



ANNUAL *Report*

2001



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SENIOR MANAGEMENT OF OTP BANK LTD.



DR. SÁNDOR CSÁNYI
Chairman-CEO



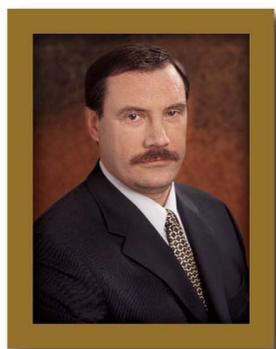
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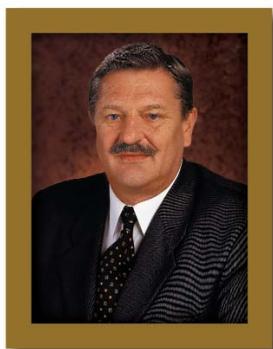
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CREDIT APPROVAL AND
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Deputy CEO
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Deputy CEO
COMMERCIAL BANKING DIVISION

MESSAGE FROM THE CHAIRMAN AND CHIEF EXECUTIVE OFFICER



It is a pleasure for me to announce that after a year filled with great challenges the Bank and the Bank Group are able to report outstanding results to our shareholders. In 2001, both the undiluted consolidated earnings per share of HUF 1,812.2 and the non-consolidated earnings per share of HUF

1,457.7 were considerably – 21.5% and 17.4% respectively – higher than in the previous year. Consolidated book value per share increased by 27% over the year, to HUF 6,506.2. In addition to a steadily increasing market value, numerous international titles and awards (Global Finance, Euromoney, The Banker – “Best Bank in Hungary”) also attest to the fact that over the long term, the Bank Group represents a stable, profitable investment for our shareholders. Of the various objectives set for 2001, I consider the expansion of the Group’s activities, the tightening of the interrelationship between the activities of the Bank and the Group, and the series of projects aimed at quality and efficiency enhancement the most important.

Meeting the growing demand for universal financial services implies and requires an ever more complex and sophisticated co-operation between the Bank and the members of the Group, while the competitiveness of market players increasingly depends on whether they are able to develop integrated, customised service packages – and on the quality of these packages. The rapid growth of the Group members’ markets (insurance, investment funds and pension funds, for example), and their increasingly significant role in the consolidated balance sheet total and profit (with the subsidiaries accounting for 12.1% of the consolidated total assets and 16.4% of the profit), makes it all the more necessary to ensure a uniform and integrated market presence. The Bank’s management took several measures in 2001 in this regard, with the most important being:

- the integration of the operations of OTP Securities Ltd. into the Bank’s organisation, and the rationalisation of capital market services activity;

- the expansion of the circle of affiliated companies and of the range of their services (mortgage bank, health insurance fund), and the improvement of the level and availability of these services.

2001 could deservedly be entitled the “Year of Projects” at OTP Bank. The various projects launched at the Bank were, and still are, aimed at process modernisation and, through this, at the lowering of cost levels, the enhancement of services, the satisfaction of the related need for information, and the development and adoption of modern bank-operation processes. The main principles underlying these projects were: the separation of customer relations from administrative activities, relieving the branches and the branch administrative staff of some of their workload, speeding up customer service, the reprocessing of information from a marketing point of view, and the automation of support activities.

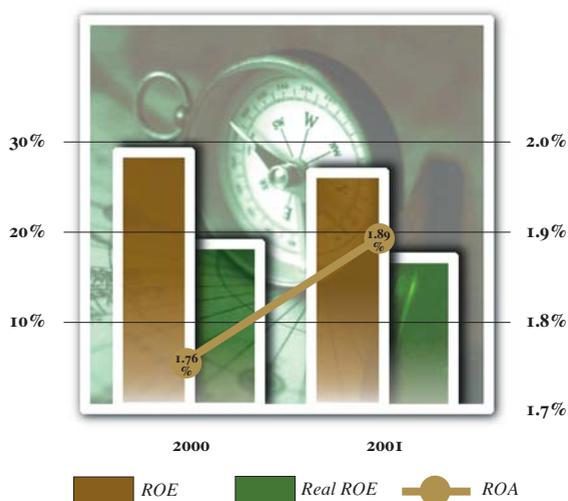
The Bank Group was able to implement and manage these major developmental projects in 2001 without negatively affecting profits. On the contrary, despite the high costs that the projects required, we were able to report a record profit in 2001, and the Group’s market share increased in all the strategic areas. The consolidated balance sheet total outstripped inflation, growing by 11.8% over the year and standing at HUF 2,321 billion as at 31 December 2001. In line with the Bank’s business policy, of the various affiliated companies, OTP-Garancia Insurance, Merkantil Bank and OTP Building Society made the largest contribution to the growth.

Consolidated pre-tax profits for 2001 were HUF 57.3 billion, which was 20.4% higher than the previous year’s figure. The Bank Group’s return on average assets (ROAA) was 2.11% and its return on average equity (ROAE) 28.5%. The improvement in the ratios was in line with business-policy plans, and is indicative of an efficient operation, even by international standards.

The parent company, OTP Bank Ltd., had a successful year on the basis of its own, non-consolidated profits as well. The Bank’s pre-tax profit in 2001 was HUF 47.4 billion, which was 17.8% higher than in 2000 and which accounted for almost one third of the total pre-tax profits of the Hungarian bank sector. The Bank’s profit and efficiency ratios improved further in 2001: in terms of return on assets (1.89%) and return on equity (26.9%), it is in the

MESSAGE FROM THE CHAIRMAN AND CHIEF EXECUTIVE OFFICER

front line of the Hungarian banks. The outstanding 2001 profit was achieved by increasing the intensity of the Bank's activity: the Bank's balance sheet total grew by



HUF 196 billion (10.1%) during the year, which represents a 3.3% increase in real terms. Based on its 2,127.2 billion-forint balance sheet total, OTP Bank is still the largest bank in the Hungarian banking sector, with its balance sheet total accounting for 22.3% of the total assets of the sector. Finally, I would like to mention two events of 2001 that are of great significance in terms of the realisation of the Bank's 2001–2005 strategy.

The main thrusts of the strategy set for the Bank Group are organic growth and the preservation of the Group's leading role in the domestic market, with a special emphasis on the development of electronic channels and services. In the middle of 2001, a new brand name, OTPdirekt, was created and introduced in order to integrate what had until then been, in business-policy terms, separate electronic channels. The range of services available expanded in every electronic channel and for each client segment, and the quality standards of the services improved further. For its OTPdirekt internet service, the Bank won the title of "Internet Bank of the Year 2001" and its Junior portal was named "Website of the Year" in Hungary. We are proud to assert, therefore, that with the developments implemented last year, OTP Bank has become stronger still, and has secured its market-leading position in the area of electronic services a long time to come.

Besides the preservation of the Bank's leading position on the domestic market, the 2001–2005 strategy also has as

one of its goals the consideration of opportunities for cross-border expansion, with a particular focus on the East European region. When weighing the merits of potential investments, the Bank considered its main criterion to be the minimising of business risk and the opportunity that a given investment presented for utilising OTP Bank's expertise and market knowledge to the greatest extent possible. By purchasing 92.55% of the Bratislava-based Investičná a rozvojová banka (IRB), the Bank has acquired an opportunity for expansion into the Slovak market, which the OTP Bank Group wishes to exploit by applying a characteristically conservative policy involving the implementation of measures aimed at achieving operational efficiency. The 53 branches of IRB, which occupies the fourth or fifth position on the Slovak market, represent a distribution network through which the Bank Group can take advantage of the business opportunities in the Slovak market in the areas of retail and corporate account management, lending and electronic services. As the largest card-issuer in the region, OTP Bank should also be capable of exploiting considerable untapped reserves in the market by promoting its card business. The Slovak market also offers major opportunities for members of the Group in the life insurance, fund management and consumer loan areas. So, 2001 also brought a breakthrough in relation to our plans for regional expansion, and this move into the Slovak market could, depending on our experiences, be followed by further acquisitions.

OTP Bank is considered by the panels that confer the international titles and awards mentioned earlier as one of the best and most stable banking institutions, not just in Hungary but in the entire region, and one that could play an important role in the consolidation of the East European financial sector. Based on the confidence of these analysts and on our domestic successes, we ask that our shareholders, too, trust in our ability to realise our strategic objectives. Special thanks should go to all our employees, whose hard work over the year resulted in the Group's outstanding performance in 2001 and contributed to the fact that we were able to retain and strengthen our customers' and shareholders' trust in us. In the years to come, we will continue to make every effort to ensure that OTP Bank Group remains worthy of this trust.

Dr. Sándor Csányi
Chairman-CEO

FINANCIAL HIGHLIGHTS

PROFIT AND LOSS ACCOUNT	2000	2001	CHANGE	
	HUF mn	HUF mn	HUF mn	%
Net interest income	86,853	98,342	11,489	13.2%
Non-interest income	38,965	42,775	3,810	9.8%
Total income	125,818	141,117	15,299	12.2%
Non-interest expenses	77,669	85,214	7,545	9.7%
Operating profits	48,149	55,903	7,754	16.1%
Increase in provisions	7,933	8,534	601	7.6%
Profit before taxation	40,216	47,369	7,153	17.8%
Profit after taxation	32,483	38,398	5,915	18.2%

BALANCE SHEET (AS AT 31ST DECEMBER)	2000	2001	CHANGE	
	HUF mn	HUF mn	HUF mn	%
Total assets	1,931.3	2,127.2	195.9	10.1%
Loans and advances to customer	614.1	769.8	155.7	25.4%
Retail loans	180.2	258.2	78.1	43.3%
Corporate loans	393.2	464.8	71.6	18.2%
Local government loans	40.7	46.7	6.0	14.9%
Interbank loans and advances	233.9	329.9	96.0	41.1%
Government securities in the Bank's portfolio	440.2	481.1	40.9	9.3%
Deposits from customers	1,633.0	1,811.2	178.2	10.9%
Retail deposits	1,308.1	1,405.6	97.5	7.5%
Corporate deposits	210.9	253.6	42.7	20.2%
Local government deposits	114.0	152.0	38.0	33.4%
Total loans and advances	881.7	1,118.7	237.0	26.9%
Performing loans	841.0	1,074.1	233.1	27.7%
Qualified loans	40.7	44.6	3.9	9.6%
Provisions for possible loan losses	22.9	21.7	-1.2	-5.2%
Shareholder's equity	127.50	158.50	31.00	24.3%

PERFORMANCE RATIOS	2000	2001
Expense/income ratio %	61.7	60.4
Average ROE %	28.47	26.85
Average ROA %	1.76	1.89
Capital adequacy ratio	15.45	14.11
Undiluted EPS (HUF)	1,241.32	1,457.67
Diluted EPS (HUF)	1,160.11	1,371.35
Total assets per employee (HUF millions)	237,344	256,500
Total income per employee (HUF millions)	14,916	17,235

MARKET SHARE (31ST DECEMBER)	12/31/2000	12/31/2001
Retail deposits, %	41	39
Retail loans, %	38	31
Corporate deposits, %	12	12
Corporate loans, %	11	12
Municipal deposits, %	81	78
Municipal loans, %	72	65

ECONOMIC, MONETARY AND REGULATORY ENVIRONMENT IN 2001

The development of the Hungarian economy in 2001 was determined largely by the events that took place in the global economy. The international slowdown was far more pronounced than had been predicted at the start of the year. The recession, which soon grew to become a crisis of worldwide proportions, took a few months to hit the Hungarian economy, and had a dampening effect on the dynamic growth of the previous period when it did, albeit less so than in the more developed market economies. The slower economic growth was accompanied by a favourable development in the external and internal balance ratios, an increase in real wages and in the purchasing power of the forint, and by a steady fall in unemployment, while inflation, which had for a long time been stuck at around the 10% mark, finally began to abate.

