MANAGEMENT'S *Analysis*

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

CAPITALISATION, CAPITAL ADEQUACY

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

SHAREHOLDER'S EQUITY

	31 Dec. 2001		31 Dec. 2002		Change	
	HUF mn	prop. %	HUF mn	prop. %	HUF mn	%
Subscribed capital	28,000	17.7%	28,000	13,6%	0	0.0%
Capital reserve	52	0.0%	52	0.0%	0	0.0%
Profit reserve	55,981	35.3%	84,261	40.9%	28,280	50.5%
Tied-down reserve	17,750	11.2%	16,883	8.2%	– 867	– 4.9%
General reserve	29,450	18.6%	34,169	16.6%	4,719	16.0%
Balance sheet profit	27,283	17.2%	42,478	20.7%	15,195	55.7%
SHAREHOLDER'S EQUITY	**158,516**	**100.0%**	**205,843**	**100.0%**	**47,327**	**29.9%**

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

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

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

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

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

CALCULATION OF THE CAPITAL ADEQUACY RATIO*

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

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

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

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

INCOME STRUCTURE, PROFITABILITY

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

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

INCOME*

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

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

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

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

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

THE SOURCES AND STRUCTURE OF INTEREST INCOME AND EXPENSE

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

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

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

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

AVERAGE INTEREST RATES ON ASSETS AND LIABILITIES

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

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

INCREASE (DECREASE) IN THE NET INTEREST INCOME*

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

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

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

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

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

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

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

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

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

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

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

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

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

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

INCOME ELEMENTS AS A PERCENTAGE OF AVERAGE TOTAL ASSETS*

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

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

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

The Bank's return on average assets **(ROAA)** was **2.09%** in 2002, while the return on average equity **(ROAE)** was **25.9%** (2001: 1.89% and 26.9%). The ROAE in real terms[1] was 20.6%, compared with 17.7% in 2001. **Undiluted earnings per share (EPS)**[2] were HUF 178.98 in 2002, 22.8% higher than a year earlier, while the diluted[3] figure was HUF 168.56, or 22.9% higher than in 2001.

COST MANAGEMENT

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

NON-INTEREST EXPENSES

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

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

STAFF LEVEL OF THE BANK LTD. (PERSONS)

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

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

EMPLOYEE PRODUCTIVITY INDICATORS

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

1 Calculation method: ROAE - inflation (%)

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

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

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

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

ASSET-LIABILITY STRUCTURE

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

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

THE DISTRIBUTION OF ASSET-LIABILITY COMPONENTS*

	31 Dec. 2001		31 Dec. 2002		Change	
	HUF mn	prop. %	HUF mn	prop. %	HUF mn	%
Cash and Bank	**372,593**	**17.5%**	**346,963**	**14.5%**	**– 25,630**	**– 6.9%**
NBH clearing account	104,931	4.9%	94,113	3.9%	10,818	– 10.3%
NBH short-term placements	212,500	10.0%	205,000	8.6%	7,500	– 3.5%
Other	55,162	2.6%	47,850	2.0%	–7,312	13.3%
Government securities	**481,079**	**22.6%**	**401,855**	**16.8%**	**– 79,224**	**– 16.5%**
Trading securities	136,325	6.4%	111,072	4.6%	– 25,253	– 18.5%
Investment securities	344,754	16.2%	290,783	12.2%	– 53,971	– 15.7%
Securities representing a lending relationship	**17,636**	**0.8%**	**153,188**	**6.4%**	**135,552**	**768.6%**
Interbank placements**	**329,948**	**15.5%**	**263,320**	**11.0%**	**– 66,628**	**– 20.2%**
Customer placements	**769,782**	**36.2%**	**951,746**	**39.8%**	**181,964**	**23.6%**
Retail	258,246	12.1%	329,829	13.8%	71,583	27.7%
Corporate	464,818	21.9%	558,590	23.4%	93,772	20.2%
Municipal	46,718	2.2%	63,327	2.6%	16,609	35.6%
Investments	**40,455**	**1.9%**	**49,361**	**2.1%**	**8,906**	**22.0%**
Other	**29,890**	**1.4%**	**125,393**	**5.2%**	**95,503**	**319.5%**
Intangible and tangible assets	**54,246**	**2.6%**	**63,679**	**2.7%**	**9,433**	**17.4%**
Accrued and deferred items	**31,529**	**1.5%**	**34,615**	**1.4%**	**3,086**	**9.8%**
TOTAL ASSETS	**2,127,158**	**100.0%**	**2.390,120**	**100.0%**	**262,962**	**12.4%**

