**400,445**	**100.0**	**91,031**	**29.4**
Personnel costs	61,530	19.9	77,454	19.3	15,924	25.9
Depreciation	15,734	5.1	18,075	4.5	2,341	14.9
Insurance costs	42,810	13.8	41,390	10.3	(1,420)	(3.3)
Other non-interest expenses	71,825	23.2	86,140	21.5	14,315	19.9
Non-interest expense	**191,899**	**62.0**	**223,059**	**55.7**	**31,160**	**16.2**
Operating income	**117,515**	**38.0**	**177,386**	**44.3**	**59,871**	**50.9**
Dividend received	668	0.2	572	0.1	(96)	(14.4)
Diminution in value, provisions and loan losses	13,412	4.3	17,975	4.5	4,563	34.0
Accounting for acquisition goodwill	(2,020)	(0.7)	(8,618)	(2.2)	(6,598)	326.6
Profit before taxation	**102,751**	**33.2**	**151,365**	**37.8**	**48,614**	**47.3**
Taxes	19,956	6.4	25,756	6.4	5,800	29.1
Taxes due to consolidation	(227)	(0.1)	(266)	(0.1)	(39)	17.2
Profit after taxation	**83,022**	**26.8**	**125,875**	**31.4**	**42,853**	**51.6**

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

The net interest revenue of the group in 2004 was HUF 250.9 billion, or 41.7% higher than in the previous year. The growth in net interest revenue resulted from HUF 424.1 billion in interest revenue (a 52.0% growth) and HUF 173.2 billion in interest expense (a 69.8% growth). The interest margin calculated on the basis of the average consolidated balance sheet total was 6.53%, or 85 basis points higher than in 2003 (5.68%). Non-interest revenues increased 13%, reaching HUF 149.5 billion. Within non-interest revenues, it was net price gains on securities trading and net gains from foreign-currency trading that increased by the greatest extent (HUF 9.4 billion and HUF 7.0 billion respectively). Gains from real-estate trading increased by 22.1%, while revenues from insurance premiums and other non-interest revenues fell by 9.3% and 24.6% respectively. As a result, the total revenue of the group grew from HUF 309.4 billion to HUF 400.4 billion, or by 29.4%. Of this total, non-interest revenues accounted for 37.3%. The group's non-interest expenses did not keep pace with the growth in non-interest income, increasing by just 16.2%, meaning that the cost/income ratio improved significantly, from 62.0% to 55.7%, or by 630 basis points. The most important contributors to the improvement of the ratio were OTP Bank's 620 basis-point ratio improvement, the DSK Group's 824 basis-point increase, and OBS's 660-point improvement.

Under conditions of a fall compared to 2003 (from 19.2% to 16.8%) in the real tax rate, the **consolidated after-tax profit was HUF 125.9 billion,** which is HUF 42.9 billion, or 51.6%, higher than in 2003.

In 2004, **consolidated undiluted earnings per share (EPS)**[1] were HUF 483, and diluted earnings per share[2] were HUF 450, which exceed the previous year's figures by 50.2% and 51.6% respectively.

In 2004 the Bank's consolidated return on average assets **(ROAA)** was **3.28%,** while the return on average equity **(ROAE)** was **36.3%** (2003: 2.66% and 30.6%). Real ROAE[3] was 29.5%, as opposed to 25.9% in 2003.

NON-CONSOLIDATED FINANCIAL RESULTS OF OTP BANK

ASSET-LIABILITY STRUCTURE

As of December 31, 2004, the total assets of OTP Bank Ltd. amounted to HUF 3,044.8 billion, which represents a growth of 10.4%, or HUF 286.2 billion, compared to the HUF 2,758.6 billion figure of December 31, 2003. With respect to the Hungarian banking sector as a whole, OTP Bank Ltd. had the largest balance sheet total, and its share of the bank sector's balance sheet total was 19.4%.

The Bank's liability structure did not change fundamentally during the course of the year, continuing to be characterised by a high proportion of customer liabilities, although the share of interbank liabilities also grew notably. On the asset side, the proportionate growth in customer placements continued, and at the same time, there was a significant fall in the share of government securities, and a slight decrease in the proportion of debt securities, within the total portfolio.

[1] The method for calculating undiluted earnings per share: adjusted after-tax profit (ordinary shares – treasury shares).
[2] Calculation method: after-tax profit, ordinary shares.
[3] Calculation method: ROAE – inflation.

THE DISTRIBUTION OF ASSET-LIABILITY COMPONENTS*

	Dec 31, 2003		Dec 31, 2004		Change	
	HUF mn	proportion %	HUF mn	proportion %	HUF mn	%
Cash and Bank	**252,975**	**9.1**	**399,401**	**13.1**	**146,426**	**57.9**
NBH clearing account	80,710	2.9	109,540	3.6	28,830	35.7
NBH short-term placements	111,200	4.0	232,400	7.6	121,200	109.0
Other	61,065	2.2	57,461	1.9	(3,604)	(5.9)
Government securities	**402,543**	**14.6**	**294,802**	**9.7**	**(107,741)**	**(26.8)**
Trading securities	135,011	4.9	86,187	2.8	(48,824)	(36.2)
Investment securities	267,532	9.7	208,615	6.9	(58,917)	(22.0)
Securities representing a lending relationship	**533,136**	**19.3**	**540,175**	**17.7**	**7,039**	**1.3**
Covered mortgage bonds issued by OTP Mortgage Bank	508,862	18.4	518,843	17.0	9,981	2.0
Others	24,274	0.9	21,332	0.7	(2,942)	(12.1)
Interbank placements**	**165,390**	**6.0**	**188,033**	**6.2**	**22,643**	**13.7**
Customer placements	**1,088,278**	**39.5**	**1,272,105**	**41.8**	**183,826**	**16.9**
Retail	318,179	11.5	371,259	12.2	53,080	16.7
Corporate	691,217	25.1	806,280	26.5	115,063	16.6
Municipality	78,882	2.9	94,566	3.1	15,683	19.9
Governments	**5,444**	**0.2**	**0**	**0.0**	**(5,444)**	**(100.0)**
Investments	**106,815**	**3.9**	**115,352**	**3.8**	**8,537**	**8.0**
Other	**56,419**	**2.0**	**58,134**	**1.9**	**1,715**	**3.0**
Intangible and tangible assets	**107,550**	**3.9**	**121,823**	**4.0**	**14,273**	**13.3**
Accrued and deferred items	**40,056**	**1.5**	**54,948**	**1.8**	**14,892**	**37.2**
TOTAL ASSETS	**2,758,606**	**100.0**	**3,044,772**	**100.0**	**286,166**	**10.4**
Interbank liabilities	**91,080**	**3.3**	**203,864**	**6.7**	**112,784**	**123.8**
Customer kiabilities	**2,234,874**	**81.0**	**2,318,527**	**76.1**	**83,653**	**3.7**
Retail	1,656,317	60.0	1,737,750	57.1	81,433	4.9
Corporate	421,380	15.3	421,098	13.8	(282)	(0.1)
Municipality	157,177	5.7	159,679	5.2	2,502	1.6
Securities	**5,944**	**0.2**	**3,118**	**0.1**	**(2,826)**	**(47.5)**
Provisions	**26,773**	**1.0**	**32,584**	**1.1**	**5,811**	**21.7**
Accrued and deferred items	**27,268**	**1.0**	**30,781**	**1.0**	**3,513**	**12.9**
Other	**110,891**	**4.0**	**130,920**	**4.3**	**20,029**	**18.1**
Shareholders' equity	**261,776**	**9.5**	**324,978**	**10.7**	**63,202**	**24.1**
TOTAL LIABILITIES	**2,758,606**	**100.0**	**3,044,772**	**100.0**	**286,166**	**10.4**

* 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.

ASSETS

Cash and bank. On December 31, 2004, the Bank's liquid assets stood at HUF 399.4 billion, HUF 146.4 billion more than in the previous year, and thus the proportion of liquid assets within total assets grew from 9.1% to 13.1%.

Government securities. The share of government securities within the Bank's portfolio – owing to the increase in the proportion of customer placements and liquid assets, and within this, the increase in short-term NBH placements – had fallen as of December 31, 2004, from 14.6% on December 31, 2003 to 9.7%. The portfolio decreased by 26.8%, from HUF 402.5 billion on December 31, 2003 to HUF 294.8 billion as of December 31, 2004. Within the government securities portfolio, the volume of government securities held-for-trading decreased by more than 36%, by approximately HUF 50 billion, while those held for investment purposes fell by just 22.0%, to HUF 208.6 billion. As a result, the share of investment securities within the total government securities portfolio increased to 70.8% in 2004, from 66.5% in 2003.

Debt securities. The debt securities accounted for 17.7% of the Bank's assets at year-end 2004, compared to 19.3% in the previous year. The proportionate fall was due to the fact that the total volume of mortgage bonds issued by OTP Mortgage Bank, which account for the bulk of the portfolio, increased by just 2%, while the portfolio of other debt securities decreased by more than 12%.

Interbank placements. As of December 31, 2004, interbank placements accounted for 6.2% of total assets, or 0.2 percentage points more than in 2003, while the portfolio of these placements grew by 13.7%, to HUF 188.0 billion. Major contributing factors in the HUF 22.6 billion increase include the growth in short-term forint loans granted to domestic banks, foreign currency deposits kept at foreign banks and in foreign currency-denominated short-term loans granted to foreign banks, and to the fall in foreign currency deposits kept at domestic banks.

Customer loans. The portfolio of customer loans increased by 16.9%, or by HUF 183.8 billion, in 2004, exceeding the rate of increase in the balance sheet total, and thus the share of such loans within total assets increased from 39.5% to 41.8%. The volume of customer placements grew at a similar pace, of around 17%, in the retail and corporate divisions, while municipality placements grew faster than the average increase in customer loans, by nearly 20%. Retail loans grew by HUF 53.1 billion, with the portfolio of such loans amounting to HUF 371.3 billion at the end of the year. The growth in the retail portfolio was the net effect of an increase of close to 50% in consumer loans and of a 7.2% fall in housing loans. Loans to the corporate sector increased by 16.6%, with the corporate loan portfolio amounting to HUF 806.3 billion as at December 31. Total loans to municipalities were HUF 94.6 billion at the end of 2004. Within the total portfolio of business loans, the share of corporate loans was 63.4% and the share of retail loans was 29.2%, which does not represent any significant change relative to the end of the previous year. Municipality loans accounted for 7.4% of customer placements at year-end. More than one third of the customer-placement portfolio (HUF 439 billion) consisted of foreign currency loans.

Investments. At gross book value, the Bank's investment portfolio at the end of 2004 was HUF 115.4 billion, which compares with a previous year-end figure of HUF 106.8 billion. Again in 2004, the expansion of the Bank Group through the foreign acquisitions route was afforded a key role in OTP Bank's investment operations, and as a part of this, OTP Bank Ltd. purchased the Romanian Robank. Dividends received from the Bank's investments reached another record high in 2004, at HUF 8.5 billion.

LIABILITIES

Interbank liabilities. Interbank liabilities – largely as a result of loans taken to ensure appropriate foreign currency funding for the Bank – expanded considerably, with their share of total liabilities rising from 3.3% to 6.7%. Total interbank liabilities stood at HUF 203.9 billion on December 31, which was HUF 112.8 billion more than at the end of the previous year.

Customer deposits. The great majority of the Bank's liabilities continued to consist of customer deposits, which represented 76.1% of total funding sources at year-end 2004. Total customer deposits were HUF 83.7 billion, or some 3.7%, higher than a year earlier, and exceeded HUF 2,318.5 billion. Forint deposits grew faster than total customer liabilities, accounting for 88.4% of customer deposits at the end of the year (end of the previous year: 87.5%). Total foreign currency deposits – due to the more favourable interest terms available in relation to forint savings – fell from HUF 279.3 billion to HUF 269.8 billion, and as result, the share of foreign currency deposits within the Bank's customer liabilities dropped to 11.6%. There was a slight change in the distribution of customer deposits by client group. The share of corporate deposits fell – as a result of a 0.1% decrease – from 18.9% in 2003 to 18.2% in 2004. Retail deposits expanded by 4.9%, and represented 75.0% of total customer deposits at year-end (2003: 74.1%). The weight of municipality deposits fell slightly (from 7.0% to 6.9%), since, at 1.6%, the growth in these deposits was lower than the average growth in customer deposits.

Securities and CDs. The volume of securities and certificates of deposit issued by the Bank amounted to HUF 3.1 billion as at December 31, 2004, which, in line with the Bank's business policy objectives, was 45.7% lower than in 2003.

Equity. On December 31, 2004 the Bank's equity was HUF 325.0 billion, with the share of equity within the total of liabilities and equity having increased from 9.5% in 2003 to 10.7%. Of the HUF 63.2 billion growth in equity, HUF 10.5 billion came from the increase in general reserves, HUF 46.9 billion from the increase in the profit reserve, HUF 0.3 billion from the increase in the committed reserve and HUF 53.1 billion from the balance sheet profit of 2004. The Bank's equity per share of HUF 100 face value was HUF 1,160.6.

On December 31, 2004, the value of repurchased own shares was HUF 13.8 billion, or HUF 0.5 billion less than at the end of the previous year.

Provisions. Within the Bank's liabilities, provisions increased from a previous year-end figure of HUF 26.8 billion to HUF 32.6 billion. The Bank fully set aside general risk provisions in accordance with the requirements of the Credit Institutions Act, with the general reserve growing by 26.5% compared to the previous year, to reach HUF 21.6 billion at year-end 2004. The volume of provisions set aside for contingent and future liabilities grew by 23.4%, to HUF 9.0 billion. Other provisions fell by HUF 0.4 billion during 2004, amounting to HUF 2.0 billion on December 31, 2004. Of this, HUF 0.7 billion was set aside for early retirement and severance pay.

CHANGES IN PROVISIONS

	Dec 31, 2003	Dec 31, 2004	Change	
	HUF mn	HUF mn	HUF mn	%
Provisions for early retirement and severance payments	1,546	740	(806)	(52.1)
Provisions for contingent and future liabilities	7,294	9,002	1,708	23.4
General risk provision	17,057	21,571	4,514	26.5
Other provisions	876	1,271	395	45.1
Total provisions	**26,773**	**32,584**	**5,811**	**21.7**

CAPITALISATION, CAPITAL ADEQUACY RATIO

OTP Bank's capitalisation continued to improve during 2004. Shareholders' equity increased from HUF 261.8 billion on December 31, 2003 to HUF 325.0 billion, or by 24.1% – a significantly higher rate of growth than that of the balance sheet total. Due to this, the ratio of shareholders' equity to total assets increased from 9.49% at the end of 2003 to 10.7%.

The Bank's capital adequacy ratio increased from 10.54% at the end of 2003 to 11.19% on December 31, 2004, this value being well in excess of the 8% required by the Credit Institutions Act.

The increase in this ratio was caused by a growth in guarantee capital that outstripped the expansion in lending activity: compared with the previous year, risk-weighted total assets grew by 26.5%, while the guarantee capital was 34.2% higher than at the end of the previous year.