The 3.8% increase in **gross domestic product** was lower than that of the previous year (5.2%), but higher than that in some other countries of the region, and in excess of the EU average. The trend-change that had set in in 2000 continued in 2001: in the first quarter, GDP growth relative to the same quarter of the previous year was still as high as 4.4%, but the rate gradually slowed over the next three quarters (to 4.0%, 3.7% and then to 3.3%). The driving force behind the economic growth of 2001 was the construction industry and the service sector, reflecting the impact of investment projects realised in the context of the government's Széchenyi Plan and housing program.

The slowdown was most marked in **industrial production**. The 18% growth in 2000 was followed by a mere 4.1% increase in 2001, with the rate of growth falling sharply over the course of the year. In contrast to 2000, the entire increase in 2001 was generated by the 8.9% growth in export sales, while the volume of domestic sales remained at the previous year's level. Of the various sectors of industry, mining produced a volume 12.2% higher than in 2000 and the processing industry had a total turnover that was 4.9% higher. Reflecting signs of an upturn in the economy, and bucking the general trend, revenues in the **construction industry** increased 10% over the year. Of the various sub-sectors of the construction industry, the production volume of finishing-type construction works grew by the greatest extent (31.6%). Judging by the volume of orders, especially the 17.4% increase in the number of new construction contracts concluded, the upswing in the sector is expected to

continue. As a result of the many adjustments made to the housing support scheme, after hitting a low in 1999, the decline in new-home construction came to an end. In 2001, usage permits were issued for a total of 28 thousand new housing units – 30% more than in the previous year.

The performance of the **agricultural sector** in 2001 was better than it had been in previous periods, with the decline in production finally coming to a halt. Sales of agricultural products grew by 9.8%, accounted for entirely by the 27% increase in purchases of plant-cultivation and horticultural products. Sales of livestock and animal products decreased by 1.3% over the year.

The **domestic use of GDP** increased by 2.1% in 2001. **Investment volume** exceeded the previous year's level by 3.5%. **Household consumption** grew by 4.0%, a rate higher than the growth in GDP, while gross household savings exceeded the previous year's figure by 13.6%. Average gross monthly wages of the employed (HUF 103,600) increased by 18%, while **average net wages** (HUF 64,900) were 16.2% higher than in the previous year. The increase in nominal wages coupled with a falling inflation resulted in a dynamic, 6.4% growth in real wages, and if child tax allowance is also taken into account, the increase in real wages in 2001 was 7.7%.

Inflation climbed further in the first half of the year, but slowed considerably in the second half, and thus average annual inflation fell from 9.8% in 2000 to 9.2% in 2001, with the December/December rate falling from 10.1% to 6.8%. Economic trends in 2000 were characterised by a **stable external and internal balance**.

The **budget deficit** amounted to HUF 484 billion, exceeding the deficit of the previous year by HUF 35 billion, although if expressed as a proportion of GDP, the deficit actually fell from 3.5% to 3.3%. There were considerable changes last year in the central budget and social security fund deficits. The central budget deficit at the end of the year amounted to HUF 413.2, representing an increase of HUF 44 billion over the previous year, whereas the social security deficit, at HUF 29 billion, was only one third that of the previous year. The HUF 220 billion central-budget primary surplus was some two thirds that of 2000.

The **foreign trade deficit** was EUR 3.6 billion (USD 3.2 billion), or EUR 760 million less than in 2000. The annual volume of exports increased by 8%, and that of imports by 4%.

ECONOMIC ENVIRONMENT

The growth in exports exceeded that of imports throughout the entire course of the year, with the difference in the pace of growth between the two increasing with each quarter; from 1–2 percentage points in the first half to 5–6 percentage points in the second half. These quarterly developments reflect the recession that characterised the global economy in 2001. Thus, the 18% first-quarter growth in exports had turned into a 3% decrease by the end of the year. A similar trend was discernible in imports, with the 17% increase at the start of the year falling by 1% in the third quarter, followed by a further, 6%, decrease in the fourth quarter. The **current account** deficit in 2001 was EUR 1.248 billion, or about EUR 186 million less than in the previous year. Over the year as a whole, the improvement in the balance of all components of the current account – with the exception of the volume of FX trading related to the import and export of goods – contributed to an improvement in the balance of payments above expectations. There was a EUR 2.3 billion deficit in FX trading related to the import and export of goods, while the service sector produced a positive balance of EUR 2.4 billion. A considerable part of the revenue growth from services was generated by the EUR 2.9 billion tourism surplus.

The so-called non-debt-generating **inflow of capital** into the country (i.e. working capital and portfolio investments) amounted to EUR 813 million. The country's gross external debt (including loans from the owners of companies) increased by EUR 4.8 billion to 37.8 billion, while net debt decreased by EUR 0.3 billion, to 11.8 billion. Four-fifths of the increase in gross debt was generated by the private sector, while 25.7% of the net debt came from the government sector and the national bank. International reserves amounted to EUR 12.2 billion at the end of the year.

MONETARY POLICY

The year 2001 played a significant role in the development of monetary policy. Important decisions were made regarding the course of monetary policy and several critical new laws were passed. The forint exchange-rate band was widened, foreign-exchange controls were entirely lifted as of 1 January 2002, and the forint became fully convertible. By approving the new Central Bank Act, the monetary council became the supreme decision-making body of the NBH, and a monetary system built on inflation-targeting was introduced. Accordingly, the central bank set the objective of achieving a 7% inflation rate by December 2001 and a 4.5% rate by December 2002, allowing for a tolerance band of +/-1%. In order to implement a more responsive and more

effective anti-inflation policy, the exchange rate system also had to be changed. From 3 May 2001, the forint's devaluation band was widened from +/-2.25% to +/-15%, and then, with effect from 1 October, the monthly devaluation of the forint was terminated and the mid point of the intervention band was set at HUF/EUR 276.1. The widening of the band and the fixing of the mid rate was successful in discouraging the inflow of speculative "hot money" from the international foreign exchange market. The transformed monetary system is also in harmony with the European exchange rate mechanism, the ERM II.

With the widening of the fluctuation band, the room for manoeuvre in terms of interest rate policy increased significantly and, as a result, so did the effectiveness of the policy. The **interest rate policy** of the central bank during the year was motivated largely by the NBH's desire to meet its inflationary target.

With the entry into force of the Central Bank Act on 13 July 2001, in accordance with international practice, the **central bank prime rate** began to function as a benchmark rate in monetary policy. At the same time, the central bank prime rate applies to 14-day deposits placed at the NBH, and this interest rate fell 200 basis points during the year, from 11.75% to 9.75%. An interest rate of 2 percentage points less than the prime rate applies to overnight deposits, while loans with government securities as collateral are available at the NBH at an interest rate 2 percentage points higher than the prime rate. Overnight borrowing rates fell from 13.75% to 11.25% by year-end, and deposit rates from 9.75% to 8.25%, with a 100 basis-point reduction in the interest corridor. The increase in inflation in the first half of the year squeezed real interest rates to below 0.5%, then, in the second half of the year, the sharp fall in inflation more than offset the general fall in interest rate levels, resulting in real interest rates of about 3%.

At the start of the year, the range of **monetary policy tools** changed significantly. Several instruments ceased to be used, and the regulations applicable to the auction of 90-day central bank bonds and to 14-day central bank deposits were modified. The main changes in the policy instruments were follows:

- tenders for 90-day NBH bonds began to be announced for fixed quantities and at variable rates;
- in the case of 14-day deposits, the central bank resumed its earlier practice of making the deposits available once a week, at fixed interest rates and with no restrictions on quantity, and with the total quantity accepted being made public;
- the active O/N repo bracket was terminated;
- the supplementary repo, which had thus lost its *raison d'être*, was ended;

ECONOMIC ENVIRONMENT

- in the new system, after VIBER closing, banks can now take up a one-day liquidity loan at the active repo rate;
- the availability of one-day FX swaps on a continuous basis was terminated.

In the framework of the further development of the **mandatory reserve** system, starting from 1 July 2001 the reserve ratio was cut, in two stages, from 11% to 6%, the interest compensation paid on mandatory reserves set aside for forint sources increased by 1%, and by 0.5% in the case of reserves created for sources in foreign currency, and thus the interest paid on mandatory reserves set aside for the various deposits settled at a uniform rate of 4.25%. According to the modifications published on 8 February 2000, no mandatory reserves need to be set aside in 2001 in respect of the following items:

- sources collected through long-term securities publicly issued by credit institutions and through mortgage bonds issued by mortgage institutions, if the maturity of the securities exceeds two years;
- advance-savings deposits opened by building society funds;
- foreign sources with a maturity of over two years.

Other changes are that reserves must now be set aside on foreign FX sources with a maturity of less than two years, the 4% preferential interest rate has ceased to exist, and forint cash-at-bank has been removed from the range of assets available to credit institutions for complying with the mandatory reserve requirement.

Yields on the short-term securities market fell from 11–11.5% to 9–9.7% over the course of the year. Yields remained above 10% until October, and then, in the last two months of the year, benchmark yields began to rise. A steeper fall in interest rates characterised short-term securities, and the interest rate on long-term bonds decreased from 8–9% to 7–8%. The inverse character of the yield curve became slightly less pronounced.

THE INTERNATIONAL ECONOMY

The deterioration in the global economic situation that had begun in the autumn of 2000 became increasingly serious and, by the second half of 2001, had spread to virtually all geographic regions. The substantial slowdown in economic growth and world trade occurred at an unparalleled speed. The rate of annual growth in GDP slowed from 4.1% to 1.1% in the USA, and from 3% to 0.6% in Germany, while in Japan the previous year's increase turned into a 0.7% decrease in 2001. In the majority of emerging markets, the rate of economic growth fell by several percentage points, and in some, GDP stagnated or actually

fell. The average rate of economic growth in the region slowed to about 3%, compared to the previous year's 5.5%. The growth in the volume of world trade fell from 13% in 2000 to around 0.5–1% in 2001.

The worldwide slowdown in economic growth was partly attributable to the characteristic features of the economic cycle and partly to changes in the structure of production and demand. The terrorist attacks in September only deepened the recession and worsened the chances of a speedy recovery.

Aggregate economic growth in the **European Union** also slowed considerably, although the pace of growth was higher than in the United States. There were significant differences between the EU countries in terms of their growth rates. Great Britain and France were positive examples where, due to a livelier domestic demand, the increase in GDP was considerably higher than the average 1.7%. In 2001, the **Commonwealth of Independent States** became, economically, the fastest growing region among the various regions undergoing political transformation. The growth can largely be explained by the fact that the CIS countries are less integrated into world trade systems, and consequently the impact of the slowdown was not so powerfully felt there. In the first half of the year, the high price of oil – due to the strong crude-oil and fuel-oil export structure in the region – resulted in a considerable growth in GDP. Russia's economic growth in 2001 exceeded 5%, although there are definite signs that the momentum may now be exhausted.

The worldwide recession did not spare the economies of the **east-central European** countries. The signs of slowdown were discernible in every country of the region, except for the Czech Republic and Slovakia, where the increase in GDP was slightly quicker, although still under 4% in the Czech Republic and under 3% in Slovakia. In Slovenia and -Hungary, the rate of slowdown was 1 to 1.5 percentage points, while in Poland, GDP virtually stagnated.

The rate of economic growth in the countries of **south-east Europe** was higher than in the east-central European countries. In 2001, after three years of recession, the pace of economic growth in Romania increased to about 4.5% due to accelerated industrial production. Despite the recession in the foreign trade market, the rate of economic growth in Bulgaria was only slightly lower than it had been in the previous period.

Among the **Baltic states**, the slowdown was especially pronounced in Estonia (with growth falling from 6.9% to 4%), while Latvia and Lithuania can take pride in a 7% and 4–5% respective increase in GDP, both figures higher than those of 2000.



*B***BUSINESS***Review*

BUSINESS REVIEW

AT the beginning of 2001 the AGM of the Bank approved the med-term strategy of the bank, covering the 2001–2005 period. The main targets of this strategy is to enhance shareholders' value, through high and sustainable ROE generation. By the end of the strategic period the Bank's size, profitability and quality of service should correspond to the requirements which shall be set by the entrance of the country to the European Union, and the changes in the economic environment which it will generate.