* The asset-liability items are analysed in a structure somewhat different from that of the balance sheet.
** Includes short-term placements and those over one year to financial institutions and placements over one year to NBH.

(continued from page 35)	31 Dec. 2001 HUF mn	prop. %	31 Dec. 2002 HUF mn	prop. %	Change HUF mn	%
Interbank liabilities	**25,133**	**1.2%**	**28,220**	**1.2%**	**3,087**	**12.3%**
Customer liabilities	**1,811,221**	**85.1%**	**2,011,043**	**84.1%**	**199,822**	**11.0%**
Retail	1,405,642	66.1%	1,523,725	63.8%	118,083	8.4%
Corporate	253,568	11.9%	341,903	14.3%	88,334	34.8%
Municipal	152,011	7.1%	145,415	6.1%	– 6,595	– 4.3%
Securities	**14,864**	**0.7%**	**9,419**	**0.4%**	**– 5,445**	**– 36.6%**
Provisions	**14,598**	**0.7%**	**20,974**	**0.9%**	**6,376**	**43.7%**
Accrued and deferred items	**22,288**	**1.0%**	**23,108**	**1.0%**	**820**	**3.7%**
Other	**80,538**	**3.8%**	**91,513**	**3.8%**	**10,975**	**13.6%**
Shareholder's equity	**158,516**	**7.5%**	**205,843**	**8.6%**	**47,327**	**29.9%**
TOTAL LIABILITIES	**2,127,158**	**100.0%**	**2,390,120**	**100.0%**	**262,962**	**12.4%**

ASSETS

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

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

STRUCTURE OF GOVERNMENT SECURITIES

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

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

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

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

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

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

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

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

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

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

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

CUSTOMER PLACEMENTS BY MATURITY (BASED ON GROSS LOAN RECEIVABLES)

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

(continued from page 38)

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

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

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

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

CHANGES IN INVESTMENTS*

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

*Gross book-value

LIABILITIES

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

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

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

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

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

CUSTOMER LIABILITIES BY MATURITY

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

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

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

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

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

CHANGES IN PROVISIONS

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

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

OFF-BALANCE SHEET LIABILITIES

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

OFF-BALANCE SHEET LIABILITIES

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

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

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

LOAN PORTFOLIO QUALITY, PROVISIONING

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

OTP BANK LTD'S QUALIFIED LOAN PORTFOLIO

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

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

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

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

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

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

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

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

QUALIFIED LOANS BY BUSINESS LINES

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

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

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

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

THE STRUCTURE OF QUALIFIED LOANS

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

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

THE COVERAGE OF QUALIFIED RECEIVABLES BY RISK PROVISIONS

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

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

VALUE LOSS AND RISK PROVISIONS BY BUSINESS LINE

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

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

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

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

CONSOLIDATED FINANCIAL STATEMENTS

CONSOLIDATED BALANCE SHEET

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

On the liabilities side, the major contributing factors to the 2002 increase in the consolidated balance sheet total were the HUF 332 billion increase in liabilities, and within this a HUF 273 billion increase in liabilities to customers, a HUF 55 billion increase in equity and a HUF 26 billion increase in provisions. Compared to the previous year, liabilities increased by 16.3%, and within this figure, long-term liabilities saw the most dynamic volume increase, of 40.5% year on year. Consequently, although the share of short-term liabilities within total liabilities decreased slightly in 2002, it nevertheless remained close to 94%. Liabilities to customers accounted for over 90% of total liabilities, with a volume of over HUF 2,140 billion. Funds originating from credit institutions increased by HUF 24 billion, or 69,4%, although their share within total liabilities was just 2.2%. Of the consolidated balance sheet liabilities, the balance of provisions grew by HUF 26 billion to HUF 96.6 billion. In the course of 2002, equity increased by HUF 55.4 billion, or 30.4%, to represent 8.7% of liabilities at year-end 2002, as opposed to 7.8% at the end of 2001.

