
MANAGEMENT'S
Analysis

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

CAPITALISATION, CAPITAL ADEQUACY

OTP Bank's capitalisation continued to improve during 2000. Shareholder's equity increased from HUF 100.7 billion on 31 December 1999 to HUF 127.5 billion on 31 December 2000, representing a growth rate of 26.7% – significantly higher than that of the balance sheet total. The ratio of shareholder's equity to total assets increased from 5.69% at the end of 1999 to 6.60% at the end of 2000.

SHAREHOLDER'S EQUITY

	31 Dec. 1999		31 Dec. 2000		Change	
	HUF '000	% distribution	HUF '000	% distribution	HUF '000	%
Subscribed capital	28,000,001	27.8%	28,000,001	22.0%	0	0.0%
Capital reserve	51,775	0.1%	51,775	0.0%	0	0.0%
Retained earnings	29,693,228	29.5%	49,857,031	39.1%	20,163,803	67.9%
General reserves	22,361,678	22.2%	25,609,992	20.1%	3,248,314	14.5%
Balance sheet profit	20,546,380	20.4%	23,983,103	18.8%	3,436,723	16.7%
Shareholder's equity	**100,653,062**	**100.0%**	**127,501,902**	**100.0%**	**26,848,840**	**26.7%**

Among the components of shareholders' equity, subscribed capital remained unchanged during 2000. The primary source of the growth in the Bank's shareholders' equity was the increase in the balance sheet profit for the year and the general reserves. Of the HUF 26.8 billion growth in shareholders' equity, HUF 24.0 billion was due to the balance sheet profit and HUF 3.2 billion to general reserves. The Bank had in 1994 already completed the accumulation of the general reserves provided for by the Hungarian accounting regulations, and also fully complied with the regulations on reserves in 2000.

Based on its results in 2000, the Bank is to pay dividends in a total of HUF 5.3 billion. Thus the balance sheet profit for 2000 has reached HUF 24.0 billion, which represents an increase of 16.7% over the previous year.

The Bank's capital adequacy ratio increased from 15.23% at the end of 1999 to 15.45% on 31 December 2000. This value is well in excess of the 8% required by the Act on Financial Institutions.

The most important contributing factor to the increase in the value of this indicator was the 17.3% increase in the guarantee capital, since this exceeded the 15.7% growth in the total of risk-weighted assets.

Of the various elements taken into account in the calculation of the numerator of the capital adequacy ratio, the primary elements increased by 26.7% in 2000, while the growth of the modifying factors that must be taken into account in the primary capital calculation was higher, at 37.0%. One of the most significant items within these modifying factors was the HUF 7.0 billion increase in repurchased own shares and the HUF 1.2 billion increase in investments in financial institutions, insurance and investment companies. Thus, the Bank's primary capital increased by 23.7% in 2000, while its secondary capital decreased by 8.6%. The amount of exposure over statutory limits that, pursuant to the Act on Credit Institutions, must be covered by guarantee capital increased by HUF 1.4 billion, or by 30.6%.

* Based on audited financial statements prepared according to Hungarian Audit Standards.

Remark: due to rounding, the data in the tables shown in the analysis do not always add up to the sum total of the partial data, and for the same reason data of the same content occurring in the various tables are not necessarily identical.

CALCULATION OF THE CAPITAL ADEQUACY RATIO

		31 Dec. 1999 HUF mn	31 Dec. 2000 HUF mn	Change HUF mn	%
I.	Primary capital elements	100,653	127,502	26,849	26.7%
	A) Subscribed capital	28,000	28,000	0	0.0%
	B) Capital reserve	52	52	0	0.0%
	C) Retained earnings	29,693	49,857	20,164	67.9%
	D) General reserve	22,362	25,610	3,248	14.5%
	E) Balance sheet profit	20,546	23,983	3,437	16.7%
II.	Variation in primary capital	22,710	31,107	8,397	37.0%
	A) Capital subscribed not yet paid	–	–		
	B) The deductible part of intangible assets excluding rental rights	10,396	10,624	228	2.2%
	C) Repurchased shares	2,049	9,067	7,018	342.6%
	D) Investments in financial institutions, insurance companies and investment companies	9,965	11,116	1,151	11.6%
	E) Subordinated loan capital granted to financial service company	300	300	0	0.0%
III.	Primary capital (I-II.)	77,943	96,395	18,452	23.7%
IV.	Secondary capital	16,634	15,208	–1,426	–8.6%
V.	Guarantee capital for financial services (III+IV.)	94,577	111,603	17,026	18.0%
VI.	Exposure over the limits to be covered by guarantee capital	4,675	6,107	1,432	30.6%
VII.	Guarantee capital (V-VI.)	89,902	105,496	15,594	17.3%
VIII.	Weighted asset value	590,106	682,798	92,692	15.7%
IX.	**Capital adequacy ratio**	**15.23%**	**15.45%**		

97.6% of the increase in the weighted assets (the adjusted total assets) results from the change in the weighted value of the balance sheet items, and 2.4% in the weighted value of the off-balance sheet items.

The weighted value of balance sheet items increased by 16.8%, i.e. by HUF 90.5 billion. In addition to the increase of the total assets, this increase is also due to a minor shift in the asset structure towards placements of higher risk weighting. The risk-weighted value used for calculating the adjusted balance sheet total of off-balance sheet items, contingent and future liabilities, changed only by 4.4%, i.e. by HUF 2.2 billion. The change is due to the increase in contingent liabilities, primarily the unused part of credit lines and guarantees.

INCOME STRUCTURE, PROFITABILITY

The Bank's pre-tax profit increased from HUF 33.3 billion in 1999 to HUF 40.2 billion in 2000, representing an increase of 20.9%. The Bank's total income reached HUF 125.8 billion in 2000, up 10.1% from the previous year. This was achieved under circumstances of a 3.4% increase in net interest income and 28.6% increase in non-interest income. The 4.1% growth in non-interest expenses, which was lower than the increase in total income, resulted in a 21.3% increase in operating income. Due to the fact that operating income in 2000 grew 21.3%, corresponding to HUF 8.4 billion, as well as the fact that the total of risk provisioning and loan losses were HUF 2.3 billion, or 22.6% lower than in the previous year, the pre-tax profit was HUF 6.9 billion, or 20.9% higher than in the previous year.

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

INCOME FIGURES*

	1999		2000		Change	
	HUF mn	% distribution	HUF mn	% distribution	HUF mn	%
Net interest income	**84,002**	**73.5%**	**86,853**	**69.0%**	**2,851**	**3.4%**
Total interest income	241,884		214,142		–27,742	–11.5%
Total interest expenses	157,882		127,289		–30,593	–19.4%
Non-interest income	**30,291**	**26.5%**	**38,964**	**31.0%**	**8,673**	**28.6%**
Net fees and commissions	24,043	21.0%	32,046	25.5%	8,003	33.3%
Net income from securities trading	1,614	1.4%	2,081	1.7%	466	28.9%
Net income from foreign exchange trading	2,296	2.0%	3,123	2.5%	826	36.0%
Net income from real estate transactions	–264	–0.2%	–392	–0.3%	–128	–48.3%
Other non-interest income	2,601	2.3%	2,106	1.7%	–495	–19.0%
Total income	**114,293**	**100.0%**	**125,817**	**100.0%**	**11,524**	**10.1%**
Non-interest expenses	**74,586**	**65.3%**	**77,669**	**61.7%**	**3,083**	**4.1%**
Operating expenses	60,747	53.2%	63,612	50.6%	2,864	4.7%
Other non.interest expenses	13,839	12.1%	14,057	11.2%	219	1.6%
Operating income	**39,707**	**34.7%**	**48,148**	**38.3%**	**8,441**	**21.3%**
Net income from the sale of Bank Center	3,814	3.3%	0	0.0%	–3,814	–
Provisions and loan losses	10,249	9.0%	7,932	6.3%	–2,317	–22.6%
Profit before taxation	**33,272**	**29.1%**	**40,216**	**32.0%**	**6,945**	**20.9%**
Taxes	4,934	4.3%	7,733	6.1%	2,799	56.7%
Profit after taxation	**28,338**	**24.8%**	**32,483**	**25.8%**	**4,145**	**14.6%**

* In a structure that is somewhat different from that prescribed by the Hungarian accounting standards.

As a result of an effective tax rate of 19.2% that is higher than that of the previous year, the bank's after-tax profit increased in 2000 by 14.6%, from HUF 28.34 billion to HUF 32.48 billion.

The individual income items contributing to the increase in total income changed in different ways. The proportion of **net interest income** within total income decreased from 73.5% to 69.0%. In line with the Bank's business policy objectives, the proportion of non-interest type income within total income increased from 26.5% to 31.0%.

The Bank's net interest income was HUF 86.9 billion in 2000. The HUF 2.9 billion increase in net interest income was the aggregate result of the HUF 214.1 billion in interest income (11.5% down) and HUF 127.3 billion in interest expense (19.4% down). In line with the accounting regulations in force in 2000, interest purchased with securities increased both interest income and interest expense. If the effect of these are not taken into account, the calculated 2000 interest income would amount to HUF 187.1 billion, down by 9.5%, while interest expenses would equal HUF 100.3 billion, down by 18.3% compared with 1999. The modification does not affect net interest income, as it results in the same 3.4% increase compared with the previous year.