In line with these aims, the Bank initiated several IT Project in 2001, which shall come to a conclusion and bring results during the coming years.

In order to retain the Bank's competitiveness in 2001, preparations began for the creation of a data warehouse. In connection with the data warehouse, it will become possible to identify the customers consistently throughout all the systems.

In order to ensure that a uniform, integrated IT system supporting the administrative processes is in place, the introduction of a complex corporate management system is underway. In the framework of the SAP project that was launched in 2001, the accounting and controlling systems will be upgraded, and the mandatory reports will be generated faster and automatically. The IT support systems needed for efficient tangible asset and inventory management, customer acquisition and treasury back office activities will be implemented. As a part of the SAP project, an integrated management information system will also be created.

The installation of the SUBA system throughout the branch network was commenced in 2001 and will be completed this year. This new, state-of-the-art branch system is capable of fully replacing the current system and of accessing the IT systems of the Bank's other businesses on one screen.

The development of OTP's sales channels continued in 2001. After the Budapest branch offices, the Bank also began refurbishing the county-seat branches. Special mention should be made of the project aimed at replacing the branch façade logo systems of 50 high-priority branch offices, which began in the second half of 2001. As of year-end 2001, OTP was serving its customers from a total of 424 branch offices throughout Hungary (in 74 of which customs cashier services were also available), 26 customs branches and 55 automated customs branch offices.

The Bank continues to play a dominant role in the development of electronic distribution channels. Electronic sales channels, which had until then been separated from each other also in terms of business policy, were united in the middle of 2001 under one uniform brand, with OTPdirekt being introduced as a trademark name.

In the area of electronic sales channels, the Bank continues to play a dominant role in the market. Estimates put the Bank's market share with respect to all of the electronic sales channels between 60–80%. By the end of 2001, the number of customers with a TeleBank Center contract had reached 345,000; up 92% from the previous year. The services offered by HÁZIB@NK were being used by 133,000 customers (a growth of 120%) and Mobil TeleBANK by 97,000 customers (a growth of 177%).



BUSINESS REVIEW

In 2001, the range of electronic services expanded with respect to all the electronic channels, and the quality parameters of the services improved further. The Junior website of the Bank won the “Website of the Year” award, and OTP was awarded the title “Internet Bank of 2001” for its internet-based service, OTPdirekt. In 2001, the range of services offered via the internet was extended to include the management of foreign currency accounts. It became possible to give on-line instructions for the re-transfer of time deposits to the current account, as well as to initiate transfers from a securities account. Since October 2001, customers have been able to initiate transactions in respect of their savings accounts and mobile deposits via the telephone-based and internet channels of OTPdirekt. Since November, it has also been possible for customers to change their bankcard purchase limit via the telephone or mobile phone.

In 2001 independent sub-portals were set up on the internet for Junior customers and for small and medium-sized companies.

In 2001 the range of services other than cash withdrawals that may be accessed via ATMs was expanded to include the requesting of account balances, the changing of the PIN code, and transfer services.

BUSINESS LINE RESULTS

RETAIL BANKING

OTP Bank has retained its dominant position in Hungary’s retail banking market. It manages 39% of household savings and 31% of household loans.¹

RETAIL DEPOSITS

By year-end 2001 the volume of retail deposits managed by the Bank had reached HUF 1,406 billion, representing a 7.5% increase over last year’s figure. The Bank’s share of the HUF deposit market was 39.1%, and its share of the foreign currency deposit market 36.3%.

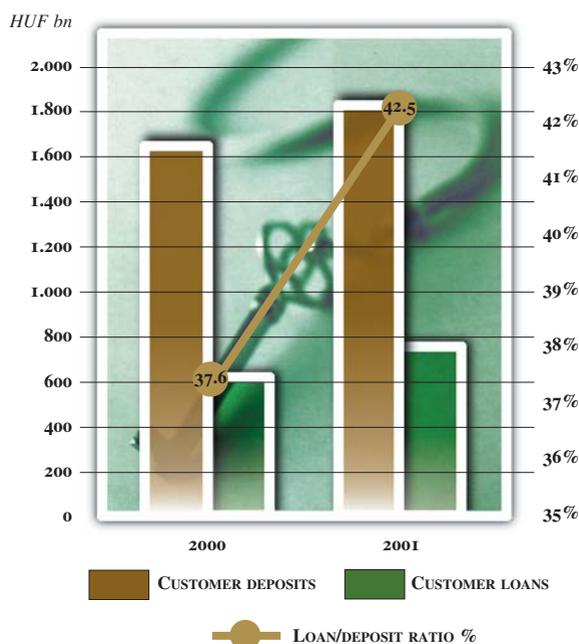
Retail deposits grew by 10.8% and reached HUF 1,076.8 billion by the end of the year. Within HUF deposits, the balance of retail current account deposits increased the most significantly – by HUF 109.5 billion, or 21.0% – and their share of total retail HUF deposits increased from

¹Due to the change in statistical methodology introduced on 31 May 2001, these data are not comparable with those to be found in the Annual reports of earlier years.

53.6% to 58.5%. The volume of time deposits held on current accounts was 19.2% higher than a year earlier.

Volume of deposits on interest bearing pass books declined slightly (by 0.3%) and was HUF 327.3 billion at the end of 2001. Premium deposit accounts grew dynamically to HUF 8 billion.

By year-end 2001, the number of retail current accounts had grown 3.6%, reaching 2.6 million. This growth occurred in spite of the closing of a large number of dormant accounts and accounts with a negative balance, primarily due to the fact that in April of 2001 the Junior account product was extended to include those aged 7 to 14 and, in November, also those under the age of 7.



Customer assets and liabilities

On 1 October 2001 the Bank introduced the Retail Savings Account, which represents a flexibly accessible facility for customers with relatively large savings (at least HUF 2 million). The success of the product is indicated by the fact that by year-end customers had deposited a total of HUF 5.6 billion on 2,295 of these accounts.

The volume of foreign currency deposits grew by 2.1%, to HUF 328.9 billion, while at the same time there was a marked decrease, of 24.7%, in the number of accounts, which

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meant that, in line with the Bank's objectives, the average account balance continued to increase. The main reason for the fall in the number of foreign currency accounts was the automatic conversion of accounts into euro due to the pending withdrawal of the "in-currencies", while the strengthening of the Forint also played a role in the decrease.

As of year-end 2001 the volume of **securities and deposit certificates** was HUF 14.9 billion, down 24.2% from the previous year. Of the CDs issued by the Bank, Deposit Notes represented the largest share (96.3%), with the volume of these Notes standing at HUF 14.3 billion as at year-end, down 23.0% from the previous year.

The number of bankassurance products sold grew by over 3-fold in 2001 and approached 275,000 mainly as a result of the success of bank card insurance introduced in 2001. Insurance fee income declined by 2.2% to HUF 13.3 billion mainly related to the fall in single payment life insurance products, following the decline in yields as a result of falling equity prices.

RETAIL LOANS

2001 saw a continuation of the dynamic expansion of the retail loan market. As a result of changes in the home finance subsidy system at the beginning of 2000, the volume of housing loans, stagnation for many years, grew by 72.5%, surpassing the growth rate of 2000. The volume of new housing loans issued by credit institutions reached HUF 329.1 billion, growing from HUF 190.8 billion at the end of 2000. In consumer lending the tendency of earlier years continued, and the volumes grew by 35.4% (some easing of the growth rate), from HUF 409.1 billion to HUF 553.8 billion.

In the **housing loans market**, where a multitude of players had appeared, OTP's most important objective was to re-

tain its leading position in spite of fierce competition. As at year-end 2001, the combined value of *Lakáshitelek 2000* (Housing Loans 2000) and of *Forrás-hitelek* (Source Loans) was HUF 88.5 billion, which represents a growth of 200.1% compared with the HUF 29.5 billion of the previous year. Due to the dynamic growth in volume, the Bank was able to check the previous downward trend in the volume of the older-type housing loans, more than compensating this decline with the new loan placements. Total housing loans of the Bank reached HUF 150.8 billion securing a market share of 46.7%.

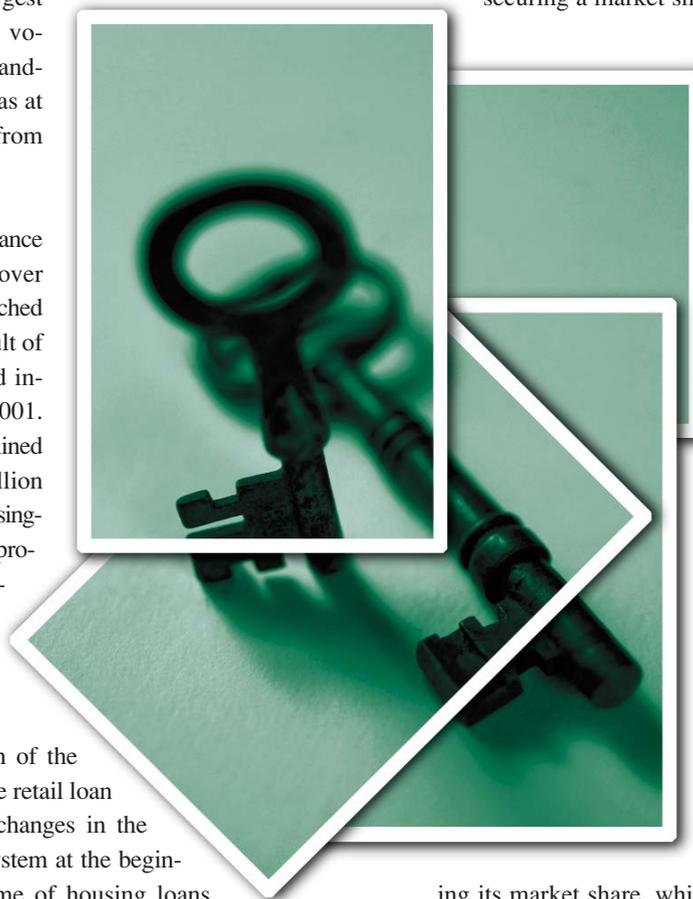
On 1 August 2001 the Bank added two new, favourable-interest-rate facilities to its range of housing loan products; the subsidised and the non-subsidised *Forrás-hitel* (Source Loan), which could be applied for with a simplified income test. As of 1 November 2001 the interest rate on subsidised housing loans was reduced to 2.75%, which gave a further impetus to the growth in the volume of housing loans.

By 31 December 2001, the volume of **consumer loans** had reached HUF 107.4 billion, representing an increase of HUF 31.4 billion, or 41.3%, over the previous year. Based on this substantial increase in volume, the Bank succeeded in retain-

ing its market share, which remained at 21% in 2001 too.

The growth in the volume of consumer loans was in large part attributable to the fact that – due to a continuous product development effort – mortgage loans retained their competitiveness. As of 31 December 2001, the volume of mortgage loans was HUF 46.3 billion; up 72.4% on the HUF 26.9 billion of the previous year.

Loans connected to retail current accounts, i.e. those of an overdraft type, continue to be very popular with the Bank's



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customers due to their attractively low interest rate, their accessibility with a bankcard and to their “revolving” nature. While at year-end 2000 the volume of these loans was HUF 41.9 billion, by the end of December 2001 this figure had reached HUF 56.6 billion, representing an increase of 35.2%.

The number of retail overdraft facility contracts increased substantially during 2001. While at the start of 2001 the Bank was managing 700,000 overdraft accounts, by the end of the year this figure had reached nearly 940,000 (a growth of 34%). Partly due to the Spring DM campaign related to the A-Loan, the number of A-Loan contracts grew from 477,000 to 638,000, while that of C-Loan contracts grew from 23,000 to 73,000. In line with the Bank’s plans, in 2001 the number of B-Loan contracts grew at a more modest rate (from 203,000 to 229,000).

INVESTMENT SERVICES

The Bank’s investment services business was set up, as an independent area, in July 2001, and includes (an expanded range of) securities trading and private banking activities.