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

CONSOLIDATED PROFIT

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

INCOME*

	2001		2002		Change	
	HUF mn	prop. %	HUF mn	prop. %	HUF mn	%
Net interest income	**110,940**	**54.0%**	**123,413**	**49.3%**	**12,473**	**11.2%**
Total interest income	211,521		220,987		9,466	4.5%
Total interest expense	100,581		97,574		– 3,007	– 3.0%
Non-interest income	**94,478**	**46.0%**	**126,695**	**50.7%**	**32,217**	**34.1%**
Net fees and commissions	40,134	19.5%	50,638	20.2%	10,504	26.2%
Net income from securities trading	– 1,049	– 0.5%	561	0.2%	1,610	– 153.5%
Net income from foreign currency trading	3,618	1.8%	4,342	1.7%	724	20.0%
Net income from real estate transactions	2,076	1.0%	590	0.2%	– 1,486	– 71.6%
Insurance free income	41,530	20.2%	53,058	21.2%	11,528	27.8%
Other non-interest income	8,169	4.0%	17,506	7.0%	9,337	114.3%
Total income	**205,418**	**100.0%**	**250,108**	**100.0%**	**44,690**	**21.8%**
Personnel costs	41,359	20.1%	50,501	20.2%	9,142	22.1%
Depreciation	14,593	7.1%	16,102	6.4%	1,509	10.3%
Insurance costs	32,787	16.0%	41,140	16.4%	8,353	25.5%
Other non-interest expenses	48,756	23.7%	61,319	24.5%	12,563	25.8%
Non-interest expense	**137,495**	**66.9%**	**169,062**	**67.6%**	**31,567**	**23.0%**
Operating profit	**67,923**	**33.1%**	**81,046**	**32.4%**	**13,123**	**19.3%**
Diminution in value, provisions and loan losses	10,633	5.2%	12,871	5.1%	2.238	21.0%
Profit before taxation	**57,290**	**27.9%**	**68,175**	**27.3%**	**10,885**	**19.0%**
Taxes	10,938	5.3%	13,599	5.4%	2,661	24.3%
Taxes due to consolidation	– 52	0.0%	– 409	– 0.2%	– 357	686.5%
Profit after taxation	**46,404**	**22.6%**	**54,985**	**22.0%**	**8,581**	**18.5%**

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

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

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

Consolidated undiluted earnings per share (EPS)[4] were HUF 214.64 in 2002, while the diluted figure[5] was HUF 196.37; respectively 18.4% and 18.5% higher than in the previous year.

The Bank's consolidated return on average assets (ROAA) was 2.18% in 2002, while its return on average equity (ROAE) was 26.2% (2001: 2.11% and 28.5% respectively). The ROAE in real terms[6] was 20.9%, in contrast to 19.3% in 2001.

RESULTS OF THE MOST IMPORTANT SUBSIDIARIES

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

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

MERKANTIL BANK LTD.

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

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

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

6 Calculation method: ROAE - inflation (%)

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

MERKANTIL CAR LTD.

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

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

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

OTP BUILDING SOCIETY LTD.

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

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

OTP MORTGAGE BANK LTD.

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

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

OTP BANKA SLOVENSKO, A.S.