THE SOURCES AND STRUCTURE OF INTEREST INCOME AND EXPENSES

	31 Dec. 1999		31 Dec. 2000		Change	
	HUF mn	% distribution	HUF mn	% distribution	HUF mn	%
Interest income from						
interbank accounts	56,286	23.3%	55,017	25.7%	–1,268	–2.3%
retail accounts	36,405	15.1%	37,830	17.7%	1,424	3.9%
corporate accounts	39,136	16.2%	37,673	17.6%	–1,464	–3.7%
Municipal accounts	6,372	2.6%	5,572	2.6%	–800	–12.6%
Securities	90,263	37.3%	68,779	32.1%	–21,484	–23.8%
statutory reserves	13,422	5.5%	9,271	4.3%	–4,151	–30.9%
Total interest income	**241,884**	**100.0%**	**214,142**	**100.0%**	**–27,742**	**–11.5%**
Interest expenses on						
interbank accounts	4,278	2.7%	3,037	2.4%	–1,242	–29.0%
retail accounts	93,779	59.4%	77,209	60.7%	–16,569	–17.7%
corporate accounts	9,938	6.3%	9,734	7.6%	–204	–2.1%
Municipal accounts	8,516	5.4%	5,795	4.6%	–2,721	–32.0%
Securities	39,915	25.3%	29,923	23.5%	–9,991	–25.0%
Subordinated loan	1,456	0.9%	1,591	1.2%	134	9.2%
Total interest expense	**157,882**	**100.0%**	**127,289**	**100.0%**	**–30,593**	**–19.4%**
Net interest income	**84,002**		**86,853**		**2,851**	**3.4%**

The Bank placed 32% of its average total assets on the interbank market and at the National Bank of Hungary (NBH). The volume of interbank placements grew 5.6% in 2000. Even though the drop in the interest rate of interbank placements was less than for the other types of placements, compared with the previous year, in 2000 the amount of interest income on interbank placements dropped 2.3% due to declining interest rates. The ratio of interbank interest income within the total interest income had grown to 25.7%. Due to the fact that the average balance of retail accounts was up 16.6% on the figure for the previous year, interest income on these accounts grew 3.9% in 2000, while the ratio of retail interest income within the total of interest income had grown to 17.7% by year-end 2000. Even though corporate lending expanded dynamically, by 21.3%, in 2000, the total of interest income from these placements dropped 3.7%, while the interest income from corporate lending within the total of interest income grew from 16.2% to 17.6%. Although on the average in 2000 the balance of municipal loans increased 14.3%, interest income from municipal lending dropped 12.6% due to the drop in interest rates, while the share of interest income from this form of lending (2.6%) within the total of interest income remained unchanged. Compared with 1999, gross interest income on securities dropped 23.8%, corresponding to HUF 21.5 billion. This reflects both the decrease in volume and the falling yield trends on government securities. Compared with the 37.3% for 1999, in 2000 securities represented 31.2% of the total interest income. (Having deducted the interest purchased with securities, interest income in 2000 from securities was 24.1% lower than in 1999; in 2000 its proportion to the similarly calculated interest incomes was 22.3% as against the 26.6% of the previous year.) In 2000, the yields of the total average interest-bearing assets in HUF and foreign exchange (having deducted the interest purchased with the securities) reached 11.17%, which is 2.15 percentage points lower than in 1999.

Despite the growth in the volumes involved, **interest expenses** dropped in all the account groups. Interest paid on municipal, interbank and security liabilities showed the most significant decline (down 32.0%, 29.0% and 25.0% respectively), while interest expenses related to retail and corporate liabilities dropped by 17.7% and 2.1% respectively. (Having deducted the interest purchased with securities, interest expenses on securities were more than 38% lower than in 1999.) The share of interest paid for retail deposits within the total of interest expenses (from which the interest purchased with securities was deducted) was 77.0%, reflecting the liability structure. In 2000, the cost of funds calculated on the total average of interest-bearing assets in HUF and foreign exchange liabilities (after having deducted the interest purchased with securities) amounted to 6.16% in 2000, which is 1.90 percentage points lower than in 1999.

The **interest spread** calculated on the total interest-bearing assets and liabilities was 5.02% in 2000, 25 basis points lower than in 1999, while the **interest margin** calculated on the average value of the balance sheet total was 4.78%, 18 basis points less than in 1999.

AVERAGE INTEREST RATES ON ASSETS AND LIABILITIES

	1999 Average balance HUF mn	1999 Rates %	2000 Average balance HUF mn	2000 Rates %
Assets:				
Interbank placements	554,657	10.15%	585,770	9.39%
Retail placements	138,274	26.33%	161,188	23.47%
Corporate placements	289,539	13.52%	351,185	10.73%
Municipal placements	38,596	16.51%	44,130	12.63%
Securities	379,948	14.49%	369,916	11.29%
Mandatory reserves	150,473	8.92%	162,802	5.69%
Total interest-bearing assets	*1,551,487*	*13.32%*	*1,674,991*	*11.17%*
Non-interest-bearing assets	141,386	0.00%	142,463	0.00%
Total assets	**1,692,873**	**12.21%**	**1,817,454**	**10.30%**
Liabilities:				
Interbank liabilities	61,564	6.95%	61,914	4.90%
Retail liabilities	1,162,488	8.07%	1,249,648	6.18%
Corporate liabilities	175,671	5.66%	203,044	4.79%
Municipal liabilities	78,898	10.79%	75,713	7.65%
Securities	27,091	17.31%	20,799	13.94%
Subordinated loan	16,145	9.02%	17,611	9.03%
Total interest-bearing liabilities	*1,521,857*	*8.06%*	*1,628,729*	*6.16%*
Non-interest-bearing liabilities	171,016	0.00%	188,725	0.00%
Total liabilities	**1,692,873**	**7.25%**	**1,817,454**	**5.52%**
Interest spread		**5.26%**		**5.02%**
Net interest margin		**4.96%**		**4.78%**

The following table shows in detail how much of the change in net interest income is attributable to a change in net interest income and how much to a change in the volumes involved. (The interest income and expenses of securities are shown in net terms, i.e. with the interest purchased with securities deducted.)

INCREASE (DECREASE) IN 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	–1,268	–4,324	3,056
Retail placements	1,424	–4,213	5,637
Corporate placements	–1,464	–8,923	7,459
Municipalities placements	–800	–1,632	832
Securities	–13,281	–11,862	–1,419
Statutory reserves	–4,151	–5,177	1,026
Total interest-bearing assets	**–19,539**	**–36,131**	**16,592**

(continued from page 30)	Total net change HUF mn	Effect of interest rate change HUF mn	Effect of volume change HUF mn
Interest-bearing liabilities			
Interbank liabilities	–1,242	–1,266	24
Retail liabilities	–16,569	–23,201	6,632
Corporate liabilities	–204	–1,633	1,429
Municipalities liabilities	–2,721	–2,390	–332
Securities	–1,788	–814	–974
Subordinated loan	134	2	132
Total of interest-bearing liabilities	**–22,390**	**–29,303**	**6,912**
Change in net interest income	**2,851**	**–6,829**	**9,680**

* The effect originating from the change in the structure is proportionately divided between the two factors.

Changes in the interest rate decreased the net interest income by HUF 6.8 billion. These changes in the interest levels reduced both interest income and interest expenses. However, the decrease in income caused by the interest rate changes was higher than the decrease in expenses due to interest rate changes. Changes in the portfolio volumes significantly increased both interest incomes and interest expenses: their effect on the total net interest income was a growth of HUF 9.7 billion. The change in interest rates reduced the interest margin by 44 basis points, out of which 26 basis points were offset by the change in the asset-liability structure.

The Bank's **non-interest income** increased by 28.6%, corresponding to HUF 8.7 billion, while its share within the total income grew by 4.5 percentage points. The HUF 8.0 billion increase in net fee and commission income, amounting to 92.3% of the total increase in non-interest income, played the greatest role in the increase of non-interest income. As a result of the HUF 8.0 billion increase, corresponding to 33%, the share of net fee and commission income within total income had grown from 21.0% in 1999 to 25.5% in 2000. Fees and commissions received in 2000 were 26.8%, while those paid were 1.0% higher than in 1999. Among the fees and commissions received, the income from the card business increased by a significant 50.8%, exceeding HUF 9 billion. More than HUF 3.1 billion of the income increase was due to the increase in fees charged for cash withdrawals, while 21% was attributable to the change in merchant commissions. Fee income related to HUF transactions, which represent more than 60% of the total income on fees and commissions, grew by 23.8% in 2000. Within this, the fee income related to both deposits and loans rose at an above-average rate (by 34.3% and 31.9% respectively), while the increase in fees related to cash transactions was 20.6%. The commission income on retail current accounts, accounting for 90% of the total commission income related to deposits, grew by an outstandingly high 41.2% during 2000. Fee and commission income related to foreign exchange transactions increased 17.7% in 2000. Primarily due to the gain realised in the first quarter, the net gain on securities trading reached HUF 2.1 billion, exceeding that of the previous year by 28.9%. The net gain on foreign exchange trading was HUF 3.1 billion in 2000, 36.0% higher than in the previous year.

In 2000, non-interest type income covered 50.2% of non-interest expenses, 9.6 percentage points more than in 1999. The **total income** of the Bank amounted to HUF 125.8 billion in 2000, i.e. HUF 11.5 billion, or 10.1%, up from 1999. The change in net interest income increased total income by HUF 2.9 billion, while the change in non-interest type income contributed HUF 8.7 billion to total income.

The **structure of the utilisation of total income** continued to improve in 2000. Bank operating expenses, accounting for more than 80% of the non-interest expenses, rose by just 4.7%, significantly below the annual average inflation rate, and their ratio to total income dropped to 50.6%. Within non-interest expenses, other non-interest expenses increased by just 1.6% and their ratio as a proportion of the total income dropped to 11.2%. The ratio of non-interest type expenses to total income (cost/income ratio) decreased by 3.6 percentage points, to 61.7%.

As a combined effect of the favourable changes in non-interest expenses and the decrease in both the amount and ratio of specific provisions and loan losses, the proportion of pre-tax profit in total income increased by 2.9 percentage points, and amounted to 32.0% of the total income in 2000.

The ratio of the individual income items to the average of total assets, as well as the related changes, are shown in the table below.

INCOME ELEMENTS AS A PERCENTAGE OF AVERAGE TOTAL ASSETS*

	1999		2000	
	HUF mn	%	HUF mn	%
Net interest income	84,002	4.96%	86,853	4.78%
Net fee and commission income	24,043	1.42%	32,046	1.76%
Bank operating costs	60,747	3.59%	63,612	3.50%
Provisions	10,249	0.61%	7,932	0.44%
Pre-tax profit	33,272	1.97%	40,216	2.21%

* Average total assets in 1999: HUF 1,692.9 billion, in 2000: HUF 1,817.5 billion

The proportion of net interest income to average total assets, or the net interest margin, was 4.78% in 2000, i.e. 18 basis points lower than in the previous year. The ratio of net fee and commission income continued to improve, and another favourable development was that the ratio of operating costs, provisions and loan losses to average total assets continued to drop. Due to the combined effect of the above changes, pre-tax profits expressed as a percentage of average total assets improved substantially.