SECURITIES TRADING AND SECURITIES ACCOUNT MANAGEMENT

The number of securities and capital accounts managed by the Bank did not change significantly compared with the previous year, while with respect to the investment volume managed on the accounts, a substantial growth of some 30% occurred in 2001.

Compared with the previous year, commission revenue from securities services showed a modest growth, and within this revenue the proportion of revenue coming from custody services increased, while that from agency-type activity decreased. The main reasons for this are the low turnover on the Stock Exchange, the decreasing number of orders and the relatively high account management fees.

The range of securities distributed by the Bank was extended by several new products in 2001:

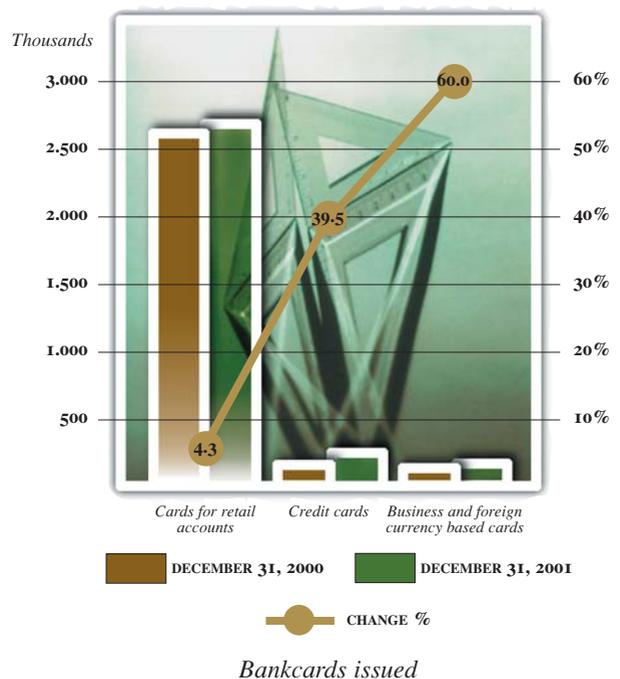
- As at year-end 2001, the recorded volume on customer accounts of government bonds issued by OECD member states was close to HUF 700 million.
- The range of securities products sold through the branch network was extended in mid-2001, with the

introduction of auction orders. Although there was a growing interest in auction orders, this did not dampen the demand for *Kamatózó Kincstárjegyek* (Interest-Bearing Treasury Bonds).

- During the last days of 2001, OTP Fund Management Ltd. began the distribution of two foreign currency-based investment funds via the internet.

PRIVATE BANKING SERVICES

In 2001, the number of private banking clients dropped to 6,807, from 7,067 at year-end 2000. The assets of private banking clients grew by 5.7%, reaching close to HUF 100 billion and offsetting the effect of the 3.7% drop in client numbers. As a result, the average asset portfolio size per client increased by 9.7% over the year.



The change in the asset structure of the clients’ portfolios continued. In addition to the traditional banking products (retail current account, foreign currency), the clients increasingly chose securities-type investments.

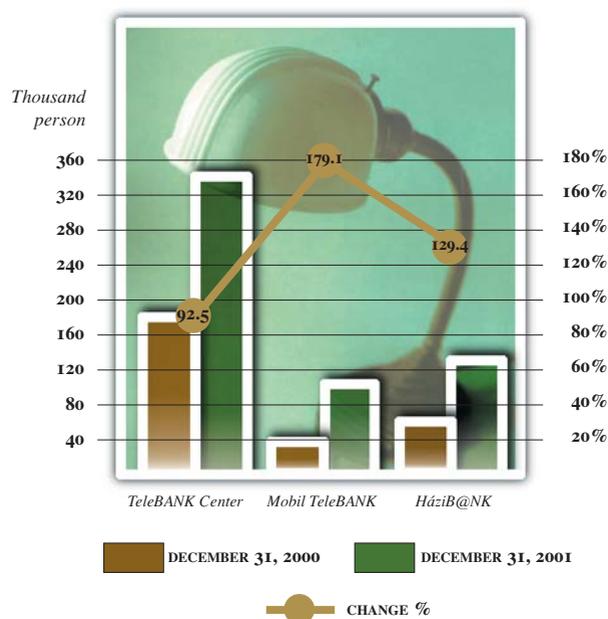
In the second half of 2001, the Bank’s management decided that the entire concept underlying the investment services business would have to be reviewed. Consequently, in the first half of 2002 private banking services will be repositioned (i.e. a new value proposition; new products;

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new pricing policy; strengthening of the advisory side of the service; consistent, high-quality service developed and instituted).

BANKCARD BUSINESS

With a growth of 7.4%, the number of bankcards issued by the Bank reached 3,095 thousand by 31 December 2001, enabling the Bank to retain its market share of more than 60%.



Usage of electronic banking services

The number of bankcards issued in conjunction with retail accounts grew by 6.4% in 2001, a similar rate to that of the previous year, reaching 3,016 thousand by year-end. Within the category of retail bankcards, the number of Forint-based cards grew 7.4% in 2001, reaching 2,937 thousand; the number of foreign currency cards was in excess of 4,000; while the number of cards used purely for customer identification purposes, decreasing at a similar rate to that of previous years, fell to close to 75,000 by the end of the year.

The change in the number of cards issued for non-retail customers was characterised in 2001 by the same, dynamic growth rate of the previous years. As of 31 December 2001, the number of these cards stood at 79,000, which represents a 66.8% increase over the previous year.

In October 2001, Multipont, the Bank's new co-branded card, was introduced. The success of this product is indicated by the fact that the number of cards issued during the last two months of 2001 was in excess of 14,000. Further developments in 2001 included the transformation of the range of products developed for the Junior age-group, as well as the extension of the number of services that may be accessed via ATMs, which meant that customers could use ATMs to initiate transfer orders, inquire about the latest balance on their accounts, or to change their PIN code.

By year-end 2001, the number of ATMs owned by the Bank had reached 1,094 (up 2.4%), and this means that the Bank now owns 43% of all the ATMs operated in Hungary. The number of transactions carried out on ATMs was 62.6 million in 2001, and the transacted volume was HUF 1,246.1 billion, representing an increase of 11.2% and 24.6% respectively over the previous year, increasing the market share by number of transactions to 67% and by volume of transactions to 49%.

By 31 December 2001, the number of POS terminals had reached 16,330, representing an increase of 7.5%. The Bank operated 2,467 of these terminals in its own branch offices, and 9,356 were operated at commercial outlets, with this latter representing a market share of 50%.

In 2001 the number of cash withdrawal transactions made in OTP Bank's own POS network was 2.7 million, and the transacted volume was close to HUF 605 billion, with the latter being an increase of 23.7% over the previous year. The number of transactions through the POS network of the postal system – operated by OTP Bank – reached 3.5 million, of which almost 60% was generated by cards issued by the Bank, and volume reached HUF 113.3 billion an increase of 24.6% over 2000.

In 2001 the turnover transacted on commercial POS terminals continued to grow dynamically. By the end of 2001, the number of purchases had reached 22.4 million, up 41% over the previous year, and the transacted volume was HUF 183.5 billion, which represents an increase of 40.2% over the previous year. The market share of the Bank increased, by number of transactions to 74% and by volume of transactions to 63%.

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Net income from card transactions grew by 49.6% in 2001 and reached HUF 10.7 billion. Largest volume came from ATM transactions (HUF 5.6 billion), card issuance fees (HUF 2.8 billion) and merchant fees (HUF 2.1 billion).

CORPORATE BANKING

Partly by taking account of the changes made in 2001 by the NBH in relation to the divisional breakdown of banks' corporate-customer clientele, OTP managed to strengthen its market positions, and by the end of the year, the Bank had attained an 11.7% share of the corporate deposit market, and an 11.8% share of the loans market.

The volume of corporate deposits stood at HUF 253.6 billion at the end of 2001, representing a 20.3% increase over the previous year. The share of foreign currency deposits within the total of corporate deposits was 5.9%. Nearly 50% of the total of deposits came from corporations, 20% from non-profit organisations, 14% from small enterprises, and 10% from homeowners' associations.

The volume of corporate loans at the end of 2001 stood at HUF 464.8 billion, representing an increase of 18.2% over the previous year. The share of FCY loans within the total of corporate loans was 23.7%. As of year-end 2001, FCY loans amounted to HUF 110.2 billion, down 11.7% from the previous year.

At the end of 2001, loans granted to businesses were in excess of HUF 386 billion, up 18.5% over the

previous year. 28% of these loans were in foreign currency. Within loans to businesses, the growth in capital project loans amounted to 69%, while current account (overdraft) loans grew by HUF 8.6 billion, current asset loans by HUF 7.7 billion, and loans for the realisation of commercial housing projects stood at HUF 4.8 billion.

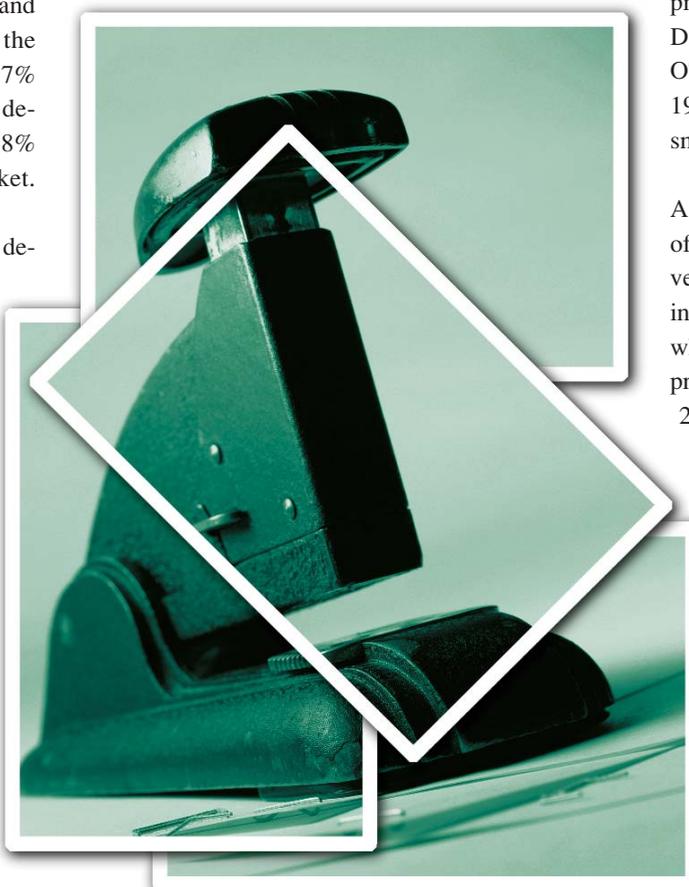
As of year-end 2001, the total value of loans granted to small enterprises was HUF 15.9 billion, up 18.2% over the previous year. 56.7% of this amount was granted to private entrepreneurs. As of 31 December 2001, the volume of OTP's Quick Loans amounted to 19.0% of the loans granted to small enterprises.

As of year-end 2001, the volume of the loans of financial and investment service companies had increased to HUF 35.2 billion, while the loan portfolio of non-profit organisations was HUF 27.7 billion; down 1.1% from the previous year's figure.

As of year-end 2001, 20.0% of the business loans had been granted to companies in the financial services sector, 18.2% to companies in the manufacturing sector and 14.1% to transport and telecommunications companies. By the end of 2001, the share of agriculture within the Bank's

loan portfolio had dropped to 6.7%, although within this amount, the volume of loans secured with what is regarded as first-class collateral public warehouse bonds, had doubled.