CALCULATION OF THE CAPITAL ADEQUACY RATIO

		Dec 31, 2003 HUF mn	Dec 31, 2004 HUF mn	Change HUF mn	%
I.	Primary capital elements	261,435	328,510	67,075	25.7
	A) subscribed capital	28,000	28,000	0	0.0
	B) capital reserve	52	52	0	0.0
	C) general reserve	41,325	51,807	10,482	25.4
	D) general risk reserve	13,987	18,120	4,133	29.5
	E) profit reserve	130,465	177,401	46,936	36.0
	F) balance sheet profit	47,606	53,130	5,524	11.6
II.	Deductible components of primary capital	43,961	51,950	7,989	18.2
	A) capital subscribed not yet paid	–	–	–	–
	B) intangible assets	43,961	51,950	7,989	18.2
III.	Primary capital (I.-II.)	217,474	276,560	59,086	27.2
IV.	Secondary capital	15,413	12,459	(2,954)	(19.2)
V.	Guarantee capital before deductions (III.+IV.)	232,887	289,019	56,132	24.1
VI.	Book value of financial institutions, insurance companies and investment services companies and subordinated loans issued to them	84,884	90,099	5,215	6.1
VII.	Guarantee capital according to the rules of prudence (V.-VI.)	148,003	198,920	50,917	34.4
VIII.	Capital requirement of limit breaches and sovereign risk	4,186	5,902	1,716	41.0
IX.	Guarantee capital for calculating the capital adequacy ratio	143,817	193,018	49,201	34.2
X.	Risk-weighted total asset	1,364,573	1,725,655	361,082	26.5
XI.	**CAPITAL ADEQUACY RATIO %**	**10.54**	**11.19**		

Of the various factors taken into account when calculating the numerator of the capital adequacy ratio, the total of the positive components of the primary capital increased by 25.7% over the course of 2004, while the total of the negative components of the primary capital increased by 18.2%. As a result, the Bank's primary capital increased by 27.2%, or by HUF 59.1 billion, in 2004. The secondary capital that can be taken into account in calculating the guarantee capital decreased by 19.2%. Pursuant to a provision of the Credit Institutions Act, subordinated loan capital maturing within five years may be taken into account, in an amount that is reduced by equal instalments each year, when calculating the guarantee capital, and therefore the loan from the EBRD, which matures in 2008, has been taken into account in the guarantee capital in an amount that is reduced by 20%. On December 31, 2004 the guarantee capital before deductions was HUF 289.0 billion, which exceeded the previous year's figure by 24.1%. Of the various deductible factors, the total of investments in financial institutions, insurance companies and investment companies grew by HUF 5.2 billion, or 6.1%, while the amount of capital that needed to be set aside for covering possible limit breaches, as per the Credit Institutions Act, rose by HUF 1.7 billion, or 41.0%, during 2004. The guarantee capital that may be taken into account for the purpose of calculating the capital adequacy ratio stood at HUF 193.0 billion on December 31, 2004 (a 34.2% growth).

Of the increase in the volume of risk-weighted assets (the adjusted balance sheet total), 65.5% is attributable to the change in the risk-weighted value of balance sheet items and 34.5% to the change in risk-weighted off-balance sheet items.

The risk-weighted value of balance-sheet items grew by 20.4% (HUF 236.5 billion) to reach HUF 1,397.0 billion, while total assets grew by 10.4%. This is attributable to the fact that, due to the increase in the share of customer placements, there has been a slight shift in the structure of the asset portfolio towards placements with a higher risk-weighting. The risk-weighted value of off-balance-sheet items and contingent and future liabilities, which is used for calculating the risk-weighted balance sheet total, increased by HUF 124.6 billion, representing a 61% increase over the previous year. This change is explained by the increase in contingent liabilities (primarily the contingent liabilities arising from the unused portion of credit lines and from assumed guarantees).

OFF-BALANCE SHEET LIABILITIES

The year-end volume of off-balance sheet liabilities increased from HUF 777.0 billion to HUF 938.9 billion in 2004. This change is attributable to the HUF 181.6 billion, or 36.1%, increase in contingent liabilities and the HUF 19.7 billion, or 7.2% decrease in future liabilities. Due to this, the share of contingent liabilities within the total of off-balance sheet liabilities increased from 64.8% to 73.0%. The most significant item among contingent liabilities, amounting to nearly 50% of the Bank's off-balance sheet liabilities, is the volume of commitments originating from loan facility contracts, which increased by HUF 54.4 billion, or 13.9%. The value of guarantees assumed in the course of bank activities also increased substantially – by 42.7%, to HUF 92.8 billion. The Bank's contingent liability towards the Mortgage Bank, arising from its conditional commitment to buy back housing loans, increased by 58.7%, to HUF 38.8 billion. According to an amendment to the Accounting Act that went into effect on January 1, 2004, contingent liabilities must also include assets that have been pledged as collateral, surety or guarantee, and the value of these assets was HUF 102.0 billion as of December 31, 2004.

OFF-BALANCE SHEET LIABILITIES

	Dec 31, 2003		Dec 31, 2004		Change	
	HUF mn	proportion %	HUF mn	proportion %	HUF mn	%
Contingent liabilities						
Non-used part of credit line	392,308	50.5	446,702	47.6	54,394	13.9
Guarantees from bank activities	65,010	8.4	92,780	9.9	27,770	42.7
Contingent liabilities due to conditional obligation to OTP Mortgage Bank to repurchase non-performing loans	24,440	3.1	38,783	4.1	14,343	58.7
Options	18,184	2.4	0	0.0	(18,184)	(100.0)
Liabilities expected from pending lawsuits	2,469	0.3	2,127	0.2	(342)	(13.9)
Confirmed L/C	956	0.1	2,480	0.3	1,524	159.4
Other contingent liabilities	62	0.0	102	0.0	40	64.5
Assets given as guarantee, collateral or provision	0	0.0	102,021	10.9	102,021	–
Total	**503,429**	**64.8**	**684,995**	**73.0**	**181,566**	**36.1**
Absolutely certain (future) liabilities						
Forward foreign currency deals	273,530	35.2	253,848	27.0	(19,682)	(7.2)
Other future liabilities	11	0.0	7	0.0	(4)	(36.4)
Total	**273,541**	**35.2**	**253,855**	**27.0**	**(19,686)**	**(7.2)**
Total off-balance sheet liabilities	**776,970**	**100.0**	**938,850**	**100.0**	**161,880**	**20.8**

The fall in certain (future) liabilities originated in its entirety from the reduction in the volume of forward foreign currency deals.

PORTFOLIO RATING, PROVISIONING

As at December 31, 2004, OTP Bank Ltd.'s total portfolio that had to be assessed in terms of its quality was HUF 3,000.2 billion, representing an increase of HUF 266.8 billion, or 9.8%, over 2003. The ratio of qualified loans in the total portfolio rose from 4.5% in 2003 to 5.3% in 2004.

OTP BANK LTD.'S QUALIFIED LOAN PORTFOLIO

	Dec 31, 2003		Dec 31, 2004.		Change	
	HUF mn	proportion %	HUF mn	proportion %	HUF mn	%
Securities (excluding Hungarian government securities)						
Performing	541,174	99.9	547,985	100.0	6,811	1.3
Qualified	273	0.1	187	0.0	(86)	(31.5)
of this: NPL	273	0.1	187	0.0	(86)	(31.5)
Total	**541,447**	**100.0**	**548,172**	**100.0**	**6,725**	**1.2**
Loans and interbank transactions						
Performing	1,216,685	95.6	1,421,123	95.2	204,438	16.8
Qualified	55,757	4.4	71,556	4.8	15,799	28.3
of this: NPL	41,742	3.3	35,660	2.4	(6,082)	(14.6)
Total	**1,272,442**	**100.0**	**1,492,679**	**100.0**	**220,237**	**17.3**

(continued)	Dec 31, 2003 HUF mn	Dec 31, 2003 proportion %	Dec 31, 2004 HUF mn	Dec 31, 2004 proportion %	Change HUF mn	Change %
Ownership stakes						
Performing	79,210	74.4	89,607	77.7	10,397	13.1
Qualified	27,267	25.6	25,701	22.3	(1,567)	(5.7)
of this: NPL	25,717	24.2	25,701	22.3	(16)	(0.1)
Total	**106,477**	**100.0**	**115,308**	**100.0**	**8,830**	**8.3**
Other						
Performing	35,782	99.2	6,859	95.6	(28,923)	(80.8)
Qualified	284	0.8	318	4.4	34	12.0
of this: NPL	226	0.6	297	4.1	71	31.4
Total	**36,066**	**100.0**	**7,177**	**100.0**	**(28,889)**	**(80.1)**
Off-balance sheet items						
Performing	737,828	95.0	776,639	92.8	38,812	5.3
Qualified	39,098	5.0	60,184	7.2	21,086	53.9
of this: NPL	7,886	1.0	11,707	1.4	3,821	48.5
Total	**776,926**	**100.0**	**836,823**	**100.0**	**59,898**	**7.7**
Grand total						
Performing	2,610,679	95.5	2,842,213	94.7	231,535	8.9
Qualified	122,679	4.5	157,946	5.3	35,266	28.7
of this: NPL	75,844	2.8	73,552	2.5	(2,292)	(3.0)
Total	**2,733,358**	**100.0**	**3,000,159**	**100.0**	**266,801**	**9.8**

Of the total portfolio to be qualified, 49.8% consisted of loans outstanding and interbank transactions as at the end of 2004 (December 31, 2003: 46.6%), and 45.3% of the qualified portfolio was made up of qualified receivables related to loans outstanding and interbank transactions. 58.2% of provisions and impairment were related to these qualified receivables on December 31, 2004.

The portfolio of loans and interbank transactions increased by 17.3% in 2004, reaching HUF 1,492.7 billion by the end of the year. The quality of this receivables portfolio deteriorated slightly, as the ratio of "performing" loans decreased from 95.6% in 2003 to 95.2% in 2004. The deterioration in quality is attributable to the change in the portfolio structure and to the worsening in the quality of customer receivables. The share of receivables from credit institutions, within which the proportion of qualified loans is low, decreased from 12.9% to 12.4%, whereas there was a growth in the share of those customer loans within which the proportion of qualified loans is high and getting higher. Within the qualified portfolio of loans and interbank transactions, the share of the "to-be-monitored" category amounted to 2.4% of the entire receivables portfolio at the end of 2004 compared to a year-end 2003 figure of 1.1%, while the share of the non-performing portfolio fell from 3.3% to 2.4%, which means that the structure of the qualified portfolio changed favourably.

Within the total portfolio of loans and interbank transactions the volume of customer receivables grew by HUF 198.9 billion, or 17.9%, to reach HUF 1,307.5 billion by the end of 2004, while the ratio of qualified loans increased from 5.0% in 2003 to 5.5% in 2004. Portfolio quality improved in the municipality division, while it deteriorated in the retail and corporate divisions.

In the retail division, against a backdrop of a 17.4% increase in receivables, the qualified volume grew by 57.0%. This means that within the total of retail receivables the share of the qualified volume grew from 3.6% in 2003 to 4.8% in 2004. The growth was significant in the case of receivables in the "below average", "doubtful" and the "to-be-monitored" categories.

In the corporate division, against a backdrop of a 19.8% increase of receivables, the qualified volume increased by 21.6%, and thus the share of the qualified volume within the total of corporate receivables increased from 6.4% in 2003 to 6.6% by the end of 2004. Within the qualified portfolio, the growth in the receivables rated as "to-be-monitored" and "bad" was significant (169.9% and 54.0% respectively), while there was a substantial fall in the "below average" and "doubtful" categories (33.8% and 45.4%, respectively). Due to a fall of more than HUF 10.0 billion in the volume of the non-performing portfolio, its share within the total portfolio decreased from 4.7% to 2.7%.

In the municipality division, virtually the entire portfolio of receivables was performing, with the qualified volume accounting for less than 0.1% of the portfolio.

Receivables from credit institutions grew 13.1%, or by HUF 21.5 billion, in 2004, and the whole portfolio was performing.

QUALIFIED LOANS BY BUSINESS LINES

	Dec 31, 2003 HUF mn	Dec 31, 2003 proportion %	Dec 31, 2004 HUF mn	Dec 31, 2004 proportion %	Change HUF mn	Change %
Retail banking						
Performing	309,774	96.4	359,143	95.2	49,369	15.9
Qualified	11,500	3.6	18,052	4.8	6,552	57.0
To-be-monitored	2,337	0.7	4,379	1.2	2,042	87.4
NPL	9,163	2.9	13,673	3.6	4,510	49.2
Total	**321,274**	**100.0**	**377,195**	**100.0**	**55,921**	**17.4**
Corporate banking						
Performing	641,876	93.6	762,190	93.4	120,314	18.7
Qualified	43,963	6.4	53,458	6.6	9,495	21.6
To-be-monitored	11,678	1.7	31,517	3.9	19,839	169.9
NPL	32,285	4.7	21,941	2.7	(10,344)	(32.0)
Total	**685,839**	**100.0**	**815,648**	**100.0**	**129,809**	**18.9**
Municipal banking						
Performing	101,324	99.9	114,585	100.0	13,261	13.1
Qualified	113	0.1	46	0.0	(67)	(59.3)
To-be-monitored	0	0.0	0	0.0	0	–
NPL	113	0.1	46	0.0	(67)	(59.3)
Total	**101,437**	**100.0**	**114,631**	**100.0**	**13,194**	**13.0**
Financial institutions						
Performing	163,711	99.9	185,205	100.0	21,494	13.1
Qualified	181	0.1	0	0.0	(181)	(100.0)
To-be-monitored	0	0.0	0	0.0	0	–
NPL	181	0.1	0	0.0	(181)	(100.0)
Total	**163,892**	**100.0**	**185,205**	**100.0**	**21,313**	**13.0**
Grand total						
Performing	1,216,685	95.6	1,421,124	95.2	204,439	16.8
Qualified	55,757	4.4	71,556	4.8	15,799	28.3
To-be-monitored	14,015	1.1	35,896	2.4	21,881	156.1
NPL	41,742	3.3	35,660	2.4	(6,082)	(14.6)
Total	**1,272,442**	**100.0**	**1,492,680**	**100.0**	**220,237**	**17.3**

The distribution of qualified loans by the various categories of qualification improved significantly during the year. A substantial increase occurred in the "to-be-monitored" category, which grew close to threefold over the year, its share within the total of the qualified volume increasing from 25.1% to 50.2%. Nearly the whole of this increase is attributable to the growth of the qualified volume in the corporate division, where the volume of the "to-be-monitored" category grew HUF 19.8 billion. At the same time, both the volume and the share within the total qualified volume of the "below average", "doubtful" and "bad" categories decreased significantly. Due to the 24.3% drop in the "below average" category, its share within the total qualified volume decreased from 34.6% in 2003 to 20.4% as of December 31, 2004. "Doubtful" receivables made up 17.0% of the total qualified portfolio, while the volume of receivables in this category fell by 18.1% during 2004. The share of "bad" receivables within the total qualified volume decreased from 13.6% in 2003 to 12.4% in 2004.

In 2004 – as a result of the introduction of the new, partially automated handover procedure approved in 2002 – the Bank sold some 49,000 written-off or problematic receivables to OTP Factoring, in a gross value of HUF 13.8 billion (in the previous year: 43,500 receivables in a gross value of HUF 14.5 billion).

THE STRUCTURE OF QUALIFIED LOANS

	Dec 31, 2003 HUF mn	Dec 31, 2003 proportion %	Dec 31, 2004 HUF mn	Dec 31, 2004 proportion %	Change HUF mn	Change %	Percentage point change in proportion
To-be-monitored	14,015	25.1	35,896	50.2	21,881	156.1	25,1
Below average	19,266	34.6	14,591	20.4	(4,675)	(24.3)	(14,2)
Doubtful	14,885	26.7	12,185	17.0	(2,700)	(18.1)	(9,7)
Bad	7,591	13.6	8,884	12.4	1,293	17.0	(1,2)
Total qualified	**55,757**	**100.0**	**71,556**	**100.0**	**15,799**	**28.3**	**–**

Although the volume of qualified loans increased by 28.3%, due to the favourable change within the structure of the qualified portfolio there was hardly any change in impairment and risk provisions, which stood at HUF 20.8 billion at year-end, and thus the coverage ratio fell from 36.9% to 29.0%.