The Bank's return on average assets **(ROAA)** in 2000 was **1.76%,** while the return on average equity **(ROAE)** was **28.5%** (the same figures for 1999 are 1.67% and 31.6% respectively). The ROAE in real terms was 18.7%, in contrast to 21.6% in 1999. This decrease is attributable to the fast, 27.3%, increase in average equity, as well as to an inflation rate (9.8%) that was higher than expected.

COST MANAGEMENT

The Bank's non-interest expenses amounted to HUF 77.7 billion, exceeding the value of the previous year by 4.1%, and this means that expenses decreased in real terms. Operating expenses, accounting for 81.9% of the total of non-interest expenses, rose by 4.7%, while other non-interest type expenses grew by 1.6% compared with 1999.

NON-INTEREST TYPE EXPENSES

	1999			2000			Change	
	HUF mn	% distribution		HUF mn	% distribution		HUF mn	%
Operating expenses by category								
Personnel costs	24,209	39.9%		24,713	38.8%		504	2.1%
Material and material-type expenses	13,313	21.9%		13,228	20.8%		–84	–0.6%
Depreciation	8,162	13.4%		10,344	16.3%		2,182	26.7%
Other costs	15,063	24.8%		15,326	24.1%		263	1.7%
Total operating expenses	**60,747**	**100.0%**	**81.4%**	**63,612**	**100.0%**	**81.9%**	**2,864**	**4.7%**
Other non-interest type expenses	13,839		**18.6%**	14,057		**18.1%**	**219**	1.6%
Total non-interest type expenses	**74,586**		**100.0%**	**77,669**		**100.0%**	**3,083**	**4.1%**

The largest item among **operating expenses,** amounting to HUF 63.6 billion, were **personnel expenses.** Due to the reduction in staff numbers, in 2000 the Bank's personnel expenses grew by 2.1%, and thus their proportion within the total of operating expenses dropped by 1.1 percentage points.

[1] Calculation method: ROAE minus inflation rate (%)

Lagging behind the rate of increase for personnel expenses, salary costs and other payments to personnel increased by 0.9% in 2000. In 2000 social security payments increased by 6.0%.

NUMBER OF EMPLOYEES OF OTP BANK LTD. (PERSONS)

	Closing		Average		Change			
					closing		average	
	1999	2000	1999	2000	persons	%	persons	%
Full time	8,131	7,735	8,739	8,094	–396	–4.9%	–645	–7.4%
of which branch network	6,771	6,350	7,347	6,727	–421	–6.2%	–620	–8.4%
headquarters	1,360	1,385	1,392	1,367	25	1.8%	–25	–1.8%
Part-time	366	402	287	341	36	9.8%	54	18.8%
Total	**8,497**	**8,137**	**9,026**	**8,435**	**–360**	**–4.2%**	**–591**	**–6.5%**

At the end of 2000, the Bank employed 8,137 persons in total, 360 persons or 4.2% less than in 1999. The annual average number of employees decreased by 591 persons or 6.5% in 2000.

EMPLOYEE PRODUCTIVITY INDICATORS

	1999	2000	Change
	HUF mn		%
per capita			
Total assets as at 31 December	208.0	237.3	14.1%
Average total assets	187.6	215.5	14.9%
After-tax profit	3.1	3.9	22.7%
Total income	12.7	14.9	17.8%
Personnel expenses	2.7	2.9	9.2%

The improvement in employment productivity continued in 2000. After-tax profits per employee increased by 22.7% in 2000. Likewise, in 2000 total average assets per employee increased 14.9% and total income per employee was 17.8% higher than in 1999. At the same time, costs per employee rose at a much slower rate of 9.2%.

Material and material-type expenses decreased 0.6% in 2000. Among the tangible assets related to expenses, depreciation increased by HUF 2.2 billion in 2000, corresponding to 26.7%, due to ongoing IT investments. Other costs increased by just 1.7%.

ASSET-LIABILITY STRUCTURE

On 31 December 2000, the total assets of OTP Bank Ltd. amounted to HUF 1,931.3 billion, which represents a 9.3%, or more than HUF 160 billion increase over the HUF 1,767.5 billion figure on 31 December 1999. OTP Bank Ltd. had the highest balance sheet total in the entire banking sector, and its market share was 23%.

ASSET-LIABILITY STRUCTURE*

	31 Dec. 1999 HUF mn	31 Dec. 1999 % distribution	31 Dec. 2000 HUF mn	31 Dec. 2000 % distribution	Change HUF mn	Change %
Liquid assets	**557,366**	**31.5%**	**482,350**	**25.0%**	**–75,016**	**–13.5%**
NBH clearing account	132,355	7.5%	148,670	7.7%	16,315	12.3%
NBH short-term placements	367,409	20.8%	293,153	15.2%	–74,256	–20.2%
Other	57,602	3.3%	40,527	2.1%	–17,075	–29.6%
Government securities	**300,910**	**17.0%**	**439,034**	**22.7%**	**138,124**	**45.9%**
Interbank placements**	**277,666**	**15.7%**	**233,922**	**12.1%**	**–43,744**	**–15.8%**
Customer loans	**478,362**	**27.1%**	**614,055**	**31.8%**	**135,693**	**28.4%**
Retail	150,804	8.5%	180,178	9.3%	29,374	19.5%
Corporate	291,354	16.5%	393,218	20.4%	101,864	35.0%
Municipal	36,204	2.0%	40,659	2.1%	4,455	12.3%
Other	**77,000**	**4.4%**	**80,561**	**4.2%**	**3,561**	**4.6%**
Intangible assets and tangible assets	**52,062**	**2.9%**	**52,690**	**2.7%**	**628**	**1.2%**
Accrued items	**24,183**	**1.4%**	**28,660**	**1.5%**	**4,477**	**18.5%**
TOTAL ASSETS	**1,767,549**	**100.0%**	**1,931,272**	**100.0%**	**163,723**	**9.3%**
Interbank liabilities	**42,208**	**2.4%**	**44,415**	**2.3%**	**2,207**	**5.2%**
of this: NBH, refinancing loans	12,928	0.7%	10,027	0.5%	–2,901	–22.4%
Customer liabilities	**1,507,566**	**85.3%**	**1,632,978**	**84,6%**	**125,412**	**8.3%**
Retail	1,213,981	68.7%	1,308,141	67.7%	94,160	7.8%
Corporate	189,877	10.7%	210,875	10.9%	20,998	11.1%
Municipal	103,708	5.9%	113,962	5.9%	10,254	9.9%
Securities	**22,854**	**1.3%**	**19,607**	**1.0%**	**–3,247**	**–14.2%**
Provisions	**11,068**	**0.6%**	**11,317**	**0.6%**	**249**	**2.2%**
Accrued liabilities	**20,023**	**1.1%**	**16,130**	**0.8%**	**–3,893**	**–19.4%**
Other	**63,177**	**3.6%**	**79,323**	**4.1%**	**16,146**	**25.6%**
Equity	**100,653**	**5.7%**	**127,502**	**6.6%**	**26,849**	**26.7%**
TOTAL LIABILITIES	**1,767,549**	**100.0%**	**1,931,272**	**100.0%**	**163,723**	**9.3%**

* The asset-liability items are analysed in a structure somewhat different from that of the balance sheet.
** Includes short-term (with a maturity of less than one year) and long-term (with a maturity over one year) placements to banks and financial institutions, as well as long-term placements at the NBH.

ASSETS

Liquid assets. Following the switchover that took place in 2000, on 31 December 2000 the balance of the Bank's liquid assets was more than HUF 75 billion less than in the previous year. As a result, by year-end 2000, the percentage share of liquid assets within the total assets had dropped from 31.5% to 25.0%. Within liquid assets, placements at the NBH with a maturity of less than one year dropped by close to HUF 75 billion, meaning that the share of these placements within the total of assets decreased from 20.8% to 15.2%. In 2000 other liquid assets decreased by 29.6%, corresponding to more than HUF 17 billion, while at year-end 2000 the balance of the NBH clearing account was 12.3%, or HUF 16.3 billion, higher than at year-end 1999.

Government securities. In 2000, the proportion of government securities in the Bank's portfolio increased from 17.0% at year-end 1999 to 22.7%. By 31 December 2000, the portfolio had increased from HUF 300.9 billion in 1999 to HUF 439.0 billion, or by 45.9%. Within the government securities portfolio, those maturing within one year decreased by 9.0%, to HUF 183.1 billion, while those with maturities over one year increased considerably, almost doubling, to HUF 255.9 billion.

STRUCTURE AND MATURITY OF GOVERNMENT SECURITIES

	31 Dec. 1999 HUF mn	31 Dec. 1999 % distribution	31 Dec. 2000 HUF mn	31 Dec. 2000 % distribution	Change HUF mn	Change %
Maturing within one year						
Discounted T-bills	63,783	21.2%	17,649	4.0%	–46,135	–72.3%
Hungarian Government Bonds	102,659	34.1%	50,345	11.5%	–52,314	–51.0%
Interest-bearing T-bills	1,578	0.5%	278	0.1%	–1,300	–82.4%
Bonds issued by NBH	0	0.0%	61,569	14.0%	61,569	–
Treasury bonds	0	0.0%	53,267	12.1%	53,267	–
Total	**168,021**	**55.8%**	**183,108**	**41.7%**	**15,087**	**9.0%**
Maturing over one year						
Building society financing funds	645	0.2%	948	0.2%	303	46.9%
Hungarian Government Bonds	33,804	11.2%	213,615	48.7%	179,811	531.9%
Treasury bonds	55,649	18.5%	0	0.0%	–55,649	–100.0%
Credit Consolidation Government Bonds	17,197	5.7%	17,171	3.9%	–26	–0.2%
Social Security Bonds	7,992	2.7%	7,992	1.8%	0	0.0%
NBH foreign currency bonds	15,093	5.0%	13,371	3.0%	–1,722	–11.4%
Foreign cuurency bonds issued by the Republic of Hungary	2,509	0.8%	2,829	0.6%	320	12.8%
Total	**132,889**	**44.2%**	**255,926**	**58.3%**	**123,037**	**92.6%**
Total government securities	**300,910**	**100.0%**	**439,034**	**100.0%**	**138,124**	**45.9%**

The HUF 15.1 billion increase in the portfolio of trading securities with maturities of less than one year and recorded among current assets originates from the combined effect of the considerable increase in the value of bonds issued by the NBH and Treasury Bonds on the one hand and the substantial decrease in the balance of Discounted T Bills and Hungarian Government Bonds on the other. Within the portfolio of securities with maturities over one year, the balance of Hungarian Government Bonds grew by close to HUF 180 billion, representing a more than sixfold increase, while the balance of Treasury Bonds dropped to zero.