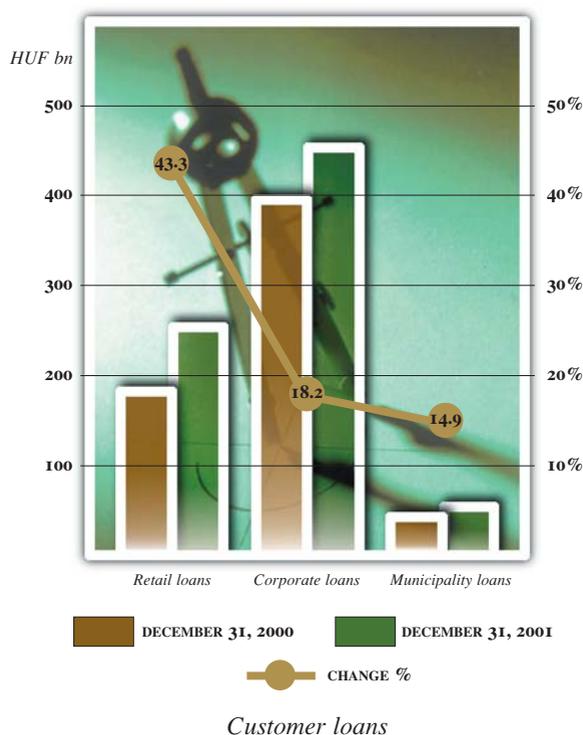
Loan placements increased by the largest extent in the construction industry (by HUF 19.9 billion), in transport and telecommunications (by HUF 18.0 billion) and in financial services (by HUF 15.1 billion).



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In 2001 the range of products offered to OTP's corporate customers expanded further. The small business mortgage loan was introduced primarily for small and medium-sized enterprises, and the Bank also took part in lending and the provision of bank guarantees in relation to the Széchenyi programme. At the same time, a number of corporate loan products were redesigned and enhanced (e.g. the small business "Quick" Loan, the Lombard Loan, loans for financing commercial housing projects, agricultural loans and EXIM loans).

In order to speed up and to simplify the loan application appraisal process, a corporate creditworthiness scoring system was developed, and is expected to be introduced in the first half of 2002.



With respect to its corporate clientele, the Bank is also placing considerable emphasis on the development of electronic banking channels, including the development of the products offered on these channels: in 2001 we introduced the "OTP e-Forint" electronic bank account, and the SME website linked to OTP's website was greatly enhanced, and now contains several new, customer-friendly services.

CUSTOMS SERVICES

In 2001 OTP's customs services division strengthened its market-leading position. By year-end, the division's services were available at 155 locations throughout Hungary, with the number of its outlets growing by 20% in the course of 2001.

In 2001, more than 29,000 customers settled a total volume of HUF 120 billion in customs duties/customs guarantee payments via the Bank, the commission revenue reached HUF 260.9 million. Compared with the previous year, the total turnover grew by 37.9% and commission revenue by 38.9%.

The use of Customs Cards spread further. By year-end 2001, their number had grown by 37.7%, to nearly 2,000, and during 2001, 44.2% of the total payment turnover was transacted with the cards, compared to a figure for the previous year of 38%.

By year-end 2001, the number of Automated Cashier System (AVR) units had grown by 57%, to 55, and during the year more than HUF 21 billion in payment turnover was transacted via the AVR units – 64% more than in the previous year.

The bank guarantees and the assumption of liabilities in connection with customs clearance procedures was HUF 7.7 billion, and the related commission revenue was close to HUF 82 million.

MUNICIPALITY BANKING

OTP once again retained its leading role in municipality banking in 2001. During the year, close to 85% of this customer group, i.e. 2,694 municipalities, together with the institutions that are financed by them, kept their current accounts with OTP Bank.

At year-end 2001, the volume of the deposits of the municipalities and their institutions was HUF 152 billion, up 33.4% over the previous year. The size of this increase is attributable to non-typical increases in central-budget settlements and to the exceptionally high growth in FCY deposits. By year-end 2001, the balance of municipality loans had reached HUF 47 billion, up close to 15% on the

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previous year. The Bank's market share of municipality deposits was 78%, while it had 65% of the market of municipality loans.

Of the available electronic services, a growing number of customers from among the municipalities and their institutions are using the client terminal system for transacting payments, as well as the Cash Management and the Treasury systems for preparing municipality budgets. The use of cash-substitute payment instruments is also becoming more common among our municipality customers, and this is reflected by the fact that the number of cards issued to the municipalities increased by 28% in 2001.

In 2001 the Bank did not introduce any new deposit products specifically for municipality customers, but it did extend the range of loans offered to them with a number of new financing facilities related to the Széchenyi project, including loans for housing, energy saving and tourism development.

The importance of the municipality banking division is increasing with the growing emphasis that is being placed on the utilisation of synergies within the Bank and the bank group. Through its municipality customers, the Bank has been able to make substantial progress in expanding both its retail and corporate clientele and also in the cross-selling of products offered by certain members of the group (such as OTP Building Society Ltd., OTP Fund Services Ltd. and OTP-Garancia Insurance Ltd.)

TREASURY AND STRUCTURED FINANCE

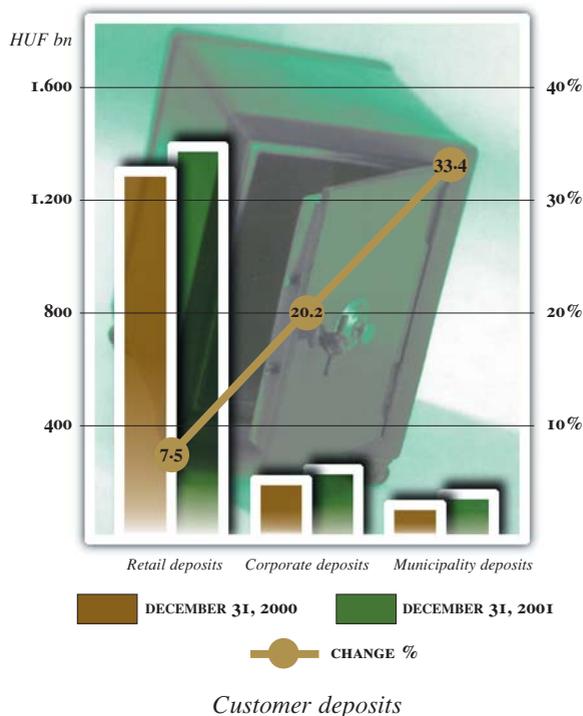
TRADING

The Bank successfully dealt with the challenges of 2001. The exchange rate system was changed, which meant an increase in exposure and the loss of a stable source of revenue. The liberalisation of FX regulations brought a number foreign banks, which are powerful competitors, to the Forint market. 2001 saw the integration of the securities trading activities of OTP Securities Ltd., together with the related organisational changes, and an expansion in the product range.

In 2001 Treasury's profit from FX trading was HUF 630 million. The profit from securities trading was HUF 122 million and, of these two results, treasury sales acco-

unted for HUF 140 million. The profit from money market deals was HUF 388 million.

In 2001 the Bank succeeded – in the face of what was also increasingly strong international competition – in retaining its market-leading position in the Hungarian FX market. OTP Bank is currently among the 10 largest



traders (with seven of them foreign companies) in the Hungarian spot FX market. OTP Bank was the first of Hungary's banks to have entered the international HUF options market, and it continues to be the largest player in the forward section.

Even after liberalisation, OTP Bank managed to retain its market-leading position in the Forint interbank market, and substantially increased its FX swap volume following the entry of the foreign banks. On the Forint market the most important event of 2001 was the introduction of the full liberalisation of the Forint and the resultant substantial increase in the number of OTP's (foreign) counter parties, despite conditions of a continuous decline in attainable Forint interest rates. Due to the combined effect of a fall in volume and in market interest rates, the annual interest revenue of 2001 decreased to HUF

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34.7 billion, from HUF 42.8 billion in the previous year, and the interest margin dropped from 1.14% in 2000 to 1.12% in 2001.

STRUCTURED FINANCE

In spite of a recession in the world economy (including in European markets) and the adverse impact that the September 11th terror attacks had on the global economy, the growth-oriented economic policy implemented in Hungary, and an increased number of infrastructure projects, had a beneficial effect on the syndicated lending market, as there was an increased need for funding among the market players. By capitalising on the favourable circumstances afforded by the economic environment, the Bank greatly increased its activities on the syndicated loans market.

The Bank again retained its market-leading position in 2001. OTP Bank acted as the lead arranger of syndicated lending projects for ÁÉB Rt. (General Banking and Trust Co. Ltd.), Pannon GSM Ltd., Kőolaj és Kőolajtermék Készletező Szövetség (The Association for the Storage of Petrol and Petrochemical Products), Budapesti Közlekedési Vállalat (Budapest Transport Company). The Bank was also the lead arranger of the Hungarian market's largest ever, HUF 180-billion, syndicated loan, given to Nemzeti Autópálya Rt. (National Highways Ltd.) in the framework of Hungary's 15-year highway construction programme.

Taking into account the trends in international financial markets, abroad it was primarily in the target market of the East-Central European region that the Bank chose to assume state-guaranteed as well as leading-financial-insti-

tution risks. OTP bank participated as co-arranger in the syndicated loan given to Nova Ljubljanska Banka, and it also participated in the consortium loan granted to HBOR and Hanvit Bank.

As a result of the activities of 2001, the commission revenue of the structured finance division was HUF 520 billion, and the volume of newly concluded deals was HUF 111.3 billion. Own-portfolio funds managed and drawn down amounted to HUF 101.7 billion, and contributed HUF 42.6 billion to the regional profit centres' corporate loan placements in the course of 2001. In 2001 the net interest revenue on the Bank's own portfolio was HUF 1.5 billion, while with respect to the volume transferred to regional profit centres it was HUF 420 million.

As the first step in integrating the activities of OTP Securities Ltd. into the Bank, the Department of Capital Market Products was formed on 1 October 2001. The two most important tasks of the department are the arrangement of securities issues on the capital markets for both domestic and international issuers wishing to enter the capital markets, and the elaboration of new bond programmes that are perceived by the market as innovative and that will also satisfy investors' individual and special needs.

In the course of 2001, OTP's structured finance division, acting as lead manager, successfully elaborated MOL's bond issue programme aimed at raising a total of HUF 50 billion in funding. As a part of the overall programme, the first bond series of HUF 15 billion was issued, and OTP was not only the lead manager of the issue, but was also the primary distributor of the bonds.



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The success of the transaction is indicated by the fact that the final subscription price was twice as high as the original offer.

PROJECT FINANCING

In the course of 2001, the number of project financing deals increased considerably, with 14 new projects in all. In 2001 the contractual (signed) volume increased from HUF 82.2 billion to HUF 122.7 billion, which represents an increase of 49.2%. In the same period, outstanding loans from project financing grew 46.9%, from HUF 58.8 billion to HUF 86.4 billion.

In 2001 the project financing division realised HUF 391 million in commission, fee and other revenues. Commission, fee and other revenues realised in 2001 are more than HUF 85 million higher than the revenue of HUF 305.7 billion realised in 2000. In 2001 the net interest revenue realised from deals was HUF 1,032 million, while in 2000 it was HUF 783.6 million. Within net interest revenue, interest revenue from FCY loans amounted to three-quarters of the total net interest revenue.

With regard to HUF loans, the average net interest margin, i.e. the difference between the fixed interest rate of a given interest period and the internal interest rate, was 1.4%, which is virtually the same as the average interest margin of 2000.

INTERNATIONAL BANKING

In 2001 OTP Bank transacted international payments in a total value of HUF 823.4 billion, or 21.1% higher than in the previous year. The volume of commission revenue grew 30.5%, and reached HUF 0.8 billion.