THE COVERAGE OF QUALIFIED RECEIVABLES FROM FINANCIAL INSTITUTIONS AND FROM CUSTOMERS BY RISK PROVISIONS

	Dec 31, 2003 HUF mn	Dec 31, 2004 HUF mn	Change HUF mn	Change %
Retail receivables	**321,274**	**377,195**	**55,921**	**17.4**
Performing receivables	309,774	359,143	49,369	15.9
Qualified volume	11,500	18,052	6,552	57.0
Value loss, provisions	**6,659**	**8,562**	**1,903**	**28.6**
Coverage ratio %	57.9	47.4		(10.5)*
Corporate receivables	**685,839**	**815,648**	**129,809**	**18.9**)
Performing receivables	641,876	762,190	120,314	18.7
Qualified volume	43,963	53,458	9,495	21.6
Value loss, provisions	**13,697**	**12,177**	**(1,520)**	**(11.1)**
Coverage ratio %	31.2	22.8		(8.4) *
Municipal receivables	**101,437**	**114,631**	**13,194**	**13.0**
Performing receivables	101,324	114,585	13,261	13.1
Qualified volume	113	46	(67)	(59.3)
Value loss, provisions	**57**	**23**	**(34)**	**(59.6)**
Coverage ratio %	50.4	50.0		(0.4) *
Receivables from financial institutions	**163,892**	**185,205**	**21,313**	**13.0**
Performing receivables	163,711	185,205	21,494	13.1
Qualified volume	181	0	(181)	(100.0)
Value loss, provisions	**181**	**0**	**(181)**	**(100.0)**
Coverage ratio %	100.0	–		
Receivables from financial institutions and from customers	**1,272,442**	**1,492,680**	**220,238**	**17.3**
Performing receivables	1,216,685	1,421,124	204,439	16.8
Qualified volume	55,758	71,556	15,799	28.3
Value loss, provisions	**20,593**	**20,762**	**168**	**0.8**
Coverage ratio %	36.9	29.0		(7.9) *

* Change in coverge in percentage points

In line with the change in the distribution of the qualified volume by the various lines of business, impairment and risk provisions increased by HUF 1.9 billion in the retail division, and decreased by HUF 1.5 billion in the corporate division. Consequently, the share of the retail business within the total combined amount of recorded impairment and provisions rose to 41.2%, while the share of the corporate division within this total fell to 58.7%.

The trading and investment securities portfolio (excluding Hungarian government securities) was 100% performing as of December 31, 2004. Within the total portfolio of assets to be assessed in terms of their quality, the qualified volume that accounted for the highest ratio to the total portfolio was related to equity interests. Of the HUF 115.3 billion volume as at year-end, HUF 25.7 billion (22.3%) was not performing, although this is still a significantly lower ratio than in the previous year (25.6%). The Bank recorded impairment of HUF 5.5 billion on this qualified volume of HUF 25.7 billion, which equates to a coverage ratio of 21.4%. Of the HUF 6.9 billion year-end volume of the portfolio listed as other categories (other receivables and other assets apart from equity interests), the qualified portion was HUF 0.3 billion (4.3%).

Nearly one third of the total portfolio to be qualified consisted of off-balance sheet items, and within the total of off-balance sheet items the ratio of the qualified volume was 7.2%. On this qualified volume of HUF 60.2 billion, the Bank set aside HUF 9.0 billion in provisions, which represents a coverage ratio of 15.0%

INCOME STRUCTURE, PROFITABILITY

The Bank's **pre-tax profit** for 2004 was **HUF 123.5** billion, which was HUF 36.8 billion, or 42.5%, higher than that of 2003. This is attributable to the HUF 136.0 billion in operating profits, HUF 8.5 billion in dividend income, HUF 13.3 billion in provisions, impairment and loan losses, and HUF 7.7 billion in losses from goodwill write-offs. Compared to the base period, operating profit grew by HUF 42.5 billion, or 45.5%, while provisions, impairment and loan losses remained broadly flat (an increase of 0.7%). The dividend income from the Bank's investments rose from HUF 7.7 billion in the previous year to HUF 8.5 billion. Badwill write-offs (OBS, DSK) amounted to HUF 7.7 billion in 2004, compared to HUF 1.3 billion in 2003.

Helped by a fall in the tax rate compared to 2003 (from 17.5% to 15.1%), the Bank's **after-tax profit** was HUF 104.8 billion, representing a HUF 33.3 billion, or 46.5%, increase over the previous year.

After setting aside HUF 10.5 billion for general risk provisions and generating a dividend reserve equal to 147% of the nominal value of all shares outstanding (HUF 41.2 billion), the **balance sheet profit** of OTP Bank for the year 2004 amounted to HUF 53.1 billion.

Undiluted earnings per share (EPS)[4] in 2004 were HUF 391, while the diluted[5] figure was HUF 374, respectively 45.1% and 46.5% higher than in 2003.

The Bank's return on average assets **(ROAA)** in 2004 was **3.61%**, while the return on average equity **(ROAE)** was **35.7%** (in 2003: 2.78% and 30.6% respectively). The real return on equity[6] amounted to 29.0%, in contrast to 25.9% in 2003. Both the ROAA and the real ROAE were in line with the Bank's targets.

The table below contains a detailed breakdown of total income:

INCOME*

	2003		2004		Change	
	HUF mn	proportion %	HUF mn	proportion %	HUF mn	%
Net interest income	**118,182**	**58.0**	**147,986**	**56.7**	**29,804**	**25.2**
Total interest income	205,634		288,185		82,551	40.1
Total interest expense	87,452		140,199		52,747	60.3
Non-interest income	**85,580**	**42.0**	**113,131**	**43.3**	**27,551**	**32.2**
Net fees and commissions	85,137	41.8	103,940	39.8	18,803	22.1
Net income from securities trading	(938)	(0.5)	2,976	1.1	3,914	–
Net income from foreign currency trading	(1,402)	(0.7)	4,540	1.7	5,942	–
Net income from real estate transactions	(129)	(0.1)	(115)	0.0	14	(10.9)
Other non-interest income	2,912	1.4	1,790	0.7	(1,122)	(38.5)
Total income	**203,762**	**100.0**	**261,117**	**100.0**	**57,355**	**28.1**
Non-interest expense	**110,234**	**54.1**	**125,076**	**47.9**	**14,842**	**13.5**
Operating income	**93,528**	**45.9**	**136,041**	**52.1**	**42,513**	**45.5**
Dividend received	7,691	3.8	8,500	3.3	809	10.5
Diminution in value, provisions and loan losses	13,261	6.5	13,357	5.1	96	0.7
Accounting for acquisition goodwill	(1,257)	(0.6)	(7,663)	(2.9)	(6,406)	509.6
Profit before taxation	**86,701**	**42.6**	**123,521**	**47.3**	**36,820**	**42.5**
Taxes	15,139	7.4	18,703	7.2	3,564	23.5
Profit after taxation	**71,562**	**35.1**	**104,818**	**40.1**	**33,256**	**46.5**

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

Within the increase in total revenue, the various elements of income developed differently. The ratio of net interest income to total income fell from 58.0% to 56.7%, while the proportion of non-interest income – due to a dynamic increase in this type of revenue – increased from 42.0% to 43.3%.

The Bank's **net interest income** amounted to HUF 148.0 billion in 2004, representing a rise of 25.2% over the previous year. The increase in net interest income – achieved in a year characterised by considerable interest rate volatility – originates from an interest revenue figure of HUF 288.2 billion (a 40.1% increase over the previous year) and an interest expense figure of HUF 140.2 billion (a 60.3% increase).

In the year 2004 the interest differential (i.e. the net interest margin) calculated on the average of total assets and liabilities (HUF 2,785.4 billion) was 5.31%, or 68 basis points higher than in 2003.

[4] The method for calculating undiluted earnings per share: after-tax profit/ (ordinary shares – own shares).
[5] Calculation method: after-tax profit/ (ordinary shares.
[6] Calculation method: ROAE – annual average inflation (%).

THE SOURCES AND STRUCTURE OF INTEREST INCOME AND EXPENSE

	2003		2004		Change	
	HUF mn	proportion %	HUF mn	proportion %	HUF mn	%
Interest income from						
interbank accounts	29,347	14.3	56,261	19.5	26,914	91.7
results of swaps	*10,831*	*5.3*	*27,606*	*9.6*	*16,775*	*154.9*
interest income without swap	*18,516*	*9.0*	*28,655*	*9.9*	*10,139*	*54.8*
retail accounts	48,961	23.8	63,369	22.0	14,408	29.4
corporate accounts	45,248	22.0	60,900	21.1	15,652	34.6
municipal accounts	10,210	5.0	13,529	4.7	3,319	32.5
securities	63,919	31.1	82,057	28.5	18,138	28.4
statutory reserves	7,949	3.8	12,069	4.2	4,120	51.8
Total interest income	**205,634**	**100.0**	**288,185**	**100.0**	**82,551**	**40.1**
Interest expenses on						
interbank accounts	11,253	12.9	19,939	14.2	8,686	77.2
losses of swaps	*7,984*	*9.1*	*15,397*	*11.0*	*7,413*	*92.8*
interest expenses without swap	*3,269*	*3.8*	*4,542*	*3.2*	*1,273*	*38.9*
retail accounts	54,799	62.7	88,567	63.2	33,768	61.6
corporate accounts	14,522	16.6	20,564	14.7	6,042	41.6
municipal accounts	5,716	6.5	10,021	7.1	4,305	75.3
securities	414	0.5	238	0.2	(176)	(42.5)
subordinated loan	748	0.8	870	0.6	122	16.3
Total interest expense	**87,452**	**100.0**	**140,199**	**100.0**	**52,747**	**60.3**
Net interest income	**118,182**		**147,986**		**29,804**	**25.2**

Interest income on interbank accounts grew by 91.7% – while the income from swap deals increased by HUF 16.8 billion – owing to a 1.1% growth in the average value of interbank placements and the increase of the interbank interest rate. (Without the results of swap deals the growth would have been 54.8%.) As a consequence, the ratio of interbank interest income within total interest income rose from 14.3% to 19.5%. Due to the 7.7% increase in the average volume of retail deposits and the significant interest margin increase of an annual average of 317 basis points, the net interest income realised on retail accounts rose by 29.4%, with their share in the total interest income amounting to 22.0%. As a result of the dynamic, over 17.4%, growth in corporate lending, and an interest margin increase of 107 basis points, the net interest income realised on these accounts grew by 34.6%, giving it a share of 21.1% within the total of interest income. Net interest income from municipal lending grew by HUF 3.3 billion to HUF 13.5 billion over the course of the year. Compared to 2003, the interest earned from securities increased by 28.4%, or over HUF 18 billion, due to the 11.3% growth of the average portfolio size and a 123-basis point increase in the average yield. Interest on securities accounted for 28.5% of total interest income. In 2004, the yields on total average interest-bearing assets in forint and foreign currency were 11.63%, or 254 basis points higher than in 2003.

AVERAGE INTEREST RATES ON AVERAGE ASSETS AND LIABILITIES

	2003		2004	
	Average balance HUF mn	Rates %	Average balance HUF mn	Rates %
Assets				
Interbank placements	309,305	5.99	312,711	9.16
Retail placements	311,520	15.72	335,390	18.89
Corporate placements	622,309	7.27	730,629	8.34
Municipal placements	120,923	8.44	104,453	12.95
Securities	795,796	8.03	885,724	9.26
Statutory reserves	102,411	7.76	108,154	11.16
Total interest-bearing assets	*2,262,264*	*9.09*	*2,477,061*	*11.63*
Non-interest-bearing assets	287,703	–	308,344	–
Total assets:	**2,549,967**	**8.06**	**2,785,405**	**10.35**
Liabilities				
Interbank liabilities	86,194	3.79	148,578	3.06
Retail liabilities	1,564,455	3.50	1,679,225	5.27
Corporate liabilities	395,819	3.67	388,728	5.29
Municipal liabilities	123,807	4.62	117,672	8.52
Securities	7,682	5.39	4,323	5.51

(continued)	2003 Average balance HUF mn	Rates %	2004 Average balance HUF mn	Rates %
Subordinated loan	15,767	4.74	15,087	5.77
Total interest-bearing liabilities	*2,193,724*	*3.99*	*2,353,613*	*5.96*
Non-interest-bearing liabilities	356,243	–	431,792	–
Total Liabilities:	**2,549,967**	**3.43**	**2,785,405**	**5.03**
Interest spread		**5.10**		**5.67**
Net interest margin		**4.63**		**5.31**

With the exception of own-issued securities, **interest expenses** increased significantly in all the account groups. Interest paid on interbank accounts increased by HUF 8.7 billion, or 77.2%, over the previous year, which was, besides the significant growth of the average portfolio, due to the higher losses recorded here owing to the increased volume of swap deals (HUF 7.4 billion). Interest paid on corporate accounts increased by 41.6%. The share of interest paid on retail accounts within the total of interest expense was 63.2%, which is in harmony with the Bank's funding structure. In 2004, the cost of funds calculated on average interest-bearing forint and foreign currency funding amounted to 5.96%, or 197 basis points more than the 2003 figure. The interest margin calculated on total interest-bearing assets and liabilities was 5.67% in 2004, or 57 basis points higher than in 2003.

The change in the interest rate boosted net interest income by HUF 21.9 billion. Although the interest rate changes led to a rise in both interest income and interest expense, the rise in expense due to the change in interest levels was smaller than the increase in income. The change in volume substantially increased both income and expense, and overall it increased net interest income by HUF 7.9 billion. The growth in net interest income amounted to 107 basis points in terms of its share of the average balance sheet total, of which some 79 basis points was attributable to the interest rate change, and 28 basis points to the volume increase. The change to the asset-liability structure accounted for a 12-basis-point reduction.

In 2004 the Bank's **non-interest income** increased by 32.2%, reaching HUF 113.1 billion. A determining factor in the dynamic growth of non-interest income was the HUF 18.8 billion increase in net fees and commissions. As a consequence of a more dynamic increase in non-interest income, the share of non-interest income within total income rose from 42.0% to 43.3%. Of the various types of non-interest income, **net commission and fee income** increased by 22.1%, from HUF 85.1 billion in 2003 to HUF 103.9 billion in 2004. Compared to 2003, commissions and fees received rose by 18.3%, while commissions and fees paid fell by 11.2% over the previous year. Owing to the dynamic growth in lending activities, commission revenues on loans showed a particularly high increase, of 36.6%. The high rate of growth in corporate lending also led to a rise in commission revenues on forint and foreign-currency loans, while the growth in "Forrás" ("Liability") Loans (provided from the Bank's own funds or through a consortium), as well as in fees related to the handover of loans sold on behalf of OTP Mortgage Bank, fees related to repurchase obligations and other commission fees received from the Mortgage Bank, was considerable. Of the Bank's commission revenues, mortgage lending accounts for HUF 40.9 billion, HUF 37.5 billion of which was received from the Mortgage Bank (in 2003: HUF 25.1 billion). Within commission revenues, card fee revenues increased significantly, by 26.4%, to exceed HUF 27.2 billion. The nearly HUF 5.7 billion increase in card fee revenues primarily originated from ATM cash withdrawal transaction fees and – due to an increase in the number of purchases made using bankcards – from merchants' commission revenues. Commission revenues on retail current accounts increased by 13.6% during 2004. Commission revenue related to deposits increased by 10.5%, to HUF 5.9 billion, while commissions on payment transactions were up by 3.8%. Commission revenue from securities trading was 3.8% down on the previous year's figure, dropping to HUF 7.5 billion, owing primarily to the decrease in custody fees and arrangement-fee income related to securities issuing. The **net result of securities trading** showed a profit of HUF 3.0 billion, compared to a loss of HUF 0.9 billion in 2003. The net exchange rate gains from **FX trading** were HUF 4.5 billion in 2004, against a net loss of HUF 1.4 billion in 2003. Other non-interest revenues decreased by HUF 1.1 billion, to HUF 1.8 billion.

The Bank's **total income** in 2004 amounted to HUF 261.1 billion, which represents an increase of 28.1% compared with 2003. The change in net interest income contributed HUF 29.8 billion, and the change in non-interest income contributed HUF 27.6 billion, to the increase in total income.

The structure of **total income usage** further improved in 2004. Non-interest expenses grew at a rate of 13.5%, which was higher than the average annual inflation rate, but significantly lower than the rate of increase in total income. The ratio of non-interest expenses to total income (cost-to-income ratio) decreased by 6.2 percentage points, to 47.9%. The combined amount of risk provisions, value losses and lending losses rose by HUF 0.1 billion compared to the previous year, and their share of total income declined from 6.5% to 5.1%.

Due to the net effect of a rate of growth in non-interest expense that was lower than the rate of growth in total income, a significant reduction in the ratio of non-interest expense to total income, a HUF 0.1 billion rise in the total of risk provisions, impairment and lending losses, a HUF 6.4 billion deterioration in goodwill write-offs and a HUF 0.8 billion higher dividend income, the ratio of pre-tax profit to total income remained broadly flat, accounting for 47.3% of total income in 2004.

COST MANAGEMENT

In 2004, the Bank's non-interest expenses amounted to HUF 125.1 billion, a 13.5% increase on the previous year's figure. Due to a rise in costs resulting from various development projects, the rate of growth in expenses exceeded that of inflation, but still remained well below the rate of income growth.