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

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

OTP Garancia Insurance Ltd. achieved insurance premium revenues of HUF 53.9 billion in 2002, a 27.7% increase over the previous year's figure. Of this revenue, the premium revenue from insurance policies sold in the branches of OTP Bank Ltd. was higher than HUF 18 billion. In other words, over 30% of the insurance premium revenue originated from sales via the Bank. Of the total in premium revenue, revenue from the life and bank insurance businesses reached HUF 27 billion, which represents a 25.6% increase over the previous year. Revenue from the non-life insurance business was HUF 26.9 billion, 29.8% up on the previous year. In 2002, the value of gross damages was HUF 24.8 billion. Damage payments amounted to 49.3% of premium revenues in the non-life insurance business, while – taking into account the change in the amount of reserves – the damage ratio was 58.7%. Reserves increased by HUF 16.6 billion, or 31.9%, compared to the previous year, with the result that technical reserves stood at HUF 68.6 billion on 31 December 2002.

OTP-GARANCIA INSURANCE LTD.

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

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

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

OTP FUND MANAGEMENT LTD.

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

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

OTP FUND SERVICES LTD.

	31 Dec. 2001 HUF mn	31 Dec. 2002 HUF mn	Change HUF mn	%
Total assets of pension funds administered	99,585	142.224	42.639	42.8%
Total assets	1,511	1,506	– 5	– 0.3%
Shareholder's equity	341	1,330	989	290.0%
Subscribed capital	305	1,275	970	318.1%
Profit before taxation	77	19	– 58	– 75.3%
Profit after taxation	77	19	– 58	– 75.3%
ROAA	6.73%	1.26%		
ROAE	30.8%	2.27%		
Cost/income ratio	93.1%	98.4%		

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

OTP REAL ESTATE LTD.

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

ASSET AND LIABILITY MANAGEMENT

LIQUIDITY AND MARKET RISK MANAGEMENT

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

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

TRENDS IN OTP BANK LTD.'S LIQUIDITY POSITION

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

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

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

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

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

OTP BANK LTD.'S INTEREST RATE RISK EXPOSURE

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

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

OTP BANK LTD.'S EXCHANGE RATE RISK EXPOSURE

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

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

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

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

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

THE MARKET RISK EXPOSURE OF THE OTP GROUP

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

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

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

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

FINANCIAL SUMMARY*

BALANCE SHEET

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

PROFIT AND LOSS ACCOUNT

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

KEY RATIOS

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

* Unconsolidated, based on HAR

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

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

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

Differences Between the Profit and Loss Account Predared According to Hungarian and International Accounting Standards for the Year Ending 31 December 2002

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

(Figures in HUF million)

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

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

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

Creation of the general risk reserve

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

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

Amortisation of the premiums and discounts on investment securities

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

Similar regulations are also valid under HAR.

Adjustments implemented under IAS are as follows:

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

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

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

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

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

RELEASE OF PROVISIONS FOR CONTINGENT AND FUTURE LIABILITIES

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

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

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

ACCOUNTING FOR FINANCIAL LEASING

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

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

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

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

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

VALUATION OF FINANCIAL INSTRUMENTS UNDER IAS 39

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

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

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

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

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

DIFFERENCE IN ACCOUNTING FOR OFF BALANCE SHEET FINANCIAL INSTRUMENTS

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

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

Adjustments under IAS (HUF million):

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

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

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

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

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

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

NEGATIVE GOODWILL /COMPANY VALUE

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

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

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

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

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

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

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

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

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

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

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

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

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

ADJUSTMENT DUE TO DELIVERY REPO TRANSACTIONS (IAS 39)

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

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

ITEMS ACCOUNTED DIRECTLY AGAINST RESERVES – SELF REVISION

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

DEFERRED TAXES

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

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

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

Differences Between the Consolidated Profit and Loss Account Prepared According to Hungarian and International Accounting Standards for the Year Ending 31 December 2002

Breakdown of consolidated pre-tax profit

(in HUF million)

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

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

I. DIFFERENCES ARISING UPON CONSOLIDATION OF THE REPORTS[1]

Merkantil Group

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

Merkantil Group and OTP Building Society Ltd.

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

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

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

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

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

OTP Banka Slovensko, a. s.

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

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

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

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

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

OTP Garancia Insurance Ltd.

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

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

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

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

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

Effect of the equity method

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

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

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

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

Effect of capital consolidation

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

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

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

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

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

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

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

Effect of avoiding intra-group double reporting

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

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

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

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

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