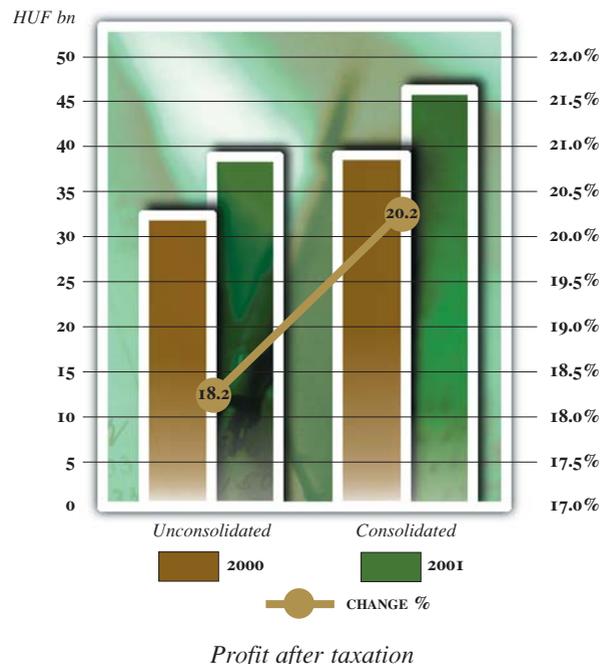
Thanks to the changes in Hungary's FX regulations, the Bank was able to introduce a new product to the international market: in June 2001 the Bank made offers to foreign banks with respect to managing HUF accounts for them and clearing international payments, in response to which a number of the world's largest banks opened accounts with OTP.

The high professional standard of the Bank's services was underlined by the fact that JP Morgan Chase Bank

chose OTP Bank to receive its US Dollar Funds Transfer Quality Recognition Award in 2001.

INVESTMENT

In 2001 the gross book value of the Bank's stakes held in various companies grew from HUF 34.7 billion to HUF 40.5 billion. The growth in the investment portfolio is primarily attributable to the increase in the capital of strategic investments and to the foundation of new companies. The capital made available to these companies was intended for covering the cost of operation, to contribute to their development and to increase the companies' market share.



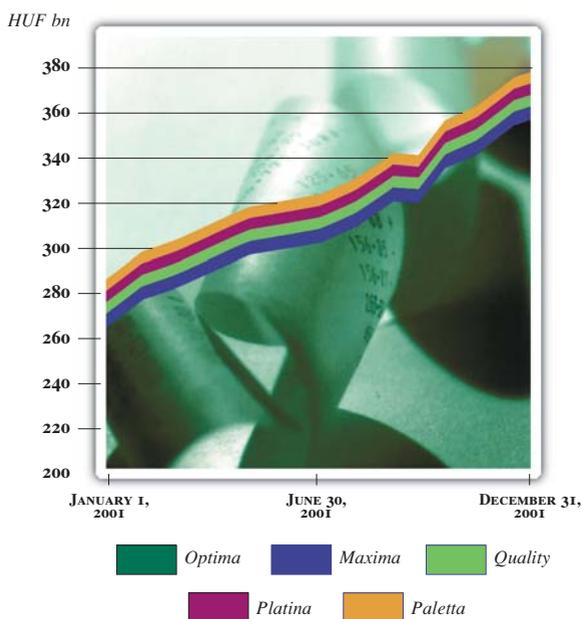
The major proportion of the Bank's strategic investments consists of members of the OTP Group. With the ultimate goal being to satisfy customers' needs to the fullest possible extent, the purpose of these investments was and still is the establishment of subsidiaries for activities that, for regulatory reasons, cannot be carried out within the Bank, and the conducting of these activities in a bank-group framework, and also to offset the effect of disintermediation, i.e. to keep the funds that are flowing out of the banking system and to retain management over those funds within the bank group. The success of this strategy is

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clearly demonstrated by the fact that as at year-end 2001 the OTP Group was managing more than 36% of all retail savings excluding cash, government securities and equities. In what follows, we describe the measures that were taken in 2001 in relation to building the group, and we also present brief reports on the operations of the major subsidiaries' in 2001.

OTP BANK GROUP

It is the strategic goal of the OTP Group to be the leading financial service provider in Hungary, and consequently aims to be market leader or dominant player in every segment of those services. To fulfill this an improvement of the performance and cooperation of the Group companies is necessary and requires the utilization of every new opportunity and continuous change in the Group in order to meet customer, market and legal requirements.



Wealth of OTP Investment Funds

During 2001, several new subsidiaries were added to the OTP Bank Group that will be launching their business operations as members of the group in 2002:

- In order to increase its share of the housing lending market, and wishing to capitalise on the new opportunities created by the government housing subsidies,

the Bank decided to establish a mortgage company, which began its operation as **OTP Mortgage Bank Ltd.** in February 2002.

- The organisation of **OTP National Health Fund** has begun, with the aim being to provide and arrange for health and health-protection services that will complement or replace public health services and that are intended for use by fund members. The fund was established in January 2002.
- In 2001, OTP Bank performed due diligence with regard to **Investična a Rozvojová Banka (IRB)** and decided to acquire it. The IRB shareholder's meeting will be held in April 2002, during which the new managing bodies will be elected. Following this, a development project for the bank may be launched and efforts may be made to integrate the bank into the OTP Group.

OTP-GARANCIA INSURANCE LTD.

In 2001 OTP-Garancia Insurance Ltd. earned total premium income of HUF 42.3 billion (up 8.8%), which meant that its market share remained stable, at about 10%. The premium income from the life and bank insurance division amounted to HUF 21.5 billion (up 1.3%), giving the division a market share of 12% and making the Company the third largest life insurer in 2001. The premium income of the non-life division in 2001 was HUF 20.7 billion, or 17.9% higher than in 2000, and this represented a market share of 9%.

Total gross damage claims were HUF 20.4 billion in 2001. The ratio of claim settlements to premium income in the non-life division was 53.2%, while when adjusted for changes in reserves, the damage ratio was 60.9%. The change in the reserves amounted to HUF 12.5 billion.

The Company's balance sheet total increased by 34.1% to HUF 61.7 billion, while pre-tax profits rose 43.5%, amounting to HUF 1,254 million for the year.

MERKANTIL GROUP

Merkantil Group once again retained its leading position in the car financing market. The growth in the total number of vehicle financing contracts, including those concluded within the group, was 13.9%.

MERKANTIL BANK LTD.

In 2001, the Company's balance sheet total reached HUF 59.4 billion and its pre-tax profit was HUF 1,925 million;

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13.5% higher than in the previous year. Of the Company's assets, gross car loans represented 80.0%, while dealer financing accounted for 9.5%. The total volume of car loans increased by HUF 5.8 billion compared to the year-end figure of the previous year, and amounted to HUF 47.5 billion as at 31 December. In the car financing business, the demand for Forint-based loans and foreign currency leasing facilities were similar, and the share of loans associated with used cars increased within the portfolio.

The number of car financing transactions within Merkantil Group was 39,000, with more than 22,000 new car financing transactions and 15,000 foreign currency based leasing transactions. According to estimates, the Group has acquired a 25% share in the car financing market.

MERKANTIL CAR LTD.

The relative weight of financial leasing transactions in Merkantil Car Ltd.'s books has continued to increase within the product structure of Merkantil Group. The reason for this is the reduction of interest rates on foreign currency based products and the successful introduction of the well-received CHF-based facility. The balance sheet total of the Company increased by HUF 11 billion in 2001, which means there was a 47.8% increase in assets compared with 2000.

The value of the financial leasing portfolio rose from HUF 19.2 billion to HUF 31.9 billion (i.e. by 66%). According to Merkantil Car's books, the total value of production-asset financing deals concluded by year-end was over HUF 3.7 billion, which represents a doubling of the portfolio. The Company's pre-tax profit in 2001 was HUF 462 million.

MERKANT-HÁZ LTD.

The balance sheet total of Merkant-Ház Ltd. increased to HUF 6.6 billion (i.e. by 24.6%) in 2001. As of 31 December 2001, the value of long-term car lease contracts taken over from Merkantil Car Ltd., as well as the value of such contracts concluded by Merkant Ház since March 1999, amounted to HUF 1,946 million. The Company's pre-tax profit in 2001 was HUF 64 million.

OTP BUILDING SOCIETY LTD.

In 2001, OTP Building Society Ltd. concluded nearly 77,000 new contracts in the value of HUF 49.4 billion. With these figures, the Company retained its market leading position both in terms of the number and the total value of

contracts. On the whole, OTP Building Society had a successful year. The total value of deposits and the balance sheet total were higher than expected, partly because the retirement of saving deposits took place at a slower rate than expected: of the 4,567 expired contracts, only 2,294 clients had withdrawn their savings by 31 December, while 957 clients had taken advantage of the opportunity to apply for loans.

As of 31 December 2001, the total deposit balance stood at HUF 48.1 billion, which represents a market share of nearly 50%. The Company's balance sheet total was HUF 54.1 billion, and its pre-tax profit amounted to HUF 1,652 million.

OTP FUND SERVICES LTD.

OTP Fund Services Ltd. retained its dominance over the market in terms of the number of individual accounts and the assets of the funds managed. At the end of 2001, the Company was managing 764,000 individual accounts and total fund assets of HUF 100 billion. At the end of 2001, the Company's market share in terms of number of accounts was 22.3%, and 18.7% in terms of fund assets managed. The Company closed the year with a profit of HUF 77 million, and its balance sheet total was HUF 1,510.8 million.

The number of members of OTP Private Pension Fund grew from 567,000 to 609,000, the Fund's assets rising from HUF 43 billion to nearly HUF 67 billion. The Company's market share increased by 27.0% in terms of membership numbers, and 24.6% in terms of assets under management. The number of members of OTP Voluntary Pension Fund grew from 117,000 to 149,000, with its assets rising from HUF 22.5 billion to HUF 31.0 billion. The Company's membership-based market share reached 13%, while its assets-based market share was 11.3%.

OTP FUND MANAGEMENT LTD.

The total value of fund assets managed by OTP Fund Management Ltd. continued to increase at a pace that outstripped the growth of the market, more specifically by 34.3% (from HUF 273.4 billion to HUF 367.3 billion), which is considerably higher than the 23.6% growth in the market.

However, the growth in both the market and in OTP Fund Management's assets was below the growth rates seen in the previous year. The Company increased its market share from 48.5% in 2000 to over 52% in 2001.

BUSINESS REVIEW

The value of the pension fund's assets that have been managed by the firm since October 2000 increased by 44.7% in 2001 (from HUF 70.3 billion to HUF 101.7 billion).

The Company's preliminary pre-tax profit was HUF 2,413 million, which exceeds the HUF 1,655 million of previous year by 45.8%.

OTP REAL ESTATE LTD.

OTP Real Estate's pre-tax profit was HUF 856 million in 2001, which represents a 12.8% increase compared to 2000. The Company's net sales revenues amounted to HUF 10.6 billion, which is 34.2% higher than in the previous year (HUF 7.9 billion). This increase was primarily a result of successful sales activities in the fourth quarter (Budapest, Péterhegy block T.4.; Budapest, Pusztadomb; Miskolc, Ruzsin stages II-III.).

The Company's profit from financial transactions amounted to HUF 34.9 million in 2001, and its balance sheet total had reached HUF 11.5 billion as at the end of the year. From all the successful companies in the real estate business, the Hungarian Real Estate Association once again awarded OTP Real Estate the title of Property Developer of the Year award for 2001.

OTP FACTORING LTD.

OTP Factoring Ltd. concluded assignment contracts for receivables in a gross value of HUF 11,557 million, of which the value of receivables purchased from OTP Bank Ltd. amounted to HUF 8,642 million. OTP Factoring Ltd.'s business operations have retained their high level of profitability.

The increase in the number of successful collections, as well as the income from a number of deals initiated during the last months of the previous year and closed at the start of 2001, contributed to the Company's achieving an income well in excess of target. Owing to this, the Company's pre-tax profit was HUF 635 million in 2001.

OTP REAL ESTATE ASSET MANAGEMENT LTD.

The Company is engaged in the collection of small receivables and housing loans secured with state guarantees, and conducts this activity on the basis of commission from OTP Bank Ltd. and OTP Factoring Ltd.

The portfolio of properties purchased or received as collateral increased by HUF 323 million, and the number of housing loans granted under the old conditions that were taken over for management by the Company from OTP branches was 769. The Company's pre-tax profit for 2001 was HUF 273 million, which is more than two-and-a-half times higher than the previous years' figure.

HUNGARIAN INTERNATIONAL FINANCE LTD.