NON-INTEREST EXPENSES

	2003		2004		Change	
	HUF mn	proportion %	HUF mn	proportion%	HUF mn	%
Personnel costs	43,820	39.8	52,280	41.8	8,460	19.3
Depreciation	9,893	9.0	9,646	7.7	(247)	(2.5)
Other non-interest expenses	56,521	51.2	63,150	50.5	6,629	11.7
Total non-interest expenses	**110,234**	**100.0**	**125,076**	**100.0**	**14,842**	**13.5**

The largest item among non-interest expenses (with a share of 41.8%) was **personnel costs.** In 2004 the Bank's personnel costs increased by 19.3%, and thus the share of these costs within the total of non-interest expenses grew by 2.0 percentage points. The protracted effect of a rise in employees' wages and in management salaries in 2003, a 10% increase in employees' wages with effect from March 1, the July rise in management salaries, the personnel costs of headcount reduction, the straight-line accrual of bonuses, incentive payments and the stock option scheme (a method different from that adopted in 2003), and an increase in costs attributable to high share prices all contributed to this increase. In 2004, the Bank's personnel expenses absorbed 20.0% of its total income, compared to 21.5% in 2003.

STAFF LEVEL OF THE OTP BANK LTD. (PERSONS)

	Closing		Average		Change			
					Closing		Average	
	2003	2004	2003	2004	persons	%	persons	%
Full-time employee	7,353	7,113	8,056	7,413	(240)	(3.3)	(643)	(8.0)
Part-time employee	627	664	439	561	37	5.9	122	27.8
Total	**7,980**	**7,777**	**8,495**	**7,974**	**(203)**	**(2.5)**	**(521)**	**(6.1)**

At the end of 2004, the Bank's total staff headcount was 7,777, which was 203, or 2.5%, less than in the previous year. The annual average headcount decreased by 521, or 6.1%, in 2004.

EMPLOYEE PRODUCTIVITY INDICATORS

	2003 HUF mn	2004 HUF mn	Change %
Per capita			
Total assets as at December 31	345.7	391.5	13.2
Average total assets	303.0	363.9	20.1
After-tax profit	8.4	13.1	56.0
Total income	24.0	32.7	36.3
Personnel expenses	5.2	6.6	26.9

Staff efficiency continued to improve in 2004. Per capita after-tax profits increased by 56.0%, while the per capita average balance sheet total increased 20.1%, and per capita income was 36.3% higher in 2004 than in the previous year. However, per capita personnel costs increased by 26.9%.

Among the constituents of material costs, **depreciation write-offs** decreased by HUF 0.2 billion, or 2.5%. Other non-interest expenses grew by 11.7% in 2004.

RESULTS OF THE MAIN SUBSIDIARIES

In 2004 the activities of OTP Bank's subsidiaries were in line with the Bank's targets and the owners' expectations. The combined balance sheet totals of the fully consolidated subsidiaries amounted to HUF 2,010 billion, 29.7% higher than at the end of 2003. Their preliminary consolidated pre-tax profits were HUF 39.4 billion in 2004, up by 56.4% on a year earlier. (Of this, the balance sheet total and pre-tax profits of Robank, purchased in 2004, were HUF 44.6 billion and HUF 86 million respectively at year-end 2004).

TOTAL ASSETS AND PRE-TAX PROFITS OF THE FULLY CONSOLIDATED SUBSIDIARES

Subsidiary	Total assets				Pre-tax profits			
	Dec. 31, 2003	Dec. 31, 2004	Change		2003	2004	Change	
	HUF mn	HUF mn	HUF mn	%	HUF mn	HUF mn	HUF mn	%
Merkantil Bank Ltd.	65,483	58,945	(6,538)	(10.0)	2,646	3,096	450	17.0
Merkantil Car Ltd.	90,767	135,374	44,607	49.1	1,452	1,471	19	1.3
Merkantil Bérlet Ltd.	4,065	1,705	(2,360)	(58.1)	158	368	210	132.9
NIMO 2002. Ltd.	1,313	1,300	(13)	(1.0)	(38)	6	44	–
Merkantil Group	*161,628*	*197,324*	*35,696*	*22.1*	*4,218*	*4,941*	*723*	*17.1*
OTP Building Society Ltd.	52,623	65,784	13,161	25.0	360	783	423	117.5
OTP Mortgage Bank Ltd.	674,221	885,863	211,642	31.4	8,548	12,653	4,105	48.0
OTP Banka Slovensko, a. s.	159,924	215,094	55,170	34.5	(207)	(57)	150	72.4
DSK Group	323,377	409,760	86,383	26.7	1,573	11,253	9,680	615.4
Robank SA	–	44,566	44,566	–	–	86	–	–
OTP Garancia Insurance Ltd.	99,053	116,273	17,220	17.4	2,605	4,049	1,444	55.4
OTP Fund Management Ltd.	11,744	8,601	(3,143)	(26.8)	4,338	3,300	(1,038)	(23.9)
HIF Ltd.	14,364	12,340	(2,024)	(14.1)	259	175	(84)	(32.4)
OTP Real Estate Ltd.	17,543	18,239	696	4.0	1,347	1,012	(335)	(24.9)
OTP Factoring Ltd.	8,044	7,826	(218)	(2.7)	1,321	752	(569)	(43.1)
OTP Factoring Asset Management Ltd.	982	1,565	583	59.4	64	19	(45)	(70.3)
OTP Factoring Group	*9,026*	*9,391*	*365*	*4.0*	*1,385*	*771*	*(614)*	*(44.3)*
Bank Center No. 1. Ltd.	7,768	7,885	117	1.5	81	138	57	70.4
OTP Fund Servicing and Consulting Ltd.	1,793	1,967	174	9.7	225	105	(120)	(53.3)
OTP Mérleg Ltd.	2,181	1,353	(828)	(37.9)	196	(35)	(231)	(117.8)
Inga Ltd.'s	10,959	11,122	163	1.5	104	142	38	36.5
Concordia Info Ltd.	3,817	3,812	(5)	(0.1)	168	43	(125)	(74.4)
OTP Card Manufacturing Co.	–	823	823	–	–	46	46	–
Subsidiaries total	**1,550,021**	**2,010,197**	**460,176**	**29.7**	**25,202**	**39,405**	**14,203**	**56.4**

MERKANTIL GROUP

Merkantil Group concluded over 60,000 new car purchase contracts in 2004, which was 10.6%, or close to 6,000 contracts, more than the number of new contracts concluded in 2003. The volume of customer placements amounted to HUF 94.9 billion; HUF 20.3 billion higher than in 2003. The market share of the Merkantil Group in the market of new-car sales financed through loans was around 20% in 2004.

The majority of the new business contracts were for foreign currency loans, which accounted for 90.6% of the portfolio and 82.7% of the total number of transactions. In the case of foreign currency loans, the amount loaned per car was close to twice as high as the average amount of forint loans.

MERKANTIL BANK
OTP GROUP

MAIN INDICATORS OF MERKANTIL BANK LTD.:

	2003	2004
ROAA %	3.73	4.42
ROAE %	25.0	25.5
Cost/Income ratio %	48.1	49.3

MAIN FINANCIAL DATA OF MERKANTIL BANK LTD.:

	Dec 31, 2003 HUF mn	Dec 31, 2004 HUF mn	Change HUF mn	%
Total assets	65,483	58,945	(6,538)	(10.0)
Loans	61,569	50,507	(11,062)	(18.0)
retail	41,897	34,287	(7,610)	(18.2)
corporate	19,636	16,199	(3,437)	(17.5)
municipal	36	21	(15)	(41.7)
Deposits	47,012	39,739	(7,273)	(15.5)
retail	45,388	37,576	(7,812)	(17.2)
corporate	1,624	2,163	539	33.2
municipal	0	0	0	
Shareholders' equity	10,092	11,442	1,350	13.4
Share capital	2,000	2,000	0	0.0
Pre-tax profits	2,646	3,096	450	17.0
After tax profits	2,359	2,751	392	16.6

- In 2004, demand for forint loan facilities fell sharply in the vehicle-financing market, and thus – given that, consistent with the division of tasks within the Merkantil Group, the bank only extended forint loans – the number of new contracts was only 43% of the 2003 figure. Merkantil Bank's loan portfolio fell by HUF 11.0 billion and its balance sheet total by HUF 6.5 billion.
- 44.0% of the HUF 50.5 billion loan portfolio was qualified at year-end 2004, the bulk of which (65.0%) had been included in the "to-be-monitored" category. 15.4% of the gross portfolio consisted of non-performing loans.
- In addition to the interbank credit line provided by the parent bank, the portfolio of ”Mobil Pénztárjegy” was dominant in the bank's borrowing. The total portfolio of the notes amounted to HUF 34.3 billion at the end of 2004, the great majority of which (HUF 32.3 billion) had been sold through the branch network of OTP Bank.
- No material change occurred in the distribution of income from the Group's business activities in 2004. Interest income and administration fees realised on vehicle financing continued to amount to close to 75% of the Bank's total interest and interest-type income. The Bank earned HUF 6.5 billion in net interest revenues in 2004, down by 4.7% from a year earlier. The interest rate margin calculated on the average asset portfolio was 10.4% volt.
- The bank's after-tax profit amounted to HUF 2.8 billion, representing a HUF 392 million, or 16.6%, rise over the previous year. The bank plans to pay HUF 1.4 billion in dividends on its 2004 after-tax profit to OTP Bank.

MERKANTIL CAR
OTP GROUP

MAIN INDICATORS OF MERKANTIL CAR LTD.:

	2003	2004
ROAA %	0.92	0.81
ROAE %	54.7	54.6
Cost/Income ratio %	36.5	34.0

MAIN FINANCIAL DATA OF MERKANTIL CAR LTD.:

	Dec 31, 2003 HUF mn	Dec 31, 2004 HUF mn	Change HUF mn	%
Total assets	90,767	135,374	44,607	49.1
Loans	90,610	137,128	46,518	51.3
retail	73,662	116,890	43,228	58.7
corporate	16,897	19,983	3,086	18.3
municipal	51	255	204	400.0
Shareholders' equity	1,429	1,925	496	34.7
Share capital	50	50	0	0.0
Pre-tax profits	1,452	1,471	19	1.3
After tax profits	706	916	210	29.7

- Interest in foreign currency loans continued unabated in 2004, and as a result, the share of foreign currency loan facilities in the product structure exceeded 99.8%. There was a sharp rise of an annual 73.3% in foreign currency vehicle loans, with the year-end value of the portfolio exceeding HUF 112.9 billion. The number of new vehicle financing contracts exceeded 50,000.
- Merkantil Car's balance sheet total was HUF 135.4 billion at the end of 2004, which exceeded that of the previous year by 49.1%. The growth was clearly due to the increase in the vehicle portfolio. The (gross) loan portfolio was HUF 137.1 billion as at December 31, 2004, which was HUF 46.5 billion, or 51.3%, higher than in the previous year.
- 97.8% of the loan portfolio was qualified at year-end 2004, and this was comprised, almost exclusively (92%), of the "to-be-monitored" category.
- In 2004, Merkantil Car achieved HUF 10.6 billion in interest income, representing a 33.0% rise relative to the previous year. The interest margin calculated on the average asset portfolio was 9.35%.
- Merkantil Car's after-tax profit had risen by 29.7% to HUF 916 million by the end of 2004. Its return on average assets (ROAA) and return on average equity (ROAE) stood at 0.81% and 54.6% respectively. The company will pay HUF 420 million in dividends on its profit for 2004 to its owners.

MAIN INDICATORS OF OTP BUILDING SOCIETY LTD.:

	2003	2004
ROAA %	0.58	1.12
ROAE %	11.1	26.3
Cost/Income ratio %	81.9	65.2

MAIN FINANCIAL DATA OF OTP BUILDING SOCIETY LTD.:

	Dec 31, 2003 HUF mn	Dec 31, 2004 HUF mn	Change HUF mn	%
Total assets	52,623	65,784	13,161	25.0
Loans	8,703	7,929	(774)	(8.9)
Deposits	46,586	59,492	12,906	27.7
Shareholders' equity	2,491	2,555	64	2.6
Share capital	2,000	2,000	0	0.0
Pre-tax profits	360	783	423	117.5
After tax profits	295	664	369	125.1

- The balance sheet total of OTP Building Society Ltd., thanks to a robust increase in its deposit portfolio, rose by 25.0% in 2004.
- The 27.7% rise in the deposit portfolio can be ascribed to 113,500 new contracts concluded in 2004, representing a 34.3% increase over the previous year, and to higher contractual amounts.
- The loan portfolio decreased by close to 9%, compared to the 2003 figure, which was attributable to dwindling demand for loans due to changes to the favourable terms and conditions of subsidised loans.
- OTP Building Society achieved a 52.4% market share of the building-society savings market in terms of the number of valid (active) contracts.
- The after-tax profit of OTP Building Society more than doubled, which was due to a nearly 30% rise in revenues and a 3.4% (below-inflation) increase in non-interest expenses.
- The company will pay HUF 600 million in dividend on its HUF 664 million after-tax profits in 2004 to its owner, OTP Bank.

MAIN INDICATORS OF OTP MORTGAGE BANK LTD.:

	2003	2004
ROAA %	1.59	1.37
ROAE %	46.7	38.0
Cost/Income ratio %	27.6	22.4

MAIN FINANCIAL DATA OF OTP MORTGAGE BANK LTD.:

	Dec 31, 2003 HUF mn	Dec 31, 2004 HUF mn	Change HUF mn	%
Total assets	674,221	885,863	211,642	31.4
Loans	604,672	770,245	165,573	27.4
Mortgage bonds issued	599,000	789,456	190,456	31.8
Shareholders' equity	24,717	31,382	6,665	27.0
Share capital	17,000	20,000	3,000	17.6
Pre-tax profits	8,548	12,653	4,105	48.0
After tax profits	7,063	10,665	3,602	51.0

- In 2004, the housing loan portfolio of OTP Mortgage Bank Ltd. grew by 27.4% – representing growth that, though somewhat more subdued than in 2003, was still vigorous – and had exceeded HUF 770 billion by the end of 2004.
- Performing loans accounted for 98.3%, the "to-be-monitored" loans 1.7%, and non-performing loans 0.01% of the loan portfolio at year-end 2004. Under a cooperation agreement concluded with OTP Bank, outstanding non-performing loans are bought back by OTP Bank.
- Along with the expansion of its loan portfolio, the volume of mortgage bonds issued by OTP Mortgage Bank also grew. In 2004, the total nominal value of the mortgage bonds issued amounted to HUF 436.8 billion. That of expired mortgage bonds and mortgage bonds bought back was HUF 214.3 billion and HUF 32 billion respectively. In consequence, the closing portfolio was HUF 789.4 billion as at December 31, of which HUF 49.2 billion consisted of foreign currency securities.
- Among the mortgage banks in Hungary, OTP Mortgage Bank's share of total mortgage bonds issued was 64.7% and its share of the total housing loan portfolio was 63.2%.
- The 2004 pre-tax profit of OTP Mortgage Bank was HUF 12.7 billion.
- Taking into account the fees paid to OTP Bank, the value contribution of OTP Mortgage Bank exceeded HUF 50 billion.