As of 31 December 2000, Hungarian Government Bonds had the highest (60.1%) share within the total of securities, and this was 14.8 percentage points more than at year-end 1999. Bonds issued by the NBH represented 17.1% of the total securities portfolio, corresponding to a 12.1 percentage-point increase, while there was a 17.2 percentage-point decrease in the share of Discounted T-Bills, meaning that by year-end 2000 the share of Discounted T-Bills within the total of the securities portfolio had dropped to 4.0%. In 2000 the share of Treasury bonds within the total of the securities portfolio dropped to 12.1%.

Interbank placements. Interbank placements represented 12.1% of total assets on 31 December 2000 – only 3.6% more than in 1999. Their volume decreased by 15.8%, corresponding to HUF 43.7 billion. At the end of 2000, the overwhelming majority (90.4%) of placements had a maturity of less than one year, compared to 94.4% a year before. The share of interbank placements with a maturity of less than one year within the total of interbank placements dropped, and this is because of a fall of nearly 20%, or HUF 50 billion, in these placements. Interbank placements with a maturity of more than a year increased 44.4%, and thus, as of year-end 2000, their share of the total interbank placements had grown to 9.6%. Within the total of interbank placements, the balance of HUF placements decreased only to a small extent, by 0.8%, meaning that the proportion of these placements within the total of placements increased by 5.6 percentage points. The balance of foreign currency placements decreased by 22.7%, which is higher than the average reduction in interbank placements. Thus, the share of these placements within the total of interbank placements dropped: as of 31 December 2000, the share of foreign currency placements within the total of interbank placements was 2.8%.

Also in 2000, the Bank retained its net lending position on the interbank market, which can be attributed to the Bank's liquidity resulting from its traditionally high volume of retail deposits. The volume of interbank placements exceeded interbank liabilities by over HUF 189 billion.

Customer loans. In line with the Bank's business policy, in 2000 the portfolio of customer loans grew at a rate of 28.4%, which is far in excess of the rate of growth of the balance sheet total. Consequently, by year-end 2000 the share of customer loans within assets had grown from 27.1% to 31.8%. A decisive role was played in this by a 35.0% expansion in corporate lending, corresponding to HUF 101.9 billion. This increase accounts for more than 75% of the growth in 2000 in customer lending. In 2000 retail lending grew by 19.5%. The rate of growth, amounting to close to 40%, in consumer loans is especially favourable. The volume of corporate lending grew 12.3% in 2000. Within the total of customer loans, by year-end 2000 the share of corporate loans had grown from 60.9% to 64.0%, while the share of retail loans decreased from 31.5% to 29.3% and that of municipal loans was 6.6%.

By the end of the period under review, the balance of corporate loans had grown 35%, reaching HUF 393.2 billion, of which loans to financial and investment enterprises, insurance companies and the specialist money- and capital-market institutions (PBBS) amounted to HUF 25.9 billion. The portfolio of loans granted to other businesses grew by a total of 24.8%, corresponding to HUF 325.9 billion. Within corporate loans the balance of loans for capital projects grew 17.8%, that of working capital loans by 26.2% and that of foreign currency loans by 31.6%. The volume of loans granted to small businesses grew to a lesser extent, by 7.8%, whereas the volume of loans to non-profit institutions grew by a substantial 58.1%. As of year-end, 82.9% of the corporate loan portfolio had gone to business entities, 3.4% to small businesses, 7.1% to non-profit organisations and 6.6% to PBBS organisations.

The growth of retail loans that began in 1999 continued in 2000, and by year-end retail loans had grown substantially, by 19.5%, due to the modest increase of 8.9% in housing loans and the dynamic 37.7% increase in other retail loans. As of 31 December 2000, the balance of housing loans was HUF 104.1 billion, representing an increase of HUF 8.5 billion over the previous year. As of year-end, the combined volume of consumer loans and mortgage loans amounted to HUF 76.1 billion, within which, in line with the Bank's strategy, the volume of loans related to retail current accounts grew by a substantial 43.7%, and, in absolute terms, exceeded a value of HUF 40 billion. As of year-end 2000, the volume of mortgage loans was HUF 26.9 billion, representing an increase of more than 100% over the previous year.

The volume of municipal loans increased by HUF 4.5 billion, or 12.3%, in 2000. Thus the Bank managed to retain its market-leading position in the municipal lending market.

An examination of the maturity structure of the customer loan portfolio reveals that, due to the above-average, 48.9%, increase in short-term (maturities of less than one year) receivables, their share within the total had reached 33.9% by year-end 2000. Long-term placements increased 19.9%, and their share within the total of receivables dropped from 70.8% to 66.1%.

CUSTOMER PLACEMENTS BY MATURITY (BASED ON GROSS AMOUNTS)

	31 Dec. 1999		31 Dec. 2000		Change	
	HUF mn	**% distribution**	**HUF mn**	**% distribution**	**HUF mn**	**%**
Shorter than one year						
retail	30,810	6.4%	43,764	7.1%	12,955	42.0%
corporate	100,060	20.9%	154,029	25.1%	53,968	53.9%
municipal	9,008	1.9%	10,417	1.7%	1,408	15.6%
Total	**139,878**	**29.2%**	**208,210**	**33.9%**	**68,331**	**48.9%**
Over one year						
retail	119,995	25.1%	136,413	22.2%	16,419	13.7%
corporate	191,293	40.0%	239,189	39.0%	47,896	25.0%
municipal	27,196	5.7%	30,243	4.9%	3,047	11.2%
Total	**338,484**	**70.8%**	**405,845**	**66.1%**	**67,362**	**19.9%**
Total customer loans	**478,362**	**100.0%**	**614,055**	**100.0%**	**135,693**	**28.4%**

Corporate loans accounted for nearly 80% (HUF 54.0 billion) of the HUF 68.3 billion growth in short-term customer receivables. Nearly one fifth (HUF 13.0 billion) of this growth came from the increase in short-term retail placements. Compared with the previous year, by year-end 2000 the volume of short-term corporate loans had increased by nearly 150%, reaching a level of 74.0% of total short-term placements. Although by the end of 2000 the volume of short-term retail placements had increased by HUF 13.0 billion and their share within the total of short-term loans was 21.0%, this share was smaller at year-end 2000 than it had been at the end of the previous year. Short-term municipal loans increased by HUF 1.4 billion (15.6%) in 2000, and as of 31 December 2000 their share of short-term placements was 5.0%.

Within long-term (maturities longer than one year) customer placements it was the volume and the proportion of corporate loans that grew by the greatest extent. As of 31 December 2000, the volume of corporate loans was 25.0%, or close to HUF 50 billion, more than in the previous year, and their share within the total of long-term loans had grown from 56.5% to 58.9%. As of 31 December 2000, 33.6% of long-term customer loans were retail placements. Due to a 13.7% increase in volume, which was less than the average rate of growth, in 2000 the share of these retail placements was 1.8 percentage points smaller than at year-end 1999. At year-end 2000, the volume of long-term loans was 11.2% higher than a year earlier, and the share of these loans within the total of long-term loans had dropped to 7.5%.

LIABILITIES

Interbank liabilities. In 2000 the volume of interbank liabilities grew by 5.2%, and their share within total liabilities dropped from 2.4% to 2.3%. Although the Bank is a net lender in the interbank money market, it remained constantly active as a borrower as well. Within the interbank liability portfolio, the volume of NBH refinancing loans decreased by a substantial 22.4%, and, as a result, the share of these refinancing loans within the total of interbank funding dropped from 30.6% to 22.6%.

Customer deposits. As of 31 December 2000, customer deposits accounted for 84.6% of the Bank's total liabilities, as opposed to 85.3% in 1999. As the Bank's primary business line is retail banking, the majority of customer funding (80.1%) came from retail deposits, which also represented a decisive share (in 2000, 67.7%, in 1999, 68.7%) within total liabilities.

At the same time, however, there were widely differing trends concerning the various types within the retail portfolio. HUF deposits, representing 74.3% of retail deposits, increased by 7.4%, while foreign currency deposits grew by 8.7%. Continuing the tendency of the previous years, the volume of traditional savings schemes within HUF deposits (interest-bearing passbook deposits, savings notes, premium deposits) grew at a smaller rate (1.9%) than total retail liabilities. Thus, their proportion decreased by 2.3 percentage points, to 42.2%. After the stagnation of 1999, in 2000 the volume of savings schemes based on regular deposits dropped by 9.7% due to the fact that this product is no longer marketed. In line with the Bank's plans, the volume of retail current account deposits showed an outstandingly high growth of 13.4%, increasing from HUF 459.3 billion to HUF 520.8 billion, and its proportion within total retail deposits had reached 53.6% by year-end 2000.

Corporate deposits grew at a rate of 11.1%, which exceeds the growth rate of customer liabilities. Within corporate deposits, HUF deposits increased by 13.7%, while deposits in foreign currency decreased by 17.2%.
The volume of municipal deposits increased by 9.9%, and by year-end 2000 their share within the total of customer liabilities had reached 7.0%.