The performance of the London-based HIF Ltd. in 2001 was in most respects in line with its plan. At the end of December, the Company's equity exceeded HUF 1,841 million (GBP 4.5 million). The Company successfully replaced its maturing assets, increased its portfolio and improved its position in the market. The Company's pre-tax profit amounted to HUF 184 million (GBP 451 thousand).

The Company's business strategy continues to focus primarily on the Central and Eastern European market, with 66.1% of the total asset, liability and guarantee portfolio originating in this region. Of the liability portfolio, the value of transactions concluded in Central and South American markets was over 10.0%, and the value of transactions concluded in the Middle East and North America exceeded 15.5% at the end of the reporting period.

OTP TRAVEL LTD.

The unfavourable influences affecting the tourism industry in general also had a considerable impact on OTP Travel Ltd.'s operations in 2001. OTP Travel's pre-tax profit amounted to HUF 12.1 million, one third of the figure for 2000, and its balance sheet total fell by 4.5%, to HUF 512.3 million.



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 2001. Shareholders' equity increased from HUF 127.5 billion on 31 December 2000 to HUF 158.5 billion, i.e. by 24.3%; a substantially higher rate of growth than that of the balance sheet total. As a result, the ratio of shareholders' equity to total assets increased from 6.60% at the end of 2000 to 7.45% by year-end 2001.

SHAREHOLDERS' EQUITY

	31 Dec. 2000		31 Dec. 2001		Change	
	HUF mn	distr.	HUF mn	distr.	HUF mn	%
Subscribed capital	28,000	22.0%	28,000	17.7%	0	0.0%
Capital reserve	52	0.0%	52	0.0%	0	0.0%
Profit reserve	40,790	32.0%	55,981	35.3%	15,191	37.2%
Tied-down reserve	9,067	7.1%	17,750	11.2%	8,683	95.8%
General reserve	25,610	20.1%	29,450	18.6%	3,840	15.0%
Balance sheet profit	23,983	18.8%	27,283	17.2%	3,300	13.8%
Shareholder's Equity	127,502	100.0%	158,516	100.0%	31,014	24.3%

Of the various components of shareholders' equity, subscribed capital remained unchanged in 2001. The primary source of the growth in the Bank's shareholders' equity was the net balance sheet profit of the reporting year and the growth in the general reserve. Of the HUF 31.0 billion growth in shareholders' equity, HUF 27.3 billion originates from the Bank's balance sheet profit and HUF 3.8 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 2001 too.

Based on its after-tax profit, the Bank decided to pay a dividend of HUF 27.5 per share, corresponding to a total of HUF 7.3 billion in dividends. Thus the 2001 balance sheet profit reached HUF 27.3 billion, which represents a 13.8% increase over 2000.

The Bank's capital adequacy ratio decreased from 15.45% at the end of 2000 to 14.11% on 31 December 2001, although this value is still well in excess of the 8% ratio prescribed by the Credit Institutions Act.

The main reason for the above decrease was a substantial growth in the Bank's lending and off-balance-sheet activities. This is reflected by the 27.6% expansion in the risk-weighted total assets, which exceeded the 16.5% growth in guarantee capital. Of the various elements taken into account in the calculation of the numerator of the capital adequacy ratio, the primary capital elements increased by 32.9% in 2001, while the growth of the modifying factors that, according to the regulations, must be taken into account in the primary capital calculation, was higher than that, at 60.4%. Some of the growth in the primary capital elements is attributable to a change in regulations. (With respect to the capital adequacy calculation of 2000, the general risk reserve was not an element of the primary capital. If this factor were left out of account in 2001 too, the growth in the primary capital would be 24.3%). The most important component of the modifying factors that must be taken into account in the primary capital calculation is the HUF 8.7 billion growth in the volume of repurchased own shares. Thus, the Bank's primary

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

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

MANAGEMENT'S ANALYSIS

capital grew 27.9% in 2001, while the secondary capital decreased 18.6% 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 2001, the guarantee capital to be modified was HUF 150.2 billion, which represents an increase of 22.1% over the previous year. Of the various modifying factors, in 2001 investments in financial institutions, insurance companies and investor companies grew by HUF 3.1 billion, corresponding to an increase of 27.5%, while that part of the breaches of limits that is defined by the Credit Institutions Act, and of the sovereign risk that must be covered with capital grew by HUF 5.4 billion, or 87.9%. Thus the guarantee capital guaranteeing the financial and investment services had reached HUF 124.2 billion by the end of 2001 (up 17.7% on the previous year), of which HUF 1,320 million served as a cover for trading book and foreign currency exchange rate risk. By year-end 2001, the guarantee capital that could be taken into account for calculating the Bank's capital adequacy ratio had reached HUF 122.9 billion, which represents an increase of HUF 17.4 billion (16.5%) over the previous year.

CALCULATION OF THE CAPITAL ADEQUACY RATIO*

	31 Dec. 2000 HUF mn	31 Dec. 2001 HUF mn	Change	
			HUF mn	%
I. Primary capital elements	127,502	169,446	41,944	32.9%
A) subscribed capital	28,000	28,000	0	0.0%
B) capital reserve	52	52	0	0.0%
C) profit reserve	40,790	55,981	15,191	37.2%
D) tied-down reserve	9,067	17,750	8,683	95.8%
E) general reserve	25,610	29,450	3,840	15.0%
F) general risk reserve	–	10,930	–	–
G) balance sheet profit	23,983	27,283	3,300	13.8%
II. Modification of primary capital	19,691	31,583	11,892	60.4%
A) capital subscribed not yet paid	–	–	–	–
B) deductible part of intangible assets excluding lease rights	10,624	11,866	1,242	11.7%
C) repurchased own shares	9,067	17,750	8,683	95.8%
D) tax component of the general risk reserve	–	1,967	1,967	–
III. Primary capital (I-II.)	107,811	137,863	30,052	27.9%
IV. Secondary capital	15,208	12,376	–2,832	–18.6%
V. Guarantee capital to be adjusted (III+IV.)	123,019	150,239	27,220	22.1%
VI. Capital adjustment due to investment in financial institutions, insurance and investment companies	11,416	14,555	3,139	27.5%
VII. Guarantee capital according to the rules of prudence (V-VI.)	111,603	135,684	24,081	21.6%
VIII. Capital requirement of limit breaches and sovereign risk	6,107	11,475	5,368	87.9%
IX. Guarantee capital for financial and investment services (VII–VIII.)	105,496	124,209	18,713	17.7%
X. Capital for the trading book and foreign currency exchange rate	–	1,320	1,320	–
XI. Guarantee capital for calculating the capital adequacy ratio (IX-X.)	105,496	122,889	17,393	16.5%
XII. Risk-weighted total assets	682,798	870,968	188,170	27.6%
XIII. Capital adequacy ratio	15.45%	14.11%		

* The steps whereby the capital adequacy ratio for 2000 has been calculated were changed so as to comply with the rules for 2001.

Of the increase in the volume of risk-weighted assets (the adjusted balance sheet total), 59.7% is attributable to the change in the risk-weighted value of assets and 40.3% to the change in risk-weighted off-balance sheet items.

By year-end 2001, the risk-weighted value of assets had reached HUF 742.3 billion, which represents an increase of HUF 112.3 billion (17.8%) over the previous year, while the volume of total assets grew 10.1%. This is attributable to the fact that, due to the 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 contingent and future liabilities used for calculating the risk-weighted balance sheet total increased by HUF 75.8 billion, or by nearly 150% compared with the previous year. This change is explained by the increase in contingent liabilities (primarily the unused part of credit lines and assumed guarantees).

MANAGEMENT'S ANALYSIS

INCOME STRUCTURE, PROFITABILITY

The Bank's pre-tax profit increased from the previous year's HUF 40.2 billion to HUF 47.4 billion, or by 17.8%. Total revenue reached HUF 141.1 billion in 2001, corresponding to a 12.2% increase over the previous year. This was achieved under circumstances of a 13.2% increase in net interest income and a 9.8% increase in non-interest income. The 9.7% growth in non-interest expenses, which was lower than the increase in total revenue, resulted in a 16.1% increase in the operating income. Due to the HUF 7.8 billion (16.1%) increase in operating income, as well as the fact that total risk provisioning, value losses and loan losses were HUF 0.6 billion (7.6%) higher than in the previous year, pre-tax profit was HUF 7.2 billion (17.8%) higher than in the previous year.

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

INCOME*

	2000		2001		Change	
	HUF mn	prop.	HUF mn	prop.	HUF mn	%
Net interest income	86,853	69.0%	98,342	69.7%	11,489	13.2%
Total interest income	187,099		193,802		6,703	3.6%
Total interest expense	100,246		95,460		-4,786	-4.8%
Non-interest income	38,965	31.0%	42,775	30.3%	3,810	9.8%
Net fees and commissions	32,048	25.4%	40,022	28.4%	7,974	24.9%
Net income from securities trading	2,081	1.7%	-1,642	-1.2%	-3,723	-178.9%
Net income from foreign currency trading	3,123	2.5%	2,999	2.1%	-124	-4.0%
Net income from real estate transactions	-391	-0.3%	-168	-0.1%	223	57.0%
Other non-interest income	2,104	1.7%	1,564	1.1%	-540	-25.7%
Total income	125,818	100.0%	141,117	100.0%	15,299	12.2%
Non-interest expense	77,669	61.7%	85,214	60.4%	7,545	9.7%
Operating income	48,149	38.3%	55,903	39.6%	7,754	16.1%
Provisions and loan losses	7,933	6.3%	8,534	6.0%	601	7.6%
Profit before taxation	40,216	32.0%	47,369	33.6%	7,153	17.8%
Taxes	7,733	6.2%	8,971	6.4%	1,238	16.0%
Profit after taxation	32,483	25.8%	38,398	27.2%	5,915	18.2%

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

Helped by a tax rate of 18.9%, which was lower than in 2000, the Bank's after-tax profit grew from HUF 32.5 billion to HUF 38.4 billion in 2001, representing an 18.2% increase over the previous year.

Within the increase in total revenue, the various elements of income changed differently over the course of the year. The proportion of net interest income within the total income increased slightly, from 69.0% to 69.7%, while the proportion of non-interest income changed from 31.0% to 30.3%.

The Bank's net interest income was HUF 98.3 billion in 2001; the HUF 11.5 billion increase was the aggregate result of HUF 193.8 billion in interest income (up 3.6%) and HUF 95.5 billion in interest expense (down 4.8%).

MANAGEMENT'S ANALYSIS

THE SOURCES AND STRUCTURE OF INTEREST INCOME AND EXPENSE

	2000		2001		Change	
	HUF mn	prop.	HUF mn	prop.	HUF mn	%
Interest income from						
interbank accounts	55,017	29.4%	46,885	24.2%	-8,132	-14.8%
retail accounts	37,830	20.2%	43,488	22.4%	5,658	15.0%
corporate accounts	37,673	20.1%	42,960	22.2%	5,287	14.0%
municipal accounts	5,572	3.0%	5,830	3.0%	258	4.6%
securities	41,736	22.3%	50,189	25.9%	8,453	20.3%
statutory reserves	9,271	5.0%	4,450	2.3%	-4,821	-52.0%
Total interest income	187,099	100.0%	193,802	100.0%	6,703	3.6%
Interest expenses on						
interbank accounts	3,037	3.0%	3,456	3.6%	419	13.8%
retail accounts	77,209	77.0%	74,780	78.3%	-2,429	-3.1%
corporate accounts	9,733	9.7%	8,397	8.8%	-1,336	-13.7%
municipal accounts	5,795	5.8%	5,959	6.2%	164	2.8%
securities	2,881	2.9%	1,476	1.5%	-1,405	-48.8%
subordinated capital	1,591	1.6%	1,392	1.5%	-199	-12.5%
Total interest expense	100,246	100.0%	95,460	100.0%	-4,786	-4.8%
Net interest income	86,853		98,342		11,489	13.2%

In the year 2001, the Bank placed on average 26% of its liquid assets on the interbank market and with the National Bank of Hungary (NBH). With the average value of interbank placements decreasing by 13.3% and with a slight fall in the interest rate on these placements – which was nonetheless a smaller decline than that of the interest rates on other forms of placements – the net interest income from interbank placements dropped by 14.8%. As a consequence, the ratio of interbank **interest income** within total interest income dropped to 24.2%. Due to the 27.4% increase in the average volume of retail deposits, and despite the significant, 2-percentage-point, drop in the interest margin, the net interest income realised on retail accounts increased 15.0%, reaching a proportion of 22.4% of the total interest income. As a consequence of the increase in corporate and municipal lending, the interest income realised on these accounts grew by 14.0% and 4.6% respectively, and accounted for 22.2% and 3.0% of the total interest income. Compared with 2000, the interest earned from securities increased by 20.3%, or HUF 8.5 billion, reflecting the substantial, more than 30%, growth in the portfolio on the one hand and the effects of declining yields on government securities on the other. Interest on securities represented 25.9% of total interest income. In 2001, the yields on total average interest-bearing assets in Forint and foreign currency reached 10.93%, which is 24 basis points lower than in 2000.