MAIN INDICATORS OF DSK GROUP:

	2003	2004
ROAA %	2.07*	2.44
ROAE %	16.3*	19.2
Cost/Income ratio %	65.9	57.6

MAIN FINANCIAL DATA OF DSK GROUP:

	Dec 31, 2003 HUF mn	Dec 31, 2004 HUF mn	Change HUF mn	%
Total assets	323,377	409,760	86,384	26.7
Loans	168,446	274,064	105,618	62.7
retail	132,671	210,799	78,128	58.9
corporate	35,736	63,082	27,346	76.5
municipal	39	183	144	369.2
Deposist	272,466	331,347	58,881	21.6
retail	232,326	282,900	50,574	21.8
corporate	27,606	41,805	14,199	51.4
municipal	12,534	6,642	(5,892)	(47.0)
Shareholders' equity	43,060	50,513	7,453	17.3
Share capital	14,642	13,906	(736)	(5.0)
Pre-tax profits	7,842	11,254	3,412	43.5
After tax profits	5,931	8,960	3,029	51.1

* According to IFRS

- DSK Group's balance sheet total on December 31, 2004 stood at more than HUF 409 billion, or 26.7% higher than the year-end 2003 figure, and its equity at the end of 2004 was HUF 50.5 billion (a rise of 17.3%). The bank's loans and deposits grew by 62.7% and 21.6% respectively in 2004, with the loan portfolio totalling HUF 274.1 by the end of the year, and deposits HUF 331.3 billion.
- In 2004 DSK Bank acquired a market-leading position in terms of total business volume, on both the deposit and the loan market. Based on its balance sheet total, its market share was 13.1% at the end of 2004, making DSK Bank the second largest bank on the Bulgarian banking market, after Bulbank.
- The bank significantly broadened its range of retail banking products, introducing no less than 20 new or revamped products to the market. These included a credit card, a student card, a foreign currency account, long-term deposits, consumer loans, a savings account with tiered interest rates, new electronic services and a customer terminal.
- The number of retail bankcards issued by the bank stood at nearly 700,000. In addition, DSK Bank was serving customers through a network of more than 327 branches, 351 ATMs and 462 POS terminals.
- The transformation project aimed at restructuring DSK, improving its competitiveness, and integrating it effectively into the OTP Bank Group had been commenced as early as in the summer of 2003, and the key tasks and measures that would need to be carried out had been defined, while the implementation of these tasks began immediately following the takeover. The tasks set for 2004 were all fulfilled.
- 2004 pre-tax profit of DSK Group was HUF 9.0 billion, up by 51.1% over the 2003 figure. Accordingly, its year-end ROAA and ROAE were 2.44% and 19.2%.

MAIN INDICATORS OF OTP BANKA SLOVENSKO, A.S.:

	2003	2004
ROAA %	(0.15)	(0.03)
ROAE %	(0.5)	(0.4)
Cost/Income ratio %	105.9	99.3

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

	Dec 31, 2003 HUF mn	Dec 31, 2004 HUF mn	Change HUF mn	%
Total assets	159,924	215,094	55,170	34.5
Loans	111,594	142,626	31,032	27.8
retail	13,437	26,722	13,285	98.9
corporate	97,411	114,809	17,398	17.9
municipal	746	1,095	349	46.8
Deposits	112,195	139,853	27,658	24.7
retail	61,636	61,793	157	0.3
corporate	39,160	58,626	19,466	49.7
municipal	11,399	19,434	8,035	70.5
Shareholders' equity	13,961	14,151	190	1.4
Share capital*	13,150	13,109	(41)	(0.3)
Pre-tax profits	(207)	(57)	150	–
After tax profits	(207)	(57)	150	–

- OBS's balance sheet total stood grew by close to 34.5% in 2004. Within this, loans and deposits increased by 27.8% and 24.7% respectively. The growth in the loan portfolio was attributable to a rise in both retail and corporate loans, whereas growth in the deposit portfolio can be ascribed primarily to an increase in corporate loans.
- Its strong presence in the corporate deposit market was supported by the launch of several new products in 2004. Among them was the Solvent Biznis Card, a product similar to the Széchenyi Card, which it issues for corporate customers, and also in 2004 it introduced the Europackage, a savings account, and various sub-account products, as well as a structured offer for home owners.
- Qualified loans outstanding accounted for 9.6% of OBS's loan portfolio at the end of 2004.
- OBS's total income for 2004, according to Hungarian accounting standards, was HUF 7 billion, up by 8% from a year earlier. The Bank's cost-to-income ratio improved by close to 7 percentage points in 2004 relative to 2003.
- According to Slovak accounting standards, OBS closed 2004 with a positive result exceeding HUF 522 million, and it also closed 2003 with a profit that amounted to more than HUF 81 million.
- Based on its balance sheet total, OBS's market share of the Slovak banking market was 2.8% at year-end 2004.

* Share capital expressed in HUF changed due to the difference between the appropriate exchange rates for 2003 and 2004. Share capital expressed in SKK did not change and amounted to SKK 2,064 million.

MAIN INDICATORS OF OTP GARANCIA INSURANCE LTD.:

	2003	2004
ROAA %	2.41	3.16
ROAE %	22.6	30.0
Cost/Income ratio %	95.7	93.8

MAIN FINANCIAL DATA OF OTP GARANCIA INSURANCE LTD.:

	Dec 31, 2003 HUF mn	Dec 31, 2004 HUF mn	Change HUF mn	Change %
Insurance technical reserves	84,226	98,680	14,454	17.2
Shareholders' equity	10,650	12,049	1,399	13.1
Share capital	7,351	7,351	0	0.0
Total assets	99,053	116,273	17,220	17.4
Insurance fee income	61,136	55,603	(5,533)	(9.1)
Fee income from life insurances	29,026	26,672	(2,354)	(8.1)
– from this: single payment insurances	18,054	12,731	(5,323)	(29.5)
Pre-tax profits	2,605	4,049	1,444	55.4
After tax profits	2,159	3,400	1,241	57.5

- OTP Garancia Insurance Ltd. achieved premium revenue of HUF 55.6 billion in 2004, which was 9.1%, or HUF 5.5 billion lower than in the previous year. The fall in premium revenue was attributable to a decline – due to unfavourable changes in the law – in the number of agricultural-sector insurance policies and a drop in premium revenue from one-off premium-payment life insurance policies. Of total premium revenues, the revenues of the life and bank assurance divisions amounted to HUF 26.7 billion, while those of the non-life division were HUF 28.9 billion.
- The gross value of damages paid out was HUF 27.0 billion in 2004. Within this total, damage expenses in the life business rose by 36%, due to the increase in repurchases of one-off premium policies, while the value of non-life damages fell by 24%, as no damage payments were made to the agricultural sector. The ratio of damages to premium revenue, together with changes in reserves, was 39.8% in the non-life business. The change in reserves amounted to HUF 14.5 billion, which represents a rise of 17.2% compared to the previous year-end figure, and thus total insurance technical reserves stood at HUF 98.7 billion as at December 31, 2004.
- The company's balance sheet total grew by 17.4% compared to the previous year, to HUF 116.3 billion, and its equity increased from the previous year's HUF 10.7 billion to HUF 12.0 billion.
- The company's pre-tax profit was more than one-and-a-half times that of the previous year, rising to HUF 4,049 million, while return on average assets (ROAA) increased from 2.41% to 3.16%, and return on average equity (ROAE) rose from 22.6% to 30.0%. The company intends to pay a dividend of HUF 2.0 billion from its 2004 profits to OTP Bank.

MAIN INDICATORS OF OTP FUND MANAGEMENT LTD.:

	2003	2004
ROAA %	30.8	27.3
ROAE %	55.1	47.3
Cost/Income ratio %	16.8	20.2

MAIN FINANCIAL DATA OF OTP FUND MANAGEMENT LTD.:

	Dec 31, 2003 HUF mn	Dec 31, 2004 HUF mn	Change HUF mn	Change %
Managed assets	644,000	760,809	116,809	18.1
Managed assets in investment funds	*396,179*	*390,976*	*(5,203)*	*(1.3)*
Managed assets in pension funds	*196,400*	*294,859*	*98,459*	*50.1*
– from this OTP Pension Funds	*191,311*	*288,381*	*97,070*	*50.7*
Other managed assets	*51,421*	*74,974*	*23,553*	*45.8*
Total assets	11,744	8,601	(3,143)	(26.8)
Shareholders' equity	5,378	6,352	974	18.1
Share capital	900	900	0	0.0
Pre-tax profits	4,338	3,300	(1,038)	(23.9)
After tax profits	3,516	2,775	(741)	(21.1)

- The trends characteristic of the securities funds market as a whole in 2004 were also discernible with regard to the funds managed by OTP Fund Management, and thus, following a significant fall in the first quarter, the assets of the Optima Fund, the Company's flagship product, stagnated until the end of October, and then began to grow again in the fourth quarter.
- Within the net asset value of the funds managed by the Fund Manager, the net asset value of the Optima Fund stood at HUF 318.0 billion at year-end, which represented a fall of 9.0%. The assets of the Maxima, Paletta, Euró and Dollár Funds also fell, while the assets held in the Quality Equity Fund and the UBS Fund of Funds grew over the course of 2004.
- At the end of the year, the Fund Manager's share of the securities funds market was 40.8% (compared to 47.6% at the end of 2003).
- With respect to the pension fund market, the Fund Manager maintained its share of approximately 18-19% of total assets under management in 2004.
- The Fund Manager achieved an after-tax profit of HUF 2,775 million in 2004, which resulted in return on average assets (ROAA) of 27.3% and a 47.3% return on average equity (ROAE). The Company's cost/income ratio was 20.2% in 2004. The Fund Manager intends to pay HUF 1.8 billion in dividends to OTP Bank on its profits of 2004.

RESULTS ACCORDING TO IFRS

CONSOLIDATED FINANCIAL RESULTS OF OTP BANK

CONSOLIDATED BALANCE SHEET

As of December 31, 2004, the consolidated balance sheet total of the concern according to IFRS was HUF 4,162.4 billion, which is 20.3%, or HUF 701.5 billion, higher than at the end of the previous year, and 36.7% higher than the Bank's non-consolidated balance sheet total for 2004.

On the **liabilities** side, the major contributing factors to the 2004 increase in the consolidated balance sheet total were the HUF 580.1 billion increase in liabilities, and within this, a HUF 212.4 billion increase in liabilities to customers, a HUF 127.7 billion increase in liabilities to credit institutions, a HUF 192.3 billion increase in liabilities arising from securities issued, and HUF 121.5 billion in equity. The volume of customer deposits had risen by 7.9% to HUF 2,902.2 billion by year-end 2004, with retail deposits making up more than 74% of this total. The share of corporate and municipality deposits was 18.9% and 6.8% respectively at the end of the year. The share of foreign subsidiaries in the consolidated deposit total was HUF 500 billion, or 17.2%, up by 3 percentage points on the year-end 2003 figure (HUF 383.1 billion, or 14.2%).

CONSOLIDATED VOLUME OF DEPOSITS BY SUBSIDIARIES ACCORDING TO IFRS ON DEC 31, 2004 IN HUF MN

	Corporate	Municipal	Retail	Total
OTP Bank Ltd.	431,921	170,431	1,738,572	2,340,924
OTP Building Society	2,441	7	57,044	59,492
Merkantil Bank	2,142	0	2,522	4,664
Merkantil Car	103	0	728	831
OTP Banka Slovensko a.s.	59,178	19,434	61,316	139,928
DSK Bank EAD	41,805	6,642	282,900	331,347
Robank SA	15,939	0	12,764	28,703
Total	553,529	196,514	2,155,846	2,905,889
Total consolidated	**549,830**	**196,514**	**2,155,845**	**2,902,189**

Liabilities from credit institutions rose to HUF 254.1 billion, representing a rise of more than two-fold over the previous year. Consolidated shareholders' equity rose by HUF 121.5 billion, or 39.0%, in the course of the year, accounting for 10.4% of year-end liabilities (at year-end 2003: 9.0%). Growth was attributable to the inclusion of a major portion of the after-tax profit into retained earnings.

The most significant change to the **asset** side of the consolidated balance sheet was the 26.4%, or HUF 524.2 billion, increase – net of provisions for loan losses – in the loan portfolio, as a result of which the share of loans within the total of assets rose from 57.3% in 2003 to 60.2% in 2004.

The consolidated gross loan portfolio grew by HUF 539 billion, or by 26%, with 66.4% of the growth attributable to an increase in the retail portfolio. The share of retail loans in the gross HUF 2,586.1 billion customer loan portfolio was close to 60%, amounting to HUF 1,547.4 billion. The share of housing loans in the retail loan portfolio rose by 22.8% to HUF 1,015.5 billion, while the volume of the consumer loan portfolio amounted to HUF 531.9 billion, equivalent to a 46.8% increase. The HUF 920.6 billion corporate portfolio accounted for 35.6% of the total portfolio, while loans to municipalities amounted to HUF 118.1 billion, representing a 4.6% share in the portfolio. The share of foreign subsidiaries in the consolidated loan portfolio was 16.4% (or HUF 424 billion), compared to 13.4% (or HUF 274 billion) in the previous year.

CONSOLIDATED GROSS LOAN VOLUME BY SUBSIDIARIES ACCORDING TO IFRS ON DEC 31, 2004 IN HUF MN

	Corporate	Municipal	Retail	Consumer	Housing/Mortgage	Total
OTP Bank Ltd.	805,804	116,175	374,072	204,657	169,415	1,296,051
OTP Faktoring Ltd.	1,995	447	6,491	417	6,074	8,933
OTP Building Society	0	0	7,929	0	7,929	7,929
Merkantil Bank	16,190	21	34,231	34,231	0	50,442
Merkantil Car	18,119	255	103,709	103,709	0	122,083
HIF Ltd.	11,766	0	0	0	0	11,766
OTP Mortgage Bank	0	0	770,265	0	770,265	770,265
OTP Banka Slovensko a.s.	108,333	1,034	25,214	4,120	21,094	134,581
DSK Bank EAD	62,850	183	210,379	162,812	47,567	273,412
Robank SA	16,087	0	258	257	1	16,345
Total	1,041,144	118,115	1,532,548	510,203	1,022,345	2,691,807
Total consolidated	**920,606**	**118,115**	**1,547,390**	**531,899**	**1,015,491**	**2,586,111**

The quality of the consolidated portfolio was good at the end of 2004: 88.4% of the overall gross loan portfolio consisted of performing receivables, the proportion of the "to-be-monitored" portfolio was 8.1%, and non-performing loans accounted for 3.5%. The Bank had set aside a total of HUF 79.3 billion in risk provisions for possible losses related to a qualified portfolio of HUF 301.4 billion, which resulted in a coverage ratio of 26.3%.

Receivables from credit institutions grew by 13.4% to HUF 286.2 billion, and liquid assets were up from HUF 276.5 billion at year-end 2003 to HUF 465.9 billion, representing a more than 1.5-fold increase. The portfolio of securities held-for-trading and securities available-for-sale declined by 3.7% to HUF 363.1 billion. The portfolio of securities to be held-to-maturity fell by 17.5%, to HUF 247.3 billion.

CONSOLIDATED RESULTS

OTP Bank's consolidated **net profit** for 2004 according to IFRS was HUF 140.8 billion, which represents a HUF 57.5 billion, or 69%, increase over 2003, and which was HUF 13.6 billion, or 10.7%, higher than the Bank's profit. Pre-tax profit grew by 62.4%, to HUF 166.7 billion.

Consolidated net interest income was HUF 260.9 billion, which represents a 48.2% increase and is 72.7% higher than the Bank's net interest income. In the course of the year interest income grew by 53% to HUF 433.7 billion, due, predominantly, to a 51.7% increase in interest income earned on loans. Within interest income, interest realised on interbank placements and on securities held-for-trading and available-for-sale rose significantly, by 103.8% and 56.8% respectively. Interest expenses amounted to HUF 172.8 billion in 2004, up by 61.0% over 2003. Interest paid on customer deposits increased by 61.9% to HUF 131.8 billion, exceeding the non-consolidated figure by 10.7%. Interest expenses on own-issued securities grew by 175.2%, and were HUF 19.2 billion higher than those of the Bank, owing mainly to OTP Mortgage Bank, Merkantil Bank and OBS securities. Interest paid on liabilities to credit institutions was 14.1% higher in 2004 than in the year before, amounting to HUF 20.6 billion.

The volume of **provisions** was 48.4% higher in 2004 than a year earlier, amounting to HUF 16.0 billion. Provisions calculated on the average loan portfolio were 0.69% (in 2003: 0.64%).

OTP Bank's consolidated gross **interest margin** was 6.84% in 2004, exceeding the 2003 figure by 114 basis points. Net interest margin was 6.42%, compared to 5.35% in 2003.

Non-interest income was up by 13.6% from a year earlier, amounting to HUF 170.1 billion. Fees and commissions received, accounting for over half of all non-interest income, rose by 12.2%, to HUF 91.6 billion. Consolidated commission revenues remained below the Bank's non-consolidated commission revenues by HUF 21.7 billion, due to the consolidation of commission fees of the Mortgage Bank in particular. Net fees and commissions increased by 15.1%, or HUF 9.3 billion. Insurance premium revenue, the other major contributor to non-interest income, was 12.3%, or HUF 6.9 billion, lower than in 2003. Net price gains on securities trading were HUF 14.8 billion, in contrast to a loss of HUF 7.6 billion in 2003. Net exchange-rate gains on FX trading amounted to HUF 1.3 billion in 2004, HUF 3.9 billion lower than in 2003. Profit on real estate transactions was HUF 1.8 billion.