CUSTOMER LIABILITIES BY MATURITY

	31 Dec. 1999		31 Dec. 2000		Change	
	HUF mn	**% distribution**	**HUF mn**	**% distribution**	**HUF mn**	**%**
Shorter than one year						
retail	1,095,531	72.7%	1,193,541	73.1%	98,010	8.9%
corporate	189,621	12.6%	210,652	12.9%	21,032	11.1%
municipal	103,208	6.8%	113,509	7.0%	10,301	10.0%
Total	**1,388,359**	**92.1%**	**1,517,702**	**92.9%**	**129,343**	**9.3%**

(continued from page 37)	31 Dec. 1999 HUF mn	31 Dec. 1999 % distribution	31 Dec. 2000 HUF mn	31 Dec. 2000 % distribution	Change HUF mn	Change %
Over one year						
retail	118,450	7.9%	114,599	7.0%	–3,851	–3.3%
corporate	256	0.0%	223	0.0%	–33	–12.8%
municipal	501	0.0%	453	0.0%	–48	–9.5%
Total	**119,207**	**7.9%**	**115,275**	**7.1%**	**–3,931**	**–3.3%**
Total customer liabilities	**1,507,566**	**100.0%**	**1,632,978**	**100.0%**	**125,412**	**8.3%**

Within customer deposits, those with a maturity of less than one year grew by 9.3% in 2000, while those with a maturity longer than one year decreased by 3.3%. Thus, the proportion within total customer liabilities of short-term liabilities grew further, reaching 92.9% by year-end 2000. The total growth in customer liabilities amounting to more than HUF 125 billion in 2000 results from the growth of short-term liabilities exceeding HUF 129 billion and the near HUF 4 billion decline in long-term liabilities. More than 75% of the increase in short-term liabilities originated from the increase in short-term retail liabilities, while almost the whole of the fall in long-term liabilities came from the decrease in long-term retail liabilities.

Securities and deposit instruments. In line with the Bank's business policy objectives, the volume of own-issued securities and deposit instruments amounted to HUF 19.6 billion on 31 December 2000, 14.2% lower than in 1999. Their proportion within liabilities fell from 1.3% to 1.0%. The volume of deposit notes, replacing deposit certificates, increased by HUF 2.6 billion, reaching HUF 18.6 billion by the end of 2000, while the volume of discontinued deposit certificates decreased by HUF 4.6 billion, to HUF 150 million at year-end 2000. The total volume of other securities and deposit instruments issued by the Bank decreased by 50% during 2000, dropping to HUF 0.9 billion by year-end.

Equity. As of 31 December 2000, the Bank's equity was HUF 127.5 billion, and the proportion of equity within the total of liabilities and shareholders' equity rose from 5.7% at year-end 1999 to 6.6% at year-end 2000. The HUF 26.8 billion increase in owners' equity can be attributed to the HUF 24.0 billion in balance sheet profits and the HUF 3.2 billion increase in the general reserves. As of year-end 2000, the Bank's net asset value per share, where each share has a nominal value of HUF 1,000, was HUF 4,554, representing an increase of 26.7% over the figure of the previous year.

Provisions. Within the Bank's liabilities, the volume of provisions changed from HUF 11.1 billion in 1999 to HUF 11.3 billion at year-end 2000.

CHANGES IN PROVISIONS

	31 Dec. 1999 HUF mn	31 Dec. 2000 HUF mn	Change HUF mn	Change %
Provisions for contingent and future liabilities	2,239	1,192	–1,047	–46.8%
Exchange rate risk provisions	452	70	–382	–84.5%
Exchange rate risk loss provisions	0	0	0	–
General risk reserve	7,444	8,549	1,106	14.9%
Country risk provisions	566	580	14	2.4%
Other provisions	368	926	558	151.8%
Total provisions	**11,068**	**11,317**	**248**	**2.2%**

By 31 December 2000, the Bank had fully set aside the general risk reserve provided for by the Act on Credit Institutions, amounting to 1.25% of the risk-weighted total assets (with the amount set aside in 2000 being HUF 1.1 billion). The Bank also generated country risk provisions in the value of HUF 14 billion. From the exchange rate risk provisions the Bank released HUF 382 million.

OFF–BALANCE SHEET LIABILITIES

The volume of off-balance sheet liabilities changed from HUF 232.0 billion in 1999 to HUF 235.1 billion at year-end 2000. This change resulted from the HUF 10.6 billion (6.0%) increase in contingent liabilities and the HUF 7.5 billion (13.7%) decrease in future liabilities. As a result, by year-end 2000 the share of contingent liabilities within the total of off-balance sheet liabilities had increased to 79.9%. The most significant item within contingent liabilities, accounting for nearly 67% of total off-balance sheet liabilities, is liabilities arising from credit line contracts, which increased by HUF 11.5 billion, or by 7.9%. The volume of guarantees related to banking activities expanded at a rate of 6.5%, which is faster than the average.

OFF-BALANCE SHEET LIABILITIES

	31 Dec. 1999 HUF mn	31 Dec. 1999 % distribution	31 Dec. 2000 HUF mn	31 Dec. 2000 % distribution	Change HUF mn	Change %
Contingent liabilities						
Guarantees related to banking activities	14,917	6.4%	15,892	6.8%	975	6.5%
Confirmed L/C	3,163	1.4%	988	0.4%	–2,175	–68.8%
Non-used part of credit lines	145,917	62.9%	157,403	66.9%	11,487	7.9%
Options	12,155	5.2%	12,555	5.3%	400	3.3%
Anticipated liabilities due to pending litigation	1,042	0.4%	995	0.4%	–47	–4.5%
Total	**177,194**	**76.4%**	**187,833**	**79.9%**	**10,639**	**6.0%**
Future liabilities						
Forward securities purchases	26,751	11.5%	0	0.0%	–26,751	–
Forward foreign exchange transactions	27,913	12.0%	47,289	20.1%	19,376	69.4%
Repurchase value of claims sold under a repurchase commitment	144	0.1%	15	0.0%	–129	–89.8%
Total	**54,807**	**23.6%**	**47,304**	**20.1%**	**–7,504**	**–13.7%**
Total off-balance sheet liabilities	**232,001**	**100.0%**	**235,137**	**100.0%**	**3,136**	**1.4%**

Within future liabilities, by year-end 2000 the volume of forward foreign exchange transactions increased by nearly 70%, corresponding to HUF 19.4 billion. By year-end 2000, the value of forward securities purchases had dropped to zero.

INVESTMENTS, OTP GROUP

The management of the Group's activity and the realisation of strategic investments continued to play a dominant role in the investment operations of OTP Bank in 2000. At the end of 2000, the book value of the Bank's investments amounted to HUF 34.7 billion, representing a HUF 3.3 billion, or 10.6%, increase over the previous year. The growth in the investment portfolio originates from the growth in the volume of permanent financial investments, the overwhelming proportion (86.9%) of which is an increase in the volume of OTP Group investments. In line with the plans, the Bank had no trading investments in 2000. The volume of forced investments (i.e. investments serving the purpose of recovering overdue loan receivables, or debt-for-equity swaps) decreased by HUF 53 million during 2000. Dividends calculated on investments amounted to HUF 160 million in 2000.

CHANGES IN INVESTMENTS

	31 Dec. 1999 HUF mn	31 Dec. 2000 HUF mn	Change HUF mn	Change %
Permanent investments	28,595	31,986	3,391	11.9%
of which: OTP Group	20,103	23,049	2,946	14.7%
Trading investments	0	0	0	0.0%
Forced investments	2,748	2,695	–53	–1.9%
Total investments	**31,343**	**34,681**	**3,338**	**10.6%**

Compared with the year-end 1999 value of HUF 18.5 billion, there was hardly any change in the aggregate registered capital of the companies within the OTP Group. The HUF 48 million increase in the aggregate registered capital is attributable to the change in the exchange rate used for calculating the HUF value of the registered capital of the London-based Hungarian International Finance Ltd. The registered capital of the companies in the Company Group increased by HUF 580 million, due to the HUF 400 million increase in the registered capital of OTP Alapkezelő Rt. (OTP Fund Management Ltd.) and the HUF 180 million increase in the registered capital of OTP Pénztárszolgáltató Kft. (OTP Pension Fund Ltd.). Changes in the capital and ownership structure of the Group members were primarily aimed at creating the conditions for further development and complying with the legal regulations.

In 2000, the combined pre-tax profit of the Bank Group and the Company Group was HUF 7.4 billion, HUF 6.9 billion less than in the previous year. The reason for this decrease is that the 1999 pre-tax profit was outstandingly high due to the sale of the Bank Center, with the one-off gain on this sale improving the results of Bank Center No. 1 Kft. Of all Company Group members OTP Alapkezelő Rt. (OTP Fund Management Ltd.) had an impressive increase in its pre-tax profits, with the increase exceeding HUF 300 million. Due to this, OTP Alapkezelő Rt. had a 21.1% share in the combined pre-tax profits of the Bank Group and the Company Group.

KEY FINANCIAL DATA OF THE OTP GROUP MEMBERS*

	31 Dec. 1999				31 Dec. 2000			
	OTP Bank Ltd. Share ownership %		Registered capital	Pre-tax profit	OTP Bank Ltd. Share ownership %		Registered capital	Pre-tax profit
			HUF mn				HUF mn	
	Direct	indirect			Direct	indirect		
Bank Group								
OTP Garancia Insurance Ltd.	81.22	18.78	5,851	410	99.98	0.02	5,851	874
OTP Securities Ltd.	100.00	–	1,000	778	100.00	–	1,000	19
OTP Real Estate Ltd.	70.38	29.62	1,670	258	70.38	29.62	1,670	758
OTP Real Estate Management Ltd.	–	100.00	61	87	–	100.00	61	103
OTP Factoring Ltd.	50.00	50.00	300	312	50.00	50.00	300	530
Merkantil Bank Ltd.	100.00	–	1,500	1,256	100.00	–	1,500	1,697
Merkantil Car Ltd.	–	100.00	20	309	–	100.00	20	281
OTP Building Society Ltd.	100.00	–	1,000	5	100.00	–	1,000	953
HIF Ltd.	100.00	–	1,143	182	100.00	–	1,191	199
Bank Center No. 1. Ltd.	100.00	–	5,956	9,319	100.00	–	5,956	409
Total:			**18,501**	**12,916**			**18,549**	**5,823**
Company Group								
OTP Found Management Ltd.	5.00	95.00	500	1,328	5.00	95.00	900	1,655
OTP Pension Fund Ltd.	–	100.00	20	8	90.01	9.99	200	–134
OTP Travel Ltd.	51.00	49.00	27	–17	51.00	49.00	27	39
Total:			**547**	**1,319**			**1,127**	**1,560**
Bank and Company Group Total			**19,048**	**14,235**			**19,676**	**7,383**

* As at 31 December 2000

OTP Securities Ltd. The company achieved HUF 19 million in pre-tax profit, which is considerably lower than in the previous year due to adverse external conditions and due to the fact that, based on a resolution on the restructuring of capital market services provided by the Group, pension fund management was transferred to OTP Alapkezelő Rt. (OTP Fund Management Ltd.). In 2000 the turnover transacted by the company exceeded HUF 4,830 billion, substantially less than that of the previous year. Of the total turnover, within which the trade in government securirities continued to play a decisive role, spot transactions amounted to HUF 4,434 billion, whereas the turnover transacted in derivatives was HUF 396 billion. Stock exchange dealing accounted for one quarter of the company's turnover, while three querters of it was related to the OTC market. Asset management activities carried out for private individuals and institutions outside pension funds were further expanded in 2000. The total value of assets under manegment rose from HUF 25 billion in 1999 to HUF 40 billion by the end of 2000. Most of these assets originate from insitutional investors.

OTP Garancia Insurance Ltd. The company was once again the most dynamic player in the Hungarian insurance market in 2000. It increased its insurance premium income by 42.5%, to HUF 38.8 billion. The share of the life and bank insurance business line in total premium income increased from 46.4% to 54.7%, owing to the 70% growth in its premium income to HUF 21.2 billion. In 2000 the expenses incurred through damage compensation amounted to HUF 14.0 billion. The company realised a HUF 874 million in pre-tax profits, which represents a more than twofold increase over the previous year. At the same time, the company also managed to considerably increase its insurance reserves – by more than HUF 16 billion. The company's equity rose by more than HUF 0.9 billion in 2000.

Merkantil Bank Ltd. In 2000 the company expanded at an exceptionally dynamic rate. At year-end 2000, the company's balance sheet total amounted to HUF 52.7 billion, which represents a growth rate far in excess of the average for the banking sector as a whole. The Bank closed 2000 with a HUF 1,697 million pre-tax profit, up HUF 441 million from the previous year. Its financial indicators were also very favourable: the return on average assets (ROAA) reached 2.7%, and the return on average equity (ROAE) was 27.2%. Taking into account the balance sheet profit, the bank's capital adequacy ratio was 12.74% at the end of 2000. The bank's equity increased from HUF 4.1 billion in 1999 to HUF 5.4 billion at year-end 2000, representing an increase of more than 32%. Over the same period, the ratio of equity to the balance sheet total increased form 9.4% to 10.3%.

OTP Building Society Ltd. In the course of 2000, the company concluded more than 79,000 new contracts in a combined value of close to HUF 50 billion. At year-end 2000, the volume of customer deposits was HUF 33.1 billion, while on 31 December 2000 the balance sheet total was HUF 37.2 billion, representing an increase of 60% over the previous year. The equity of the building society was HUF 1.9 billion, and the ratio of equity per balance sheet total was 5.2%. As of 31 December, 87% of OTP Building Society's total assets were government securities, in a value of HUF 32.4 billion. The company achieved a HUF 953 million pre-tax profit, which is several times higher than the same figure for the previous year.

OTP Fund Management Ltd. Compared with 1999, in 2000 the company increased its pre-tax profit by more than HUF 300 million, to HUF 1,655 million, due to the fact that the net asset value of the funds under the company's management increased dynamically, from HUF 188.9 billion to HUF 273.4 billion. Thus, the company's market share increased from 42% in 1999 to 49% in 2000. Assets owned by pension funds and managed by the company had reached HUF 70 billion by 31 December 2000, and thus the combined value of assets under the company's management was higher than HUF 340 billion.

OTP Pension Fund Ltd. The company again led the market in 2000, both in terms of the number of pension fund accounts it handled as well as assets. The number of managed individual accounts increased by 13.1% during 2000, reaching a total 693,000 accounts. The combined value of pension fund assets under the company's management increased by 78.9%, reaching close to HUF 67 billion by the end of 2000. The company closed the year 2000 with a loss of HUF 134 million.

OTP Real Estate Ltd. The company's pre-tax profit was HUF 758 million in 2000, which is HUF 500 million more than in 1999.

PORTFOLIO QUALITY, PROVISIONING

As of 31 December 2000 the total amount of OTP Bank Ltd.'s portfolio to be qualified was HUF 1,237.4 billion, representing an increase of close to HUF 92 billion, or 8.0%, over the previous year. The ratio of the qualified portfolio (the qualified volume meaning the sum of receivables and exposure that had to be provisioned for) within the total portfolio was 6.4% in 1999, and it dropped to 5.6% by year-end 2000 due to an approximately HUF 4 billion drop in the qualified volume.

OTP BANK LTD.'S PORTFOLIO QUALIFICATION

	31 Dec. 1999		31 Dec. 2000		Change	
	HUF mn	**% distribution**	**HUF mn**	**% distribution**	**HUF mn**	**%**
Securities (excluding government securities)						
Problem-free	22,274	98.4%	22,116	98.4%	–159	–0.7%
Qualified*	360	1.6%	354	1.6%	–6	–1.7%
Total	**22,634**	**100.0%**	**22,469**	**100.0%**	**–165**	**–0.7%**

* Qualified includes to be monitored, below average, doubtful and bad categories.

(continued from page 41)	31 Dec. 1999 HUF mn	% distribution	31 Dec. 2000 HUF mn	% distribution	Change HUF mn	%
Loans and interbank transactions (receivables)						
Problem-free	745,995	94.3%	840,991	95.4%	94,996	12.7%
Qualified*	45,012	5.7%	40,698	4.6%	–4,314	–9.6%
Total	**791,007**	**100.0%**	**881,689**	**100.0%**	**90,682**	**11.5%**
Other						
Problem-free	76,514	76.4%	72,459	73.9%	–4,055	–5.3%
Qualified*	23,593	23.6%	25,606	26.1%	2,013	8.5%
Total	**100,107**	**100.0%**	**98,065**	**100.0%**	**–2,043**	**–2.0%**
Off-balance sheet items						
Problem-free	228,138	98.3%	232,830	99.0%	4,692	2.1%
Qualified*	3,863	1.7%	2,307	1.0%	–1,556	–40.3%
Total	**232,001**	**100.0%**	**235,137**	**100.0%**	**3,136**	**1.4%**
Grand total						
Problem-free	1,072,922	93.6%	1,168,395	94.4%	95,474	8.9%
Qualified*	72,828	6.4%	68,965	5.6%	–3,864	–5.3%
Total	**1,145,750**	**100.0%**	**1,237,360**	**100.0%**	**91,610**	**8.0%**

* Qualified includes to be monitored, below average, doubtful and bad categories.

As of 31 December 2000, 71.3% of the Bank's total portfolio that had to qualified were receivables (31 December 1999: 69.0%), with 59.0% of the total qualified portfolio being qualified claims related to receivables. 68.8% of the provision set aside was connected with qualified receivables.

The combined amount of OTP Bank's receivables increased by 11.5% in 2000, i.e. at a faster rate than the balance sheet total, and by year-end it had reached HUF 881.7 billion, while the qualified portfolio was 9.6% lower at year-end 2000 than in the previous year, partly due to the sale of receivables to the work-out organisations. The ratio of problem-free receivables within the total of loans and interbank receivables grew from 94.3% in 1999 to 95.4% in 2000, and the quality of the receivables portfolio improved. The ratio of customer receivables within the total of receivables had grown to HUF 648.2 billion by year-end 2000, an increase of 24.8%, with the proportion of these receivables that were qualified falling from 8.6% as of year-end 1999 to 6.3% at the end of 2000. In 2000 the total of receivables from financial institutions dropped by 14%, while the qualified proportion of this portfolio remained unchanged (0.1%). The qualified portfolio of customer receivables fell from 8.6% to 6.3%. Within the various categories of customer receivables, the most pronounced decrease in the ratio of the qualified portfolio occurred in the retail division.

Although the volume of receivables in corporate banking increased by 32.5%, the volume of the qualified portfolio grew by only 8.9%. As a result, the share of the qualified portfolio within the total of corporate receivables dropped from 9.1% in 1999 to 7.5% by the end of 2000.

Due to the improving financial position of the minicipalities, the risk involved in the placements to customers in the municipal banking sector diminished further, and the total volume of placements to this sector increased by 14.9% in 2000. The qualified ratio of the municipal loan portfolio decreased by 53.9% during 2000, from 0.4% in 1999 to 0.2% in 2000.

The most favourable trend was observable in retail banking. While the total of receivables grew by 13.6% during 2000, the qualified volume decreased by 39.0%. As a result, the share of the qualified volume within the total of retail banking receivables decreased from 10.3% in 1999 to 5.5% in 2000. This can be party attributed to the efforts made during the year to clean the housing loan portfolio, and partly to the dynamic increase in the new, high-quality loan portfolio.