Non-interest expenses were 16.9% higher in 2004 than in 2003, amounting to HUF 248.2 billion. Fees and commission paid increased by 3.2%, to HUF 20.6 billion. Personnel costs, accounting for nearly one-third of non-interest expenses, rose by 25.9%. Depreciation was HUF 9.4 billion, or 47.3% higher in 2004 than in 2003. Other non-interest expenses grew by 16.8%, or HUF 11.6 billion.

The Bank's consolidated cost-to-income ratio was 57.6%, down by 7.6 percentage points from a year earlier.

In 2004, the Bank's **consolidated return on average assets** (ROAA) **and return on average equity** (ROAE), as per international accounting standards, were 3.69% and 37.8% respectively (in 2003: 2.70% and 31.1% respectively). **Real return on equity**[7] was 31.1%, compared to 26.4% in 2003. In 2004, **basic net earnings per ordinary share** (basic EPS) were HUF 537, up by 67.7%, or HUF 217, on the 2003 figure. The Bank's consolidated equity per share grew by 39.0%, to HUF 1,547.

[7] Calculation method: ROAE – annual average inflation (%).

NON-CONSOLIDATED FINANCIAL RESULTS OF OTP BANK LTD.

BALANCE SHEET

The Bank's balance sheet total as at December 31, 2004, prepared in accordance with international accounting standards, was HUF 3,054.5 billion, up by 11.8%, or HUF 322.8 billion, on a year earlier.

On the liabilities side, the major contributing factors to the 2004 growth in the balance sheet total were the HUF 210 billion increase in liabilities, and within this a HUF 76.4 billion increase in liabilities to customers, a HUF 112.7 billion rise in liabilities to credit institutions and the National Bank of Hungary and a HUF 112.9 billion growth in equity. Customer deposits rose by 3.4%, and amounted to HUF 2,340.9 billion at year-end 2004, accounting for over 74% of the portfolio. The share of corporate and municipality deposits in the total customer deposit portfolio was 18.5% and 7.3% respectively at the end of 2004.

NON-CONSOLIDATED VOLUME OF DEPOSITS ACCORDING TO IFRS ON DEC 31

	2003 HUF mn	2004 HUF mn	Change HUF mn	Change %
Retail	1,659,923	1,738,572	78,649	4.7
Corporate	440,034	431,921	(8,113)	(1.8)
Municipal	164,571	170,431	5,860	3.6
Total	**2,264,528**	**2,340,924**	**76,396**	**3.4**

On the **asset** side the volume of cash, deposit accounts and pending financial settlements with the National Bank of Hungary grew by 57.9% to HUF 399.4 billion, while the volume of interbank placements rose by 21.1% and that of securities held-for-trading and securities available-for-sale by 9.8%. The loan portfolio, net of loan-loss provisions, increased by 19.2%, or HUF 205.8 billion, with a resultant rise in its share within total assets from 39.2% in 2003 to 41.8% in 2004.

NON-CONSOLIDATED GROSS LOAN VOLUME ACCORDING TO IFRS ON DEC 31

	2003 HUF mn	2004 HUF mn	Change HUF mn	Change %
Retail	318,546	374,072	55,526	17.4
Housing/Mortgage	182,640	169,415	(13,225)	(7.2)
Consumer	135,906	204,657	68,751	50.6
Corporate	678,986	805,804	126,818	18.7
Municipal	91,529	116,175	24,646	26.9
Total	**1,089,061**	**1,296,051**	**206,990**	**19.0**

Gross loans rose by HUF 207 billion, or 19%. Over half of this rise was attributable to increase in the corporate loan portfolio. The share of retail loans in the gross HUF 1,296.1 billion portfolio of customer loans was 28.9%. As a result of a fall of 7.2%, the housing loan portfolio stood at HUF 169.4 billion at year-end, while following a substantial rise of more than 50%, consumer loans amounted to HUF 204.7 billion as of December 31. The HUF 805.8 billion portfolio of corporate loans accounted for 62.2% of the total portfolio, while municipality loans amounted to HUF 116.2 billion, representing 9.0% of the total portfolio.

94.7% of the gross loan portfolio consisted of performing receivables, while the share of "to-be-monitored" and non-performing loans was 2.8% and 2.5% respectively. For the HUF 68.1 billion qualified portfolio, the Bank set aside HUF 19.8 billion in provisions for possible loan losses, which resulted in a 29.1% coverage ratio.

Receivables from credit institutions were up by 21.1%, amounting to HUF 200.1 billion. The volume of cash, deposit accounts and pending financial settlements with the National Bank of Hungary grew from HUF 253.0 billion at year-end 2003 to HUF 399.4 billion, representing an increase of more than 150%. Securities held-for-trading and securities available-for-sale rose by 9.8% to HUF 342.9 billion. The portfolio of securities to be held-to-maturity fell by 18.8%, to HUF 507.5 billion.

PROFIT

OTP Bank's non-consolidated **net profit** for 2004 according to IFRS was HUF 127.2 billion, up HUF 57.1 billion, or 81.3% from a year earlier. Profit before tax increased by 75.4% to HUF 148.2 billion.

The Bank's **net interest income** was HUF 151.1 billion, which represents a 35.5% increase. Interest income grew by 42.4% to HUF 290.9 billion in the course of 2004. Interest income on interbank placements, loans and securities held-for-trading and securities available-for-sale contributed significantly to a dynamic expansion in interest income. Interest expenses were HUF 139.9 billion in 2004, 50.8% higher than a year earlier. Interest paid on customer deposits grew by 58.2%, to HUF 119.1 billion. Interest paid on liabilities to credit institutions was 19.3% higher than in 2003, amounting to HUF 19.7 billion.

The volume of **risk provisioning** was 22.3% higher in 2004 than in 2003, amounting to HUF 8.6 billion. Risk provisioning calculated on the average loan portfolio was 0.72% (compared to 0.67% in 2003).

OTP Bank's gross **interest margin** in 2004 was 5.22%, while its net interest margin was 4.92%.

Non-interest income was 34.8% higher than in 2003, amounting to HUF 139.9 billion. Fees and commissions received, which accounted for over 80% of non-interest income, rose by 18.2%, to HUF 113.3 billion. Net fees and commissions grew by 22.2%, or HUF 18.8 billion. Net price gains on securities trading, another major contributor to non-interest income, were HUF 14.6 billion, compared to a loss of HUF 8.9 billion in 2003. Net exchange-rate gains from FX trading amounted to HUF 0.9 billion in 2004, down by HUF 5.0 billion on a year earlier. OTP Bank received HUF 8.5 billion in dividends from its subsidiaries in 2004, which exceeded the 2003 figure by 10.5%.

Non-interest expenses were 8.4% higher than in 2003, and amounted to HUF 134.1 billion. Fees and commissions paid fell by 12.4%, to HUF 9.7 billion. Personnel costs, accounting for close to 40% of non-interest expenses, rose by 19.4%. Depreciation was HUF 0.7 billion, or 5.1% higher than in 2003. Other non-interest expenses grew by 4.8%, or HUF 2.7 billion.

The Bank's non-consolidated cost-to-income ratio was 46.1%, or 11.4 percentage points lower than in 2003.

In 2004, the Bank's non-consolidated **return on average assets** (ROAA) and **return on average equity** (ROAE), as per international accounting standards, were 4.40% and 38.2% respectively (in 2003: 2.74% and 29.2%). Real return on equity[8] amounted to 31.5%, compared to 24.5% in 2003. In 2004, **basic net earnings per ordinary share** (basic EPS) were HUF 471, which was 80%, or HUF 210, higher than in 2003. The Bank's equity per share grew by 40.9% to HUF 1,389.

Asset-Liability Management

LIQUIDITY AND MARKET RISK MANAGEMENT

The supreme forum for asset-liability management and market risk management within OTP Bank Ltd. is the Asset-Liability Committee. Each year the Committee reviews, at both Group and Bank level, the evaluation methods and limits applied, which are defined based on the maximum acceptable losses. A report on the Bank's and the Bank Group's liquidity, interest rate risk and market risk exposure is received by the Committee on a quarterly basis, and by the Bank's senior management every month.

The Group-level market risk management regulations are approved by the Bank's Board of Directors. In 2004, the Bank Group continued to develop a centralised market risk management system (HR, hardware, software) that conforms to international standards. OTP Bank Ltd. now monitors the positions of the foreign and domestic group members with the highest risk exposure in real time. The extent to which limits related to dealing room liquidity and market positions have been utilised can be displayed at any time in the course of the day, and the appropriate managers are automatically notified if any limits are exceeded. In 2005, OTP Bank Ltd. plans to begin automating the process of measuring the Bank's book-interest and medium-term liquidity-risk exposure at both Bank and Group level.

The year 2004 was characterised by an expansion of demand for foreign-currency loans in Hungary. This demand was manifest in all segments of the lending market, from corporate lending to home and car financing. The OTP Bank Group obtained the necessary financing by taking out long-term loans and through participation in the European Medium Term Notes program.

TRENDS IN THE LIQUIDITY POSITION OF OTP BANK LTD.

OTP Bank Ltd.'s liquidity policy: With a view to maintaining profitability, the objective of the Bank's liquidity policy is to meet all payment obligations as and when they fall due, and to carry out the transactions necessary to achieve this. For the purposes of calculating 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. It also prepares a maturity balance sheet once each month, and determines treasury's fund placement opportunities or its funding requirement based on the Bank's plans. The competent organisational units and managers receive reports on risk exposure and the degree to which limits have been utilised.

[8] Calculation method: ROAE – annual average inflation (%).

The positive gap in the short-term category of the Bank's forint maturity balance sheet, which gives a breakdown of deposits by their potential maturity dates, was substantial in 2004. The liquidity position was made more open by the fact that the nominal value of the mortgage notes, issued by OTP Mortgage Bank, in treasury's portfolio fell by 5% to HUF 518 billion, while at the same time the average maturity of the portfolio increased. The Bank did not renew its long-term government securities investments upon maturity, and the total reduction in the volume of the securities portfolio exceeded HUF 100 billion.

The total volume of assets was also higher than the value of liabilities in maturity categories of less than three months in the foreign-currency maturity balance sheet. The value of customers' foreign currency deposits increased by almost 3% in EUR terms, but fell by 3% in HUF terms, owing to a strengthening of the forint. The weight of EUR deposits continued to grow in 2004, with their share of total deposits increasing from 60% to 65%. By the end of 2004 the portfolio of foreign currency loans grew by almost 150% in comparison to 2003, and their weight within the portfolio of foreign currency assets rose by eight percentage points, to 77% at year-end. A high proportion of the loans placed by the Bank were provided to its subsidiaries, mainly for the financing of vehicle leasing activities. Over the year the ratio of foreign currency customer deposits to foreign currency-based loans fell from 86% to 58%, and from 66% to 55% in the case of EUR loans. The portfolio of loans taken out by OTP Bank – excluding those used for refinancing – grew from HUF 54 billion (EUR 206 million) at the end of 2003, to HUF 132 billion at the end of 2004. The Bank's forint liquidity also enabled it to obtain EUR and CHF funds through swap transactions, for the financing of its lending activities. Owing to the acquisitions of foreign banks, a growing proportion – more than half – of equity interests are now denominated in foreign currency.

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, securities accepted by the NBH, and its short-term NBH and interbank placements, is more than 5.6 times higher than the combined balance of all large deposits. The combined value of the Bank's cash, trading securities and deposits with the NBH or other, commercial banks accounted for 9% of the balance sheet total in 2003, compared to 17% at the end of 2003.

OTP BANK LTD.'S INTEREST-RATE RISK EXPOSURE

The Bank aims to keep potential losses from unfavourable interest rate trends, and from decreases in net 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 management if any limits are breached. In 2004, a system for measuring risk exposure in accordance with the BIS recommendations was introduced at both Group and Bank level.

In 2004, the gap with respect to maturities of less than one year within the Bank's and the trading book's forint re-pricing balance sheet (i.e. the value of receivables minus the value of liabilities in the given maturity span) remains short, i.e. it shows a sizeable surplus of liabilities over receivables. The main reason for this is that the volume of liabilities that can be re-priced within one year is higher than that of assets which can be re-priced within one year. Last year saw an increase in the level of exposure to interest risk, a fact that can be attributed to the derivative transactions position, mortgage loans with a five-year interest calculation period, and the portfolio of fixed interest securities. Of the mortgage notes in OTP Bank's portfolio that were issued by OTP Mortgage Bank, the short-term discounted notes matured, and were partly renewed through the subscription of new, longer-term fixed-interest mortgage notes. At the same time, OTP Bank's level of exposure to interest risk continues to be mitigated by the fact that the greater part of the forint deposit portfolio can be re-priced within 3 months, partly because the majority of deposits have a short maturity, and partly because their interest is not fixed-rate or pegged to money-market instruments, but is re-priceable at the Bank's discretion on the basis of market trends.

OTP BANK LTD.'S EXCHANGE-RATE RISK EXPOSURE

The Asset-Liability Committee limits the level of exchange-rate risk exposure by setting a limit for the total open position (the aggregate net foreign currency position as defined in the Trading Book Decree), as well as other global position (overnight and intraday) and stop-loss limits.

The Bank participates both in the domestic and in the international FX spot and derivative markets. OTP Bank Ltd.'s aggregate open position averaged HUF 59.9 billion in 2004. The average net open position was HUF 24.6 billion, which essentially resulted from foreign equity interests (this year the Group expanded, with the acquisition of Robank). The average net open position maintained by the dealing room was HUF 3.8 billion. In 2004 the forint strengthened considerably, nudging the limit of the intervention band. In the second half of the year the US dollar began to fall steeply against the euro, which – combined with a strengthening of the forint against the euro – led to an unexpectedly high forint/dollar exchange rate. OTP Bank Ltd. succeeded in leveraging the opportunities presented by these market fluctuations.

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 its trading book positions. In 2004, on average, this capital requirement was HUF 404 million higher than in 2003, at HUF 5,055 million, from which a value equivalent to HUF 895 million was required to cover position risk, HUF 214 million to cover counterparty risk, and HUF 3,946 million to cover foreign exchange risk.

The growth in the capital requirement was essentially the result of an increase in open foreign-exchange positions. The Bank also determines the capital requirement internally on a daily basis, using the Value at Risk (VaR) calculation model. The average (total) capital requirement calculated using the VaR model was HUF 5,350 million in 2004.

THE MARKET RISK EXPOSURE OF THE BANK 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 cases of OTP Mortgage Bank, OTP Building Society, Merkantil Bank, OTP Banka Slovensko, DSK and Robank. By the end of 2004, the consolidated capital requirement totalled HUF 5,012 million. The consolidation of the trading book and foreign exchange positions only increased the capital requirement of these positions by a minimal extent relative to the capital requirement of OTP Bank, since the subsidiaries that are consolidated at present either do not maintain a trading portfolio, or their trading portfolio is negligible.

In 2004 the Group's surplus liquidity was reduced by the dynamic growth in lending by the Merkantil Group and the DSK Group, as well as by OTP. For forint lending, there is an abundance of sources at Group level. However, foreign-currency-based customer lending is financed by loans taken out by the parent bank. Funding of the mortgage housing loans disbursed in 2004 was secured through the issuing of mortgage notes by the Mortgage Bank to institutional and private investors. In December 2004, some EUR 200 million in funding sources were obtained through participation in the EUR 1,000,000,000 European Medium Term Notes program.

In 2004 the interest-risk exposure of the Bank Group was essentially determined by the positions of OTP Bank, OTP Mortgage Bank and DSK Bank. Customer deposits at OTP Bank provide the funding for the loans recorded on the books of the Mortgage Bank, inasmuch as OTP Bank purchases the mortgage notes issued by the Mortgage Bank. Even at Group level, the volume of liabilities that can be re-priced within one year exceeds the volume of assets that can be re-priced within one year. In a market characterised by falling interest rates, this is to the Group's advantage.