QUALIFIED LOANS BY BUSINESS LINES

	31 Dec. 1999 HUF mn	% distribution	31 Dec. 2000 HUF mn	% distribution	Change HUF mn	%
Retail banking						
Problem-free	148,501	89.7%	177,549	94.5%	29,048	19.6%
Qualified	16,970	10.3%	10,360	5.5%	−6,610	−39.0%
Total	**165,471**	**100.0%**	**187,909**	**100.0%**	**22,438**	**13.6%**
Corporate banking						
Problem-free	276,536	90.9%	372,956	92.5%	96,420	34.9%
Qualified	27,610	9.1%	30,067	7.5%	2,457	8.9%
Total	**304,146**	**100.0%**	**403,023**	**100.0%**	**98,877**	**32.5%**
Municipal banking						
Problem-free	49,680	99.6%	57,206	99.8%	7,526	15.1%
Qualified	193	0.4%	89	0.2%	−104	−54.0%
Total	**49,873**	**100.0%**	**57,295**	**100.0%**	**7,422**	**14.9%**
Financial institutions						
Problem-free	271,278	99.9%	233,280	99.9%	−37,998	−14.0%
Qualified	239	0.1%	183	0.1%	−56	−23.5%
Total	**271,517**	**100.0%**	**233,463**	**100.0%**	**−38,054**	**−14.0%**
Total						
Problem-free	745,995	94.3%	840,991	95.4%	94,996	12.7%
Qualified	45,012	5.7%	40,698	4.6%	−4,314	−9.6%
Total	**791,007**	**100.0%**	**881,689**	**100.0%**	**90,682**	**11.5%**

The structure of qualified loans by the various catgories of loan provisioning changed considerably in the course of 2000. A substantial increase occurred in the "below average" category, which increased more than threefold during the year, while the share of this loan provisioning category within the total of qualified placements grew from 4.2% in 1999 to 15.1% in 2000. The entire amount of this change is attributable to the growth in corporate lending, where the volume of loans with the "below average" rating grew by HUF 4.5 billion. Simultaneously with this, there was a substantial decrease in both the volume and the proportion of the "to be monitored" category. 96% of the HUF 4.4 billion decrease is accounted for by the decrease of this category in the corporate division. The volume of loans in the "bad" category decreased by HUF 4.3 billion, representing a fall of 27.5% from the previous year. As a result, the share of this rating category within the total of qualified loans dropped from 34.6% in 1999 to 27.7% in 2000. This is primarily due to the reduction of this rating category in the retail sector, where the amount of "bad" loans decreased by HUF 5.3 billion. In corporate banking the volume of "bad" loans grew by HUF 1.2 billion.

THE STRUCTURE OF QUALIFIED LOANS

	31 Dec. 1999 HUF mn	% distribution	31 Dec. 2000 HUF mn	% distribution	Change HUF mn	%
To be monitored	9,721	21.6%	5,293	13.0%	−4,428	−45.6%
Below average	1,875	4.2%	6,154	15.1%	4,279	228.2%
Doubtful	17,858	39.7%	17,972	44.2%	114	0.6%
Bad	15,558	34.6%	11,279	27.7%	−4,279	−27.5%
Total qualified	**45,012**	**100.0%**	**40,698**	**100.0%**	**−4,314**	**−9.6%**

In retail banking the volume of loans in all the rating categories decreased and this was coupled with an improvement in the rating distribution of the qualified loans. Compared with 1999, by the end of 2000 the share of "bad" loans within the total of qualified loans portfolio dropped from 56.5% to 41.5%. In corporate banking the share of "below average" loans increased considerably, from 2.4% to 17.0%, while there was no substantial change in the share of "doubtful" and "bad" loans. The share of loans with the "to be monitored" rating decreased from 25.2% in 1999 to 9.1% in 2000.

Under conditions of a 9.6% reduction in qualified loans, the amount of provision also decreased, by 3.2%, and thus the ratio of provision coverage, i.e. provisions over qualified loans, increased from 52.5% to 56.2%.

THE COVERAGE OF QUALIFIED RECEIVABLES BY RISK PROVISIONS

	31 Dec. 1999	31 Dec. 2000	Change	
	HUF mn		HUF mn	%
Total receivables	**791,007**	**881,689**	**90,682**	**11.5%**
Problem-free receivables	745,995	840,991	94,996	12.7%
Qualified	45,012	40,698	–4,314	–9.6%
Provisions	**23,626**	**22,872**	**–754**	**–3.2%**
Provision coverage ratio	**52.5%**	**56.2%**		

The following table shows the distribution of the total of provisions by the various lines of business and the changes that have occurred in it.

BREAKDOWN OF PROVISIONS BY BUSINESS LINE

	31 Dec. 1999		31 Dec. 2000		Change	
	HUF mn	% distribution	HUF mn	% distribution	HUF mn	%
Retail loans	8,991	38.1%	5,894	25.8%	–3,097	–34.4%
Corporate loans	14,231	60.2%	16,715	73.1%	2,484	17.5%
Municipal loans	165	0.7%	80	0.4%	–85	–51.4%
Loans to credit institution	239	1.0%	183	0.8%	–56	–23.5%
Total	**23,626**	**100.0%**	**22,872**	**100.0%**	**–754**	**–3.2%**

Reflecting the changes in the structure of the qualified loan portfolio, the volume of risk provision increased by HUF 2.5 billion, while in retail lending it decreased by HUF 3.1 billion, and in the interbank and municipalities business by HUF 0.1 billion each. Consequently, the share of interbank lending in the total of loan provisons fell to 0.8%, that of retail banking to 25.8% and of municipality banking to 0.4%, while the share of the corporate division increased to 73.1%.

Within the total of the portfolio, the highest share of the qualified volume within the total was determined for equity stakes belonging to the "other" category. Of a total year-end volume of HUF 34.2 billion, HUF 25.4 billion belonged to the qualified portfolio, of which 40% belonged to the "doubtful" rating category, more than one tenth to the "bad" category and close to one quarter to the category "to be monitored". The Bank set aside provisions in a value of HUF 8.8 billion for the qualified equity stakes, which represents a provision coverage ratio of 34.7%.

As of 31 December 2000, within the volume of trading and investment securities (excluding Hungarian government securities) the share of qualified securities was just 1.6%, amounting to HUF 354 million.

Within the total of off-balance sheet items, accounting for nearly one-fifth of the total of assets to be rated, the share of the qualified volume was 1.0%, and the Bank set aside a provision of HUF 1.2 billlion for this amount, representing a coverage ratio of 51.7%.

ASSET AND LIABILITY MANAGEMENT

THE DEVELOPMENT OF OTP BANK LTD.'S LIQUIDITY POSITION

OTP Bank Ltd.'s Liquidity Policy is aimed at ensuring that the Bank can meet its payment obligations as and when they fall due in such a manner that profitability is ensured, and the Bank may carry out the transactions it needs to.

The Bank analyses its liquidity exposure on a daily basis, checks the balance of the compulsory reserve account, Treasury's portfolio, and prepares a cash-flow analysis for eight days ahead. It also prepares a maturity balance sheet on a monthly basis. In line with the plans, the Bank determines Treasury's placement potential or funding requirement, and reports to the Asset and Liability Committee on any deviations from the prescribed gaps, Treasury portfolio and funding requirement limits.

The positive gap was again large in 2000 in the short-term maturity brackets of the HUF maturity balance sheet drawn up by a regrouping according to the possible expiry dates of deposits. This is explained by the fact that, similarly to the previous years, Treasury gave preference to NBH deposits ensuring the highest yields and, due to the negative yield-curve, to high-yield short-term money market instruments in its placements. According to current regulations, a large deposit is one that exceeds 15% of the Bank's guarantee capital. However, the Bank applies a more prudent criterion: it qualifies all deposits in excess of HUF 2 billion as a large deposit. The total of the Bank's cash, securities accepted by the NBH, placements with other banks and repo was 12 times the total volume of the combined amount of large deposits. The Bank's liquid assets, trading securities as well as its deposits with the NBH and other banks amounted to 43% of total assets.

In the FX maturity balance sheet's categories of less than three months, the value of assets is far in excess of the value of liabilities. Within the volume of FX deposits, whose value grew 7% in 2000, a favourable change occurred in the distribution by various types of currency, in that the share of USD deposits became larger. Due to the favourable interest rates on Euro deposits and also due to the fact that since 1 January 2000 the exchange rate of the forint has been tied to the Euro, the volume of FX loans, especially in Euro, grew significantly, by 51 %, in 2000. However, as of year-end 2000, the share of the Euro within the total of FX assets was only 49%.

MARKET RISK MANAGEMENT

At OTP Bank Ltd. the main body that supervises market risk management is the Asset-Liability Committee. The committee reviews, on an annual basis, the measuring methods and limits, which are determined on the basis of the maximum acceptable loss. On 1 May 2000 the Bank set up the Risk Management Directorate as an organisational unit of the Strategic and Financial Division and, within this, the Division of Market Risk. The task of the Directorate is to determine the exposure of the Bank and of the OTP Group as a whole. With this step, business (trading) and risk management activities were completely separated. In 2000 the Bank also carried out an important development in its risk managing system, as in the last quarter of the year the trial operation of the Value at Risk (VaR) system was launched. The greatest challenge for 2001 is to ensure compliance with the new government regulations that have recently been passed concerning the trading book.

INTEREST RATE RISK EXPOSURE

In the first quarter of 2000, the HUF money market was characterised by falling interest rates and subdued interest rate expectations. This was also indicated by a negative yield-curve. However, after 8 March, the date on which the introduction by the NBH of a security with a 3-month maturity was announced, the interest rate started to rise, then it fell somewhat and then began to rise again. In the last quarter of 2000, in response to the inflation figures of September, which were more unfavourable than had been expected, the NBH increased the official NBH benchmark interest rate by 1 percentage point on 11 October.

The Bank may incur losses due to the adverse change in interest rates. However, it wishes to keep the potential loss from falling net interest income and the reduction in the market value of the portfolio within determined limits. In order to ensure this, the

Bank continuously monitors its exposure to interest rates, and, if a limit is exceeded, it informs the management accordingly. In 2000 the gap of the Bank's HUF repricing balance sheet with maturities of less than one year became even shorter, i.e. the volume of liabilities that exceeds assets and can be repriced, increased further. The repricing position with maturities of more than one year increased by HUF 54 billion in 2000: the excess of assets with a long-term repricing over liabilities increased, since the Bank, expecting an interest rate reduction in the long run, invested in government securities with a fixed interest rate. The foreign exchange interest rate position is relatively closed, since – similarly to the previous years – the Bank undertakes a low level of interest rate exposure. According to the resolution of the Asset-Liability Committee, the average duration of the Bank's trading securities portfolio must not exceed 3 years.