FINANCIAL SUMMARY*

BALANCE SHEET

As at December 31	2000	2001	2002	2003	(HUF bn) 2004
Cash and bank	482.4	372.6	347.0	253.0	399.4
Government securities	440.2	481.1	401.9	402.5	294.8
Interbank deposits**	233.9	329.9	263.3	165.4	188.0
Loans and advances to customers	614.1	769.8	951.7	1,088.3	1,272.1
Retail	180.2	258.3	329.8	318.2	371.3
Corporate	393.2	464.8	558.6	691.2	806.3
Municipal	40.7	46.7	63.3	78.9	94.6
Intangible and fixed assets	52.7	54.3	63.7	107.6	121.8
Other	108.0	119.5	362.5	741.8	768.7
TOTAL ASSETS	**1,931.3**	**2,127.2**	**2,390.1**	**2,758.6**	**3,044.8**
Interbank liabilities	44.4	25.1	28.2	91.1	203.9
Deposits from customers	1,633.0	1,811.2	2,011.0	2,234.9	2,318.5
Retail	1,308.1	1,405.7	1,523.7	1,656.3	1,737.8
Corporate	210.9	253.5	341.9	421.4	421.1
Municipal	114.0	152.0	145.4	157.2	159.7
Securities issued	19.6	14.9	9.4	5.9	3.1
Provisions	11.3	14.6	21.0	26.8	32.6
Other	95.5	102.9	114.7	138.1	161.7
Shareholders' equity	127.5	158.5	205.8	261.8	325.0
TOTAL LIABILITIES	**1,931.3**	**2,127.2**	**2,390.1**	**2,758.6**	**3,044.8**
Net assts per share (NAV) ***					
(HUF, fully diluted)	455.4	566.1	735.2	934.9	1,160.6

PROFIT AND LOSS ACCOUNT

For the years ended December 31	2000	2001	2002	2003	(HUF bn) 2004
Net interest income	86.9	98.3	102.7	118.2	148.0
Non-interest income	39.0	42.7	63.6	85.6	113.1
Of which: Net fee and commission income	32.0	40.0	56.8	85.1	103.9
Total income	125.6	141.0	166.3	203.8	261.1
Non-interest expenses	77.7	85.2	95.6	110.3	125.1
Operating income/profit	47.9	55.8	70.7	93.5	136.0
Dividend received	0.2	0.1	0.3	7.7	8.5
Provisions	7.9	8.5	13.5	13.3	13.4
Accounting for acquisition goodwill			0.6	(1.2)	(7.7)
Profit before taxation	**40.2**	**47.4**	**58.1**	**86.7**	**123.5**
Profit after taxation	**32.5**	**38.4**	**47.2**	**71.6**	**104.8**
Earnings per share (EPS) ***					
(HUF, undiluted)	124.13	145.77	178.98	269.21	390.64

KEY RATIOS	2000	2001	2002	2003	2004
Loan to deposit ratio %	38.6	42.5	47.3	48.7	54.9
Cost/income ratio %	**61.7**	**60.4**	**57.2**	**54.1**	**47.9**
Capital adequacy ratio %	15.45	14.11	13.43	10.54	11.19
Return on average assets (ROAA) %	1.76	1.89	2.09	2.78	3.61
Return on average equity (ROAE) %	**28.5**	**26.9**	**25.9**	**30.6**	**35.7**
Dividend per share (HUF)					
Dividend per common share (HUF) ****	200	275	–	60	146
Dividend per voting preference share (HUF)	2,000	2,750	–	600	1,460
per capita profit after taxation (HUF million)	**3.9**	**4.7**	**5.5**	**8.4**	**12.9**

* Unconsolidated, based on HAR

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

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

**** From 2002 calculated on shares with face value of HUF 100.

MATERIAL DIFFERENCES BETWEEN OTP BANK LTD.'S AUDITED, CONSOLIDATED FINANCIAL STATEMENTS AS AT DECEMBER 31, 2004 PREPARED ACCORDING TO INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS) AND ACCORDING TO HUNGARIAN ACCOUNTING RULES (HAR)

Reconciliation of consolidated pre-tax profit

(in HUF million)

	HAR	Fair value* Cancelled entries in 2003	Fair value* As at December 31, 2004	Fair value* *Total effect on profit*	IFRS	Change
OTP Bank Ltd.	**123,521**				**148,244**	**24,723**
Merkantil Group	4,941	–	–	*0*	4,782	(159)
OTP Building Society Ltd.	783	536	685	*1,221*	2,004	1,221
OTP Mortgage Bank Ltd.	12,653	3,407	(904)	*2,503*	15,156	2,503
OTP Banka Slovensko, a. s.**	(57)	–	143	*143*	512	569
DSK Group**	11,253	–	1,590	*1,590*	13,415	2,162
Robank SA	86			*0*	84	(2)
OTP Garancia Insurance Ltd.	4,049	723	2,124	*2,847*	6,896	2,847
OTP Fund Management Ltd.	3,300	(82)	18	*(64)*	3,236	(64)
HIF Ltd.	175	–	–	*0*	180	5
OTP Real Estate Ltd	1,012	–	–	*0*	1,012	0
OTP Factoring Ltd.	752	–	–	*0*	752	0
OTP Factoring Asset Management Ltd.	19	–	–	*0*	19	0
Bank Center No l. Ltd.	138	–	–	*0*	138	0
OTP Fund Services Ltd	105	–	–	*0*	105	0
OTP Mérleg Ltd	(35)	–	–	*0*	(35)	0
Inga Ltd.	142	–	–	*0*	142	0
Concordia-Info Ltd.	43	–	–	*0*	43	0
OTP Card Manufacturing Ltd.	46	–	–	*0*	46	0
I. Consolidated pre-tax profit	**162,926**	**4,584**	**3,656**	***8,240***	**196,731**	**33,805**
Change compared with OTP	*39,405*	*4,584*	*3,656*	*8,240*	*48,487*	
Equity method	(74)	–	–	*0*	0	74
Capital consolidation	(10,252)	–	–	*0*	(16,894)	(6,642)
Elimination of intra-group transactions	(1,235)	–	–	*0*	(1,037)	198
II. Total consolidation effect	**(11,561)**	**0**	**0**	***0***	**(17,931)**	**(6,370)**
III. Elimination due to mortgage bonds held-for-trading and available-for-sale	**–**	**(5,457)**	**(6,667)**	***(12,124)***	**(12,124)**	**(12,124)**
Consolidated pre-tax profit	**151,365**	**(873)**	**(3,011)**	***(3,884)***	**166,676**	**15,311**
Change compared with OTP	*27,844*				*18,432*	*(9,412)*

As can be seen in the table, a part of the differences between the HAR and IFRS consolidated financial statements of December 31, 2004 is attributable to the increase in OTP Bank Ltd.'s figures, which are further increased by the individual figures of the subsidiaries, although this is to some extent offset by the effect of the consolidation procedures.

* Excluding OTP Bank Ltd.

** In the case of the OBS and DSK Group, fair market valuation includes changes relative to fair market valuation in the previous year, and therefore, last year's revaluation is not cancelled here.

I. DIFFERENCES ARISING UPON CONSOLIDATION OF THE REPORTS (HUF MILLION): 33,805

OTP Bank Ltd.

During the reconciliation of the 2004 reports prepared according to Hungarian and international accounting standards, the following items had an impact on the profit of OTP Bank:

	(Data in HUF million)
Reversal of general risk provisions	4,514
Amortisation of the premium and discount of bonds	(361)
Provisions for contingent and future liabilities (home warranty)	76
Adjustments in the book value of equity interests in subsidiaries	82
Accounting for financial leasing	129
Adjustment of securities held-for-trading and available-for-sale and of equity interests to fair market value	14,609
Adjustment of derivative financial instruments to fair market value	(1,738)
Price loss on repurchased own shares	(1,960)
Adjustments due to goodwill and negative goodwill	7,663
Adjustment of equity interest recorded in foreign currencies to historical cost	2,163
Adjustments due to delivery repo	(69)
Reclassification of items directly charged to reserves (part of self-revision affecting pre-tax profit)	(385)
Total of adjustment items affecting pre-tax profit	**24,723**

Impact of revaluation under IAS 39 on profit

Securities held for trading and available for sale and equity interests qualifying as financial assets available for sale must be presented at fair market value in the IFRS balance sheet. The cancellation of the fair market valuation of securities held for trading and available for sale, which reduced last year's profit, had the effect of increasing the profit by a total of HUF 4,584 million, while their fair market valuation during the year under review added a total of HUF 3,656 million to the profit.

Difference in profit (HUF million): 8,240

Merkantil Group

A basic difference between the HAR and IFRS reports is that in the IFRS report Merkantil Group's operative leasing transactions must be treated as financial leasing and must be disclosed under receivables, and therefore the reclassification of such transactions in 2004 has the effect of decreasing pre-tax profit.

Difference in profit (HUF million): (13)

OTP Banka Slovenkso, a. s., DSK Group, HIF Ltd. and Robank SA

In the international consolidated report, when the profit and loss accounts of OTP Banka Slovensko, a.s. (OBS), DSK Group, HIF Ltd. and Robank SA are converted from foreign currency into forint, the exchange rate difference must be posted to equity, while according to the Hungarian standards, the revaluation difference arising from the translation must be posted to other revenues (expenses). The difference between the exchange rate figures applied in the two reports increases the pre-tax profit under IFRS by HUF 227 million.

OTP Banka Slovensko, a. s. (HUF million)	(1)
DSK Group (HUF million)	225
HIF Ltd. (HUF million)	5
Robank SA (HUF million)	(2)

Total difference in profit (HUF million): 227

OTP Banka Slovenkso, a. s., DSK Group and Merkantil Bank Ltd.

The general risk provisions calculated pursuant to the relevant government decree and disclosed in the HAR report are not interpreted in IFRS. Risk provisioning was performed at OBS and DSK Bank in 2004, the cancellation of which increased the profit in the IFRS report. Merkantil Bank released some of its general risk provisions in the period under review, with the reversal of the released amount reducing the profit in the IFRS report.

OTP Banka Slovenkso, a. s. (HUF million)	436
DSK Group (HUF million)	515
Merkantil Group (HUF million)	(146)

Difference in profit (HUF million): 805

OBS

In the HAR report the amount of what is called the social fund set aside in accordance with Slovak regulations was carried over from retained earnings, while the same amount was recorded as an expense in the reporting year in the IFRS report.

Difference in profit (HUF million): (9)

DSK Group

When DSK Group is included in the consolidation for the first time, the historical cost price of securities held to maturity is considered the fair market value in the IFRS report as well. Thus, the amortisation of the difference between the historical cost price and the nominal value is different in the two reports, and this difference reduces the profit in the IFRS report.

Difference in profit (HUF million): (115)

DSK Group

When DSK Group was included in the consolidation for the first time, equity interests were recorded at fair market value in the IFRS report. During the period under review the equity interest in ISC Bulstrad was sold. As its book value was different in the two reports, the profit recorded on the sale is also different. They are HUF 53 million lower in the IFRS report.

Difference in profit (HUF million): (53)

II. Differences in the effects of consolidation (HUF million): (6,370)

Effect of the equity method (HUF million): 74

The basic difference between the equity method used in the HAR and in the IFRS reports is that with respect to the Hungarian report both the law 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 associate companies in which the Bank holds a significant interest that is equal to a nominal value of at least HUF 250 million of the subscribed capital based on the ownership share and that, at the minimum, represents a 20% ownership share.) There are a total of 23 such companies.

In the international report, the equity method must be used on a case-by-case judgement basis, and only with respect to investments in which the ownership share of the parent company is significant. There was no such company in 2004.

Overall, the companies included in the consolidated HAR report generated losses in 2004. That is why the impact on profit recognised as a change in equity per ownership share of the parent company was negative in the HAR report.

Difference in profit (HUF million): 74

Effect of capital consolidation (HUF million): (6,642)

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

In the HAR report the elimination of the loss (HUF 763 million) due to the negative goodwill recognised on OBS in the books of OTP led to a reduction in profit. By contrast, in the individual IFRS report OBS is recorded at historical cost, and the badwill and related amortisation are not accounted for, and therefore there is no elimination in capital consolidation. However, in the IFRS consolidated report, the negative goodwill is disclosed, of which HUF 4 million, accounted for as revenue and recorded as an amount offsetting the incurred expense of capital consolidation, and HUF 125 million, accounted for as revenue and recorded as an amount offsetting the amortisation of the average useful life of non-financial assets (25 years), are profit-increasing items. The difference between the HAR and IFRS reports is HUF 892 million.

Difference in profit (HUF million): 892

During the capital consolidation under HAR, there is no effect on profit from recording DSK goodwill, because the goodwill depreciation, accounted for in the individual report, is eliminated, and an identical amount of active capital consolidation difference amortisation is also recognised. In the individual report according to IFRS, the equity interest is disclosed at historical cost, and therefore no goodwill is established. It is taken into account and amortised in the consolidated report in capital consolidation. The effect of amortisation is HUF 7,615 million.

Difference in profit (HUF million): (7,615)

In the IFRS report, DSK's equity interests were adjusted to fair market value at the time of consolidation, and therefore no capital consolidation difference occurred during the capital consolidation of DSK's subsidiaries. In contrast to this, in the report prepared according to HAR, the amortisation of active capital consolidation difference reduced the profit.

Difference in profit (HUF million): 108

The loss (HUF 27 million) arising from the transformation of Fund Services and disclosed in the individual HAR report is eliminated in the consolidated report. In the individual IFRS report the equity interest is stated at historical cost, and therefore the transformation loss is cancelled as early as at the time of the compilation of the individual report. As a consequence, no profit is recorded during consolidation.

Difference in profit (HUF million): (27)

Effect of eliminating intra-group transactions (HUF million): 198

In the consolidation steps used during the preparation of reports according HAR and IFRS, the elimination of the exchange rate adjustment of the impairment on OBS represents a difference. In the IRFS report on OTP Bank, OBS is disclosed at historical cost, and the calculated impairment is not adjusted either, and consequently there is also no exchange rate adjustment. In the report prepared according to HAR, the elimination of exchange rate gains reduces the profit by HUF 6 million, while there is no such elimination in the IFRS report.

Difference in profit (HUF million): 6

In 2004, OTP Bank transferred HUF 55 million in liquid assets to Fund Services irrevocably. In the HAR report this is stated as an expense, the elimination of which during consolidation increases profit. In the individual IFRS report the irrevocable transfer of liquid assets increases the value of the equity interest, the elimination of which during consolidation has no effect on profit.

Difference in profit (HUF million): (55)

In previous years, due to OTP Mérleg Ltd., HUF 247 million was set aside as a supplementary risk provision in the IFRS report in order to cover contingent liabilities. Since OTP Mérleg Ltd. discharged its obligation vis-à-vis the municipality in full, the provision was eliminated.

Difference in profit (HUF million): 247

III. ELIMINATION DUE TO MORTGAGE BONDS HELD-FOR-TRADING AND AVAILABLE-FOR-SALE (HUF MILLION): (12,124)

The fair market valuation of mortgage bonds issued by OTP Mortgage Bank Ltd. and recorded in the Bank's books increased the profit in the individual IFRS report. As a result of the elimination of intra-group transactions, the upward valuation was also cancelled in the consolidated report. The cancellation of the impact of elimination, which had increased the previous year's profit, reduced the profit by HUF 5,457 million, while the elimination of the valuation in the year under review reduced the profit by HUF 6,667 million.

Difference in profit (HUF million): (12,124)

MATERIAL DIFFERENCES BETWEEN OTP BANK LTD.'S AUDITED, NON-CONSOLIDATED FINANCIAL STATEMENTS AS AT DECEMBER 31, 2004 PREPARED ACCORDING TO INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS) AND ACCORDING TO HUNGARIAN ACCOUNTING RULES (HAR)

(in HUF million)

	HAR	IFRS-adjustments	IFRS
Pre-tax profits	123,521	24,723	148,244
Tax (deferred tax in IFRS)	(18,703)	(2,320)	(21,023)
Corporate tax adjustment due to self-revision		(25)	(25)
Corporate tax in IFRS			(*21,048*)
After-tax profit	104,818	22,378	127,196

After-tax profits according to IFRS were HUF 22,378 million higher in 2004 than they were according to HAR.

Adjustments under IFRS affecting the after-tax profit are as follows:

CREATION OF GENERAL RISK PROVISIONS

In 2004 – based on the value of risk-weighted (adjusted) total assets – **general risk provisions of HUF 4,514 million were generated** in the HAR profit and loss account.

The above provisions are not recognised by IFRS, and thus the provision generated in HAR was ignored, resulting in a profit-increasing item in the IFRS report.

Amount (HUF million): 4,514

AMORTISATION OF THE PREMIUMS AND DISCOUNTS ON INVESTMENT SECURITIES

According to IFRS, in the case of securities to be held to maturity and purchased above or below their nominal value, the price gain (loss), equal to the difference between the nominal value and the cost value, **must be amortised on a straight-line basis from the acquisition date to maturity,** and the sum of the amortisation must be posted to the debit or to the credit of profit.

Adjustments implemented under IFRS are as follows:

Last year's IFRS accrual is reversed, after which the new accrual calculation is performed for the current portfolio of securities in accordance with the following process, in view of the fact that the starting point is the HAR report:

- first, the HAR accrual of premium/discount amortisation is eliminated, and then
- the amount of the new IFRS accrual is calculated.

The following adjustments were made under IFRS for December 31, 2004 (HUF million):

• reversal of accrual contained in previous year's year-end IFRS report:	348
• elimination of the HAR accrual as at December 31, 2004:	(21)
• IFRS accrual of premium/discount on securities held to maturity as at December 31, 2004:	(688)
	(361)

In 2004, the difference between the HAR and IFRS figures was caused by the premium amortisation recorded due to the revaluation difference on the mortgage bonds issued by OTP Mortgage Bank that were reclassified on June 30, 2003 from the held-for-sale to the held-to-maturity portfolio and the elimination of the discount accounted for on mortgage bonds classified as held-for-sale under HAR.

With respect to other securities, once again in 2004 the difference between the HAR and IFRS figures for premium/discount amortisation was not substantial, the reason for this being that the Bank acquired the bulk of non-amortisable securities classified under IFRS as avaible-for-sale at nominal value.

The IFRS profit decreased due to the above items.

Amount (HUF million): (361)

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 relation to this it was obliged to guarantee against possible construction errors for a period of 10 years. The Bank's guarantee liability related to the properties will stand until 2007.

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

In 1999, HUF 700 million was released from the provisions generated in the previous years, followed by HUF 350 million in 2000, HUF 153 million in 2001, HUF 69 million in 2002, HUF 152 million in 2003 and HUF 76 million in 2004.

As a result of this, the total provisions set aside by the Bank in the previous years for future losses from housing warranty claims were released. During the year, altogether HUF 140 million was paid. The difference of HUF 64 million was charged to the profit and loss account for the period.

Amount (HUF million): 76

Accounting of financial leasing

Contracts related to tangible assets

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

Under IFRS, these leased items shown according to HAR are eliminated and disclosed in the financial statements in accordance with the international standards.

As a combined impact of the above items, the different accounting treatment of the various leasing transactions reduced the IFRS profit by a total of **HUF 306 million.**

As of December 31, 2004, three high-value lease agreements were terminated, and therefore the transactions recorded as financial leasing under IFRS were also eliminated, as a result of which a **profit of HUF 589 million** was recorded due to the time differential between the accounting of the lease fees in the HAR report and the amortisation accounted for in the IFRS report.

As a combined impact of the above items, the various accounting treatments related to the AXIAL leasing arrangements increased the IFRS profit by a total of **HUF 283 million**.

Contracts related to intangible assets (i.e. contracts concluded with SPLC Kft. in the second quarter of 2003 and since amended several times)

In order to satisfy in a more economical manner certain capital adequacy requirements set for the Bank, on June 30, 2003 software products were sold to SPLC Kft. Concurrently with the conclusion of the sales contract, a sub-licensing agreement was signed that provides the Bank with the right to continue using the software products on a continuous basis, in accordance with the conditions prevailing before the sale.

Under the original contract, the term of the sub-licence agreement is 60 months, which is virtually the same as the period over which the Bank would have written off the software. Under the sub-licence agreement, the Bank does not acquire ownership or full end-user rights. During the term of the sub-licensing arrangement, the Bank pays a quarterly fixed licence fee to the company.

The Bank extended a five-year investment loan to SPLC Kft. for the payment of the net purchase price of the software and a short-term working capital loan for the VAT payment liability related to the net purchase price. Both loans have a fixed interest rate of 6%. The repayment of the working capital loan was due when APEH (the Hungarian tax authority) refunded the VAT reclaimed by the company. The repayment of the capital investment is in line with the licence fee payment schedule.

In view of the fact that in the original financial arrangement, the useful life of the software sold by the Bank, representing the subject of the sub-licence, is virtually the same as the term of the sub-licence, the report prepared according to IFRS classified this transaction as financial leasing, and reported it among tangible and intangible assets.

The sale took place on June 30, 2003, and therefore the reversal of the sale had already been made in the international report prepared for June 30.

As a result of these factors together, the following IFRS adjustment items were accounted for on December 31, 2004:

The lease fees and the interest revenues on loans disbursed accounted for in the period up to December 31, 2004 were cancelled in IFRS, and at the same time, amortisation on intangible assets was recognised. These items reduced the IFRS profit by a total of **HUF 154 million.**

The IFRS amendments related to the two sets of contracts referred to above increased the IFRS profit by a total of HUF 129 million.

Amount (HUF million): 129

MEASUREMENT OF FINANCIAL INSTRUMENTS ACCORDING TO IAS 39

The application by the Bank of IAS 39 resulted in adjustments with respect to securities and off-balance sheet financial instruments compared to the standard HAR report.

Within securities, a new category was introduced and included in the balance sheet under the name "Securities held-for-trading and available-for-sale".

ESTABLISHING THE MARKET VALUE OF SECURITIES HELD-FOR-TRADING AND AVAILABLE-FOR-SALE AND OF EQUITY INVESTMENTS

Securities held-for-trading and available-for-sale, as well as equity investments that are disclosed under financial assets available-for-sale, must be presented at the fair market value in the balance sheet.

Adjustments accounted for in IFRS are as follows (HUF million):

● write-back of the market-value difference included in the IFRS report at the end of the previous year:	6,154
● accounting of the interest accrued on discount securities classified as "available-for-sale" accounted for in HAR:	(14)
● accounting of positive fair value adjustment relating to December 31, 2004	8,469
	14,609

Market valuation of securities held-for-trading and available-for-sale **increases** the IFRS **profit** for the period, i.e. the year 2004, by **HUF 14,609 million**, which was in essence caused by the HUF 12,249 million increase in the market value of mortgage bonds issued by OTP Mortgage Bank compared to their market value as at December 31, 2003. In addition, a significant revaluation difference was accounting for in the IFRS report on government bonds (HUF 1,455 million) and investment units (HUF 971 million).

DIFFERENCES IN THE ACCOUNTING TREATMENT OF OFF-BALANCE SHEET FINANCIAL ASSETS

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

- provisions set aside for non-hedged forward transactions,
- accruals for non-hedged forward transactions,
- the accrual of the revaluation result of the spot leg of swap deals,
- interest revenue and interest expense accrued in relation to swap transactions

1. Reversal of items applied in the HAR report (HUF million):

1. Write-back of reversal of last year's accruals	463
2. Write-back of last year's provisions(on forward transactions):	(752)
3. Write-back of provisions under HAR for non-hedged forward transactions reported at the end of the reporting year:	1,147
3.a. on futures	*57*
3.b. on forwards	*1,090*
4. Write-back of accruals for non-hedged forward transactions:	44
4.a. on futures	*4*
4.b. on forwards	*40*
5. 5. Reversal of accruals related to swap transactions:	(3,275)
5.a. reversal of revaluation profit/loss accounted for on the spot leg of FX swap transactions at the end of the period	*(2,872)*
5.b. reversal of the accrued interest revenue and interest expense on FX swap transactions at the end of the period	*(1,138)*
5.c. reversal of the accrued interest revenue and interest expense on swap deals	*735*
Total:	**(2,373)**

2. Impact on the profit of the reporting period resulting from fair market valuation according to IFRS:	**635**
3. Impact on the profit of the different treatment of off-balance sheet financial instruments under Hungarian and under international standards:	**(1,738)**

Aggregate effect of modifications based on IAS 39 increasing the profit

Amount (HUF million): 12,871

PRICE GAIN/LOSS ON REPURCHASED OWN SHARES AND THE EXCHANGE-VALUE DIFFERENTIAL PAID AT TRANSFORMATION OF PREFERENCE SHARES INTO ORDINARY SHARES

The price gain on the sale of repurchased own shares, and the exchange-value differential paid to the Bank due to the transformation of shares, were accounted for in the annual profit under HAR, and served to increase the profit by HUF 1,960 million.

These items must be accounted for among reserves under IFRS, and therefore the necessary adjustment reduces the IFRS profit:

Amount (HUF million): (1,960)

GOODWILL

Goodwill has been accounted for in OTP Bank Ltd.'s reports in relation to the following investments:

1./ In the report prepared **according to Hungarian accounting rules** for 2002, **negative goodwill** was accounted for with respect to Investicna a Rozvojova Banka (OTP Banka Slovensko; **OBS**) acquired by OTP Bank Ltd. on April 4, 2002, as follows:

- The total value of negative goodwill as at December 31, 2002 was HUF 3,815 million. (The negative goodwill is the difference between the purchase price paid by the buyer and the value of the equity pertaining to the investment.)
- Another, related, provision of HAR is that negative goodwill must be credited to the profit and loss account over a period of 5 years (60 months). Consequently, HUF 572 million was credited to the profit and loss account in 2002, while in 2003 the profit and loss account was credited with HUF 763 million, and in 2004, with a further HUF 763 million.

2./ In the 2003 report prepared **under Hungarian accounting rules, positive goodwill** was accounted for with respect to the Bulgarian DSK Bank, acquired by OTP Bank Ltd. on October 1, 2003, as follows:

The total amount of goodwill is the HUF 40,076 million difference between the EUR 311 million (HUF 79,162 million) purchase price and the HUF 39,086 million in equity that represents the (historical) cost price of the stake. This amount must be reported among intangible assets under HAR and, in accordance with a decision of the Bank, is to be amortised against profit over a period of five years (approximately 60 months). The amortised amount per month is approximately HUF 668 million. Thus, in 2003 a total of HUF 2,020 million and in 2004, HUF 8,015 million, in amortisation was accounted for as goodwill in the HAR report.

3./ In the 2004 report prepared **under Hungarian accounting rules, positive goodwill** was accounted for with respect to the Romanian **Robank SA**, acquired by OTP Bank Ltd. on July 30, 2004, as follows:

The total amount of goodwill is the HUF 4,926 million difference between the USD 47 million (HUF 9,767 million) purchase price and the HUF 4,841 million in equity that represents the historical cost price of the stake. This amount must be reported among intangible assets under HAR and, in accordance with a decision of the Bank, is to be amortised against profit over a period of five years (approximately 60 months). The amortised amount per month is approximately HUF 82 million. Thus, in 2004, a total of HUF 411 million in amortisation (5/60th of the total amount) was accounted for as goodwill in the HAR report.

The provisions of IFRS related to goodwill are different from those of HAR. The Bank recognises its interests, including its stakes in OBS, DSK and Robank, at historical cost price in its individual IFRS report, and therefore no goodwill is recognised in respect of the interests among rights of asset value. Consequently, neither negative nor positive goodwill needs to be taken into account in the Bank's individual IFRS report.

The required IFRS adjustment increases the profit for 2004 **by HUF 7,663 million.**

Amount (HUF million): 7,663

ADJUSTMENT TO HISTORICAL COST PRICE OF EQUITY INTERESTS RECORDED IN FOREIGN CURRENCY

Under HAR, interests recorded in foreign currency must be revalued on the last day of every month, based on the month-end exchange rate quoted by the National Bank of Hungary. Due to the revaluation of foreign investments (HIF Ltd., TVM S.A, OBS, DSK, Robank) that are included among equity interests, the Bank realised an exchange rate loss of HUF 2,163 million in 2004. Of this, HUF 2,352 million was caused by the exchange rate loss accounted for on the stake held in DSK – shown at a value of BGN 299,763,000 in the IFRS report – due to the HUF 7.85 fall in the exchange rate of the Bulgarian Leva. Another HUF 105 million in exchange rate losses was caused by the revaluation (HUF 41 million) of the stake held in OBS – shown at a net value of SKK 2,076 million in the IFRS report – held by HIF Ltd. (HUF 64 million). This was somewhat offset by the HUF 294 million in exchange rate gains on the revaluation of the stake held in Robank, shown at a net value of ROL 1,203,283 million in the IFRS report.

Under IFRS, interests recorded in foreign currency must be disclosed at the original (historical) cost price and at the exchange rate as at the transaction date. The IFRS profit must be adjusted by the revaluation difference recorded under HAR, and in 2004 this had the effect of increasing the IFRS profit by HUF 2,163 million.

Amount (HUF million): 2,163

ADJUSTMENT IN COMPANY VALUE DUE TO TRANSFORMATION

If business entities are transformed, under HAR the book value of the entity being terminated must be accounted for among extraordinary items (as an expense of HUF 1,550 million in this case) and the equity of the shareholder in the new entity (HUF 1,523 million) must also be recorded among extraordinary items. This latter item resulted in an increase in revenues. As a consequence of the transformation of OTP Fund Services Ltd. into a joint stock company, the Bank recorded approximately HUF 27 million in expenses in the HAR report.

According to IFRS, however, based on the realisation principle, any profit between an investor and the enterprise receiving the investment can only be realised by the enterprise when realisation takes the form of sale to a third party. Accordingly, under IFRS the adjustment accounted for in relation to the transformation must be reversed.

Amount (HUF million): 27

INCREASE OF THE STAKE HELD IN A SUBSIDIARY

In the course of 2004, the Bank supported the implementation of OTP Health Fund's electronic payment instrument in the form of a final transfer of liquid assets in a value of HUF 55 million.

The Bank accounted for the final transfer of liquid assets among extraordinary expenses in the HAR report. In the IFRS report, according to IFRS rules, a final transfer of liquid assets must be recorded as an increase in the value of the stake, and therefore the expenditure accounted for in the Hungarian report is to be reversed, which will increase the IFRS profit by HUF 55 million.

Amount (HUF million): 55

ADJUSTMENT DUE TO DELIVERY REPO TRANSACTIONS (IAS 39)

Delivery repo transactions are treated differently under IFRS and HAR. Deals treated as delivery repos by HAR must be accounted for according to the rules for collateral repo deals under IFRS. Due to the settlement rules related to repo transactions, the IFRS profit decreased by a total of HUF 69 million.

Amount (HUF million): (69)

ITEMS CHARGED DIRECTLY TO RESERVES – SELF-REVISION

Under HAR, corrections due to self-revision are charged to the profit of previous year(s), and are therefore posted against the profit reserve.

Under IFRS, the items related to the self-revision carried out by the Bank are not considered material errors, and thus they are posted to the profit and loss account of the reporting year.

Amount (HUF million): (410)

DEFERRED TAX

Unlike HAR, international reporting standards 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 IFRS 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 profit and loss. As a result of accounting for these items, tax payables may either increase or decrease.

The Bank began applying deferred taxation in its IFRS reports in 1994. In 2004, due to the profit-adjusting items that must be taken into account when calculating the deferred tax, the deferred tax calculated at the corporate tax rate of 16% amounts to HUF 2,320 million, which is a profit-reducing item.

Item no. 2.	Premium discount: (HUF million)	(361)
Item no. 3.	Release of provisions due to home warranty: (HUF million)	76
Item no. 4.	Financial leasing: (HUF million)	129
Item no. 5.	Valuation of financial instruments under IRFS 39: (HUF million)	12,871
Item no. 10.	Adjustments due to delivery repo: (HUF million)	(69)
HAR tax base correction	Difference between amortisation that can be accounted for under the tax laws and under the Accounting Act (HUF million)	1,356
HAR tax base correction	Adjustment due to the development reserve that may reduce the tax base under the tax laws (HUF million)	500
	IFRS tax base adjustment (HUF million)	14,502
	Deferred tax (16%) (HUF million)	*2,320*

Amount (HUF million): (2,320)