EXCHANGE RATE EXPOSURE

From 1 January 2000, alongside a continuation of the crawling peg devaluation system introduced in 1995, HUF devaluation has been performed against the Euro. In 2000, the monthly devaluation rate decreased from 0.4% to 0.3%. At the beginning of 2000, the NBH assessed the situation, and came to the conclusion that the banks had embarked once again on speculation for the HUF. The NBH announced and took several measures to prevent the taking of an excessively high FX position, including a series of reductions in the first quarter of 2000 of the fortnightly benchmark HUF interest rate on deposits, the issuing of an NBH bond, and making the open FX position disclosed in the balance sheet more expensive through the obligatory reserve requirements.

In order to reduce the potential loss originating from adverse movements in the exchange rate, there is a legal rule on the maximum permitted amount of the total open position, limiting it to 30% of the guarantee capital. OTP Bank also has a detailed and annually reviewed internal regulation on managing exchange rate exposure. The Bank applies limits on the maximum amount of overnight position taking, and it also applies limits on the balance sheet and off-balance sheet positions by types of foreign currency.

The Bank is present in both the domestic and the foreign spot and derivative FX markets. The average size of OTP Bank Ltd.'s gross FX position grew from HUF 5.7 billion in 1999 to HUF 10.5 billion, while, compared with the long position of the previous year, the Bank's net average HUF position for the year 2000 was a short position of HUF 6.8 billion. Compared with 1999, in 2000 the Bank kept both its forward positions as well as those disclosed in the balance sheet at much lower levels. The short forward position was HUF 13 billion, while the long position according to the balance sheet was HUF 8 billion. The HUF-FX swap volume was on the average HUF 5 billion. The FX-FX swap volume, amounting on the average to HUF 644 million, served the purpose of settling the liquidity position.

FINANCIAL SUMMARY*

BALANCE SHEET	1996.	1997.	1998. as at 31 December	1999.	(HUF bn) 2000.
Cash and bank	190.9	378.2	350.1	557.4	482.4
Government securities	334.4	371.3	468.6	300.9	439.0
Interbank deposits**	290.1	173.6	246.8	277.7	233.9
Loans and advances to customers	327.2	388.3	444.9	478.4	614.1
Retail	159.4	141.2	133.1	150.8	180.2
Corporate	141.0	223.7	280.4	291.4	393.2
Municipal	26.8	23.3	31.4	36.2	40.7
Intangible assets and tangible assets	36.7	36.5	44.1	52.1	52.7
Other	76.8	93.5	81.4	101.2	109.2
TOTAL ASSETS	**1,256.1**	**1,441.4**	**1,635.8**	**1,767.5**	**1,931.3**
Interbank liabilities	47.3	46.7	42.8	42.2	44.4
Deposits from customers	1,047.5	1,229.4	1,401.3	1,507.6	1,633.0
Retail	851.0	974.9	1,119.6	1,214.0	1,308.1
Corporate	121.4	155.9	177.8	189.9	210.9
Municipal	75.1	98.5	103.9	103.7	114.0
Securities issued	42.9	38.5	30.9	22.9	19.6
Provisions	1.2	9.5	11.4	11.1	11.3
Other	66.6	55.4	70.8	83.2	95.5
Shareholders' equity	50.6	61.9	78.6	100.7	127.5
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	**1,256.1**	**1,441.4**	**1,635.8**	**1,767.5**	**1,931.3**
Net assets per share (NAV) (HUF, fully diluted)	1,808	2,210	2,806	3,595	4,554

PROFIT AND LOSS ACCOUNT***	1996	1997	1998	1999	(HUF bn) 2000
Net interest income	58.5	84.3	86.5	84.0	86.9
Non-interest income	22.5	10.3	21.1	30.3	39.0
Of which: Net fee and commission income	10.2	16.6	20.7	24.0	32.0
Total income	81.0	94.6	107.5	114.3	125.8
Non-interest expences	59.7	63.4	70.7	74.6	77.7
Operating income/profit	21.2	31.2	36.8	39.7	48.1
Provisions	8.2	12.0	11.2	10.2	7.9
Profit before taxation	**13.1**	**19.2**	**25.6**	**33.3**	**40.2**
Profit after taxation	**9.9**	**15.3**	**21.1**	**28.3**	**32.5**
Earnings per share (EPS) (HUF, undiluted)	379.02	589.55	802.32	1,071.27	1,241.32

KEY RATIOS	1996	1997	1998	1999	2000
Return on average assets (ROAA) %	0.85	1.13	1.37	1.67	1.76
Return on average equity (ROAE) %	21.03	27.14	30.07	31.62	28.51
Real ROAE %	15.74	13.58	13.33	15.23	15.45
Capital adequacy ratio (HUF)					
Dividend per preference share	120	140	160	180	200
Dividend per common share	120	140	160	180	200
Loan to deposit ratio %	31.2	31.6	32.4	31.7	38.6
Cost/income ratio %	73.8	67.0	65.8	65.3	61.7

* Unconsolidated, based on HAR.
** Includes interbank short term and long term deposits and NBH long term deposits.
*** Net interest income and non-interest income in 1996 is not comparable to years 1997 to 2000 due to changes in HAR.

DIFFERENCES BETWEEN THE PROFIT AND LOSS ACCOUNT PREPARED ACCORDING TO THE INTERNATIONAL AND THE HUNGARIAN ACCOUNTING STANDARDS FOR THE YEAR ENDING DECEMBER 31, 2000

The after-tax profit of the Bank prepared according to the Hungarian Accounting Rules (HAR) and presented in a structure approximating the international standards developed as follows after the amendments according to the International Accounting Standards (IAS):

(HUF millions)

	HAR	IAS amendments	IAS
Pre-tax profit	40,216	–192	40,024
Taxes (deferred taxes in IAS)	–7,733	97	–7,636
After-tax profit	32,483	–95	32,388

Profit after taxation according to IAS was HUF 95 million less than according to HAR in 2000.

GENERATING/RELEASING THE GENERAL RISK PROVISION, THE PROVISIONS FOR EXCHANGE RATE LOSSES AND COUNTRY RISK PROVISIONS

General risk provisions of HUF 1,105 million was generated in 2000 in the HAR profit and loss accounts based on the value of the risk weighted total assets.

Provisions for exchange rate losses generated in the previous year in the amount of HUF 452 million based on the FX open position was released in the year 2000 and provision in the amount of HUF 70 million was generated based on the FX open position of December 31, 2000.

The Bank extended its country risk provisions, which were HUF 566 million generated in the previous years to cover its risk exposure to other countries, by HUF 14 million on December 31, 2000, thus the closing volume of country risk provisions were HUF 580 million.

The above provisions generated is not recognized by IAS, thus the provisions generated and released were reversed which results in a HUF 737 million profit increasing item in the IAS profit and loss accounts.

AMORTISATION OF THE PREMIUMS AND DISCOUNTS ON INVESTMENT SECURITIES

According to the IAS, for debt securities for investment purposes purchased above the par value, the loss equal to the difference between the par value and the cost shall be amortized on a straight-line basis from acquisition to maturity and the sum of the amortization shall be accounted against the income.

According to the HAR, premiums may not be amortized, the loss occurs at maturity and shall be fully accounted for in the year of maturity.

According to the IAS, for debt securities purchased under face value, the time proportional part of the difference between the face value and the cost is recognized as an income. As of 1997, the HAR allows the booking of income for discounted Treasury bills only, thus the IAS profit is increased by the gains on non-discounted debt securities.

The above items decreased the IAS profit by HUF 1,193 million in total.

Release of provisions for contingent and future liabilities

Within its business activities, the Bank financed and made built dwelling houses for sale, and in connection with this it was obliged to guarantee against possible workmanship faults for 10 years. The Bank's guarantee liability related to the dwelling houses will stand until 2007.

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

In 1999, HUF 700 million was released from the provisions generated in the previous years and HUF 350 million was released in 2000. The latter was equal to the expenses paid by the Bank.

Accounting of finance leases

The Bank leased and paid rental fees for computers and other equipments between 1995 and 2000. Contrary to the HAR, IAS considers these transactions as finance leases, and the equipment is registered among tangible assets. Part of these are equipments leased from AXIAL, and part of them are the leases of ATMs.

IAS takes out the items accounted according to HAR and accounts them according to the international standards.

The above items related to lease transactions increased the IAS profit by HUF 313 million in total.

Financial assets transferred permanently

The Bank transferred HUF 62 million to OTP Fund Services in 2000 to manage its liquidity problem. According to HAR the sum transferred to OTP Fund Services was posted under extraordinary expenses, IAS, however, considers the transferred sum as capital transfer (investment).

Gains on repurchased own shares

According to HAR, gains from the sale of repurchased own shares are posted into the profits under income of investment services. IAS, however, posts them directly into the reserves, thus it decreased IAS profit by HUF 70 million.

Self-audit and items accounted directly against reserves

According to HAR, corrections due to self-audit are accounted against profit reserves. IAS does not consider the items discovered in the course of the Bank's self-audit a serious error, thus it posted the amount of HUF 385 million against the current year's profit.

The items accounted directly against the profit and capital reserves according to HAR (financial assets taken permanently) increased the IAS profit by HUF 2 million.

DEFERRED TAXES

HAR does not, while IAS recognize and apply deferred taxation, where taxes are considered the same as other expenses and thus are subject to the principle of accrual and comparison.

In the Bank's case, deferred taxation effects items in the IAS accounts that will, in all probability, be realised on Hungarian accounts in the future, i.e. be posted either as a cost or as income. As a result of their accounting, tax payable may change in both way.

The Bank started to apply deferred taxation under its IAS accounts in 1994. Considering the 2000 profit changing items and the corporate tax rate of 18%, the assets resulting from deferred tax payment increased by HUF 97 million and amounted to HUF 332 million.

ACCOUNTING OF FUTURES AND SWAP TRANSACTIONS

IAS accounts the futures and swap transactions differently compared to HAR, and shows the time proportional results of the transactions, which decreased the profit by HUF 8 million.