Despite the increase in volumes, **interest expenses** decreased in all the account groups, with the exception of municipality and interbank accounts. Interest paid on municipality accounts increased by 2.8% due to a significant, more than 20% increase in the average total balance of these accounts. The 13.8% increase in the interest paid on interbank accounts in spite of the significant, close to 40% drop in the average balance, reflects the impact of rising funding costs. Interest paid on securities and on corporate accounts fell by the largest margin (by 48.8% and 13.7% respectively). Interest expense related to retail funding dropped by 3.1%, while the average balance of retail funds increased by 6.2%. The share of interest paid on retail funds within the total of interest expense was 78.3%, which is in harmony with the Bank's funding structure. In 2001, the cost of funds calculated on average interest-bearing Forint and foreign currency funding amounted to 5.53%, or 62 basis points down from the 2000 figure.

In 2001, the **interest spread calculated** on average total interest-bearing assets and liabilities was 5.39%, or 38 basis points higher than in 2000, while the **interest margin** computed on the average balance sheet total was 5.08%, or 30 basis points higher than in 2000.

MANAGEMENT'S ANALYSIS

AVERAGE INTEREST RATES ON ASSETS AND LIABILITIES

	2000		2001	
	Average balance	Rates	Average balance	Rates
<i>Assets:</i>				
Interbank placements	585,770	9,39%	508,061	9,23%
Retail placements	161,188	23,47%	205,376	21,17%
Corporate placements	351,185	10,73%	420,201	10,22%
Municipal placements	44,130	12,63%	48,481	12,03%
Securities	369,916	11,28%	482,703	10,40%
Statutory reserves	162,802	5,69%	108,580	4,10%
<i>Total interest-bearing assets</i>	<i>1,674,991</i>	<i>11,17%</i>	<i>1,773,402</i>	<i>10,93%</i>
Non-interest-bearing assets	142,463	0,00%	163,501	0,00%
Total assets	1,817,454	10,29%	1,936,903	10,01%
<i>Liabilities:</i>				
Interbank liabilities	61,914	4,91%	37,303	9,26%
Retail liabilities	1,249,648	6,18%	1,327,197	5,63%
Corporate liabilities	203,044	4,79%	234,584	3,58%
Municipal liabilities	75,713	7,65%	91,181	6,54%
Securities	20,799	13,85%	17,187	8,59%
Subordinated loans	17,611	9,03%	17,681	7,87%
<i>Total interest-bearing liabilities</i>	<i>1,628,729</i>	<i>6,15%</i>	<i>1,725,133</i>	<i>5,53%</i>
Non-interest-bearing liabilities	188,725	0,00%	211,770	0,00%
Total liabilities:	1,817,454	5,52%	1,936,903	4,93%
Interest spread		5,02%		5,39%
Net interest margin		4,78%		5,08%

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	-8,132	-946	-7,186
Retail placements	5,658	-3,965	9,623
Corporate placements	5,287	-1,836	7,123
Municipal placements	258	-274	532
Securities	8,453	-3,478	11,931
Statutory reserves	-4,821	-2,203	-2,618
Total interest-earning assets:	6,703	-12,704	19,406

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

MANAGEMENT'S ANALYSIS

(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	419	1,958	-1,539
Retail liabilities	-2,429	-7,046	4,617
Corporate liabilities	-1,336	-2,702	1,366
Municipal liabilities	164	-919	1,083
Securities	-1,405	-964	-441
Subordinated loan	-199	-205	6
Total interest-bearing liabilities:	-4,786	-9,879	5,093
Change in net interest income	11,489	-2,823	14,312

Changed interest rates reduced the net interest income by HUF 2.8 billion. While the change in the interest rates reduced both interest income and interest expenses, the reduction of income due to the change in interest levels was higher than that of interest expenses. The change in volume substantially increased both income and expenses, and in its aggregate it increased the net interest revenue by HUF 14.3 billion. Changes in interest rates reduced the interest margin by 15 basis points, while the increase in volume increased it by 74 basis points.

In 2001 **non-interest income** increased by 9.8%, or HUF 3.8 billion, and its proportion within total income decreased by 0.7 percentage points. A role was played in the more modest growth in 2001 of non-interest income by the loss generated by securities trading, the largest part of which is attributable to the one-off result of accounting changes. From among the various types of non-interest income, **net commission and fee income** increased by HUF 8.0 billion, from HUF 32.0 billion to HUF 40.0 billion. As a consequence of a 24.9% (HUF 8.0 billion) increase, the proportion of net fee and commission income within total revenue was 28.4%, while the corresponding figure for 2000 was 25.5%. Commissions and fees received were 21.5% higher than in 2000, while paid fees and commissions were 3.9% higher than in the previous year. Among the commissions and fees received, income from the bankcard business rose by a significant 44.1%, amounting to more than HUF 13 billion. Over 55% of the HUF 4.0-billion increase in card revenues originated from ATM cash withdrawal transaction fees, while 20% and 21% respectively was attributable to the increase in commission revenues from merchants and from the increase in card-fee revenues. Fee revenues in connection with Forint transactions grew 24.2% in 2001. Within this figure, commission revenues on HUF loans revealed a particularly high increase (37.5%). The increase in commissions on current account transactions was 9.5%. Commission revenues on retail current accounts, which contribute nearly 90% of total commission revenues on deposits, increased 17.1% during 2001. Fee and commission revenue on foreign currency transactions decreased 5.4% in 2001. The **net result of securities trading** showed a loss of HUF 1.6 billion. The net gain from **foreign exchange trading** was HUF 3.0 billion, 4.0% lower than that of the previous year.

In 2001, non-interest income covered 50.2% of non-interest expenses, and this ratio was the same as in 2000.

The Bank's **total income** in 2001 amounted to HUF 141.1 billion, which represents an increase of HUF 15.3 billion, or 12.2%, over the previous year. The change in net interest income contributed HUF 11.5 billion, while the change in non-interest income contributed HUF 3.8 billion to the income increase.

The structure of **the use of total income** improved further in 2001. Non-interest expenses grew 9.7%, 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 1.3 percentage points, to 60.4%. The combined amount of provisions, value losses and lending losses grew 7.6% compared with the previous year, and their proportion within total income dropped from 6.3% to 6.0%.

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Due to the combined effect of the increase in non-interest expenses (which lagged behind the increase in total income), the modest increase in the total of provisions, value losses and lending losses and the drop in its relative proportion, the ratio of pre-tax profits to total income increased by 1.6 percentage points, amounting to 33.6% of total income in 2001.

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

INCOME ELEMENTS AS A PERCENTAGE OF AVERAGE TOTAL ASSETS*

	2000		2001	
	HUF mn	%	HUF mn	%
Net interest income	86,853	4.78%	98,342	5.08%
Net fee and commission income	32,048	1.76%	40,022	2.07%
Operating expense	77,669	4.27%	85,214	4.40%
Provision	7,933	0.44%	8,534	0.44%
Pre-tax profit	40,216	2.21%	47,369	2.45%

* Average balance sheet total in 2000: HUF 1,817.5 billion, in 2001: HUF 1,936.9 billion

In the year 2001 the interest differential (i.e. the net interest margin) computed on the average balance sheet total was 5.08%, or 30 basis points higher than in 2000. The increase in the ratio of net commission revenue compared with the average balance sheet total continued, while with regard to provisions, value loss and lending losses this ratio did not change. The ratio of non-interest expenses compared with the average balance sheet total slightly increased as a result of the Bank's ambitious development projects and the one-off effect of changes in accounting. Due to the combined effect of these changes, the ratio of pre-tax profit to the average balance sheet total increased substantially.

The Bank's average return on assets (ROAA) in 2001 was **1.89%**, while the average return on equity (ROAE) was **26.9%** (in 2000: 1.76% and 28.5% respectively). The ROAE in real terms was 17.7%, as opposed to 18.7% in 2000. This decrease is attributable to the sharp, 25.4%, increase in average equity, as well as to an inflation rate (9.2%) that was higher than expected.

COST MANAGEMENT

The Bank's non-interest expenses amounted to HUF 85.2 billion, representing an increase of 9.7% over the previous year. Up until last year, the annual growth of non-interest expenses had been lower than the inflation rate for several years, but last year's growth was higher than the inflation rate. Notwithstanding the effect of the continuation of cost and process rationalisation, this is attributable to the increased expenses stemming from various development projects and to the change in accounting methods.

NON-INTEREST EXPENSES

	2000		2001		Change	
	HUF mn	share	HUF mn	share	HUF mn	%
Personnel costs	27,066	34.8%	32,551	38.2%	5,485	20.3%
Depreciation	10,371	13.4%	11,129	13.1%	758	7.3%
Other administration expenses	23,545	30.3%	27,512	32.3%	3,967	16.8%
Other non-interest expenses	16,687	21.5%	14,022	16.4%	-2,665	-16.0%
Total non-interest expenses	77,669	100.0%	85,214	100.0%	7,545	9.7%

The largest item among non-interest type expenses, representing a share of 38.2%, was **personnel costs**. In 2001 the Bank's personnel costs increased 20.3%, which means that the share of these costs within the total of non-interest type expenses grew

¹ Calculation method: ROAE – inflation (%)

MANAGEMENT'S ANALYSIS

by 3.4 percentage points. This was caused, among other things, by an average salary increase of 10% at the beginning of the year and also by the change in the accounting rules related to option and bonus programmes, as a result of which the Bank's 2001 expenses also include the costs of the option and bonus programmes for two years. The proportion of personnel costs to the total income was 23,1% in 2001 (2000: 21,5%). Within personnel costs, salary costs grew 22.8%, while other payments to personnel grew by 12.5%. The social security contribution paid on salaries grew 18.1% in 2001.

STAFF LEVEL OF OTP BANK LTD. (PERSONS)

	Closing		Average		Change			
	2000	2001	2000	2001	closing		average	
					persons	%	persons	%
Full-time employee	7,735	7,895	8,094	7,792	160	2.1%	-302	-3.7%
Part-time employee	402	398	341	396	-4	-1.0%	55	16.1%
Total	8,137	8,293	8,435	8,188	156	1.9%	-247	-2.9%

At the end of 2001, the Bank's total headcount was 8,293, i.e. 156, or 1.9%, more than in 2000. Of this, 24 of the new employees consisted of those taken over from OTP Securities Ltd. due the integration of securities trading into the Bank's activities. The average headcount for the period, however, fell by 247 persons, or by 2.9%.

EMPLOYEE PRODUCTIVITY INDICATORS

	2000	2001	Change
	HUF mn		%
Per capita			
Total assets at 31 December	237.3	256.5	8.1%
Average total assets	215.5	236.6	9.8%
After-tax profit	3.9	4.7	21.8%
Total income	14.9	17.2	15.5%
Personnel expenses	3.2	4.0	23.9%

The improvement in staff efficiency continued in 2001. Per capita after-tax profits increased 21.8%, while the per capita average balance sheet total increased 9.8% and per capita income was 15.5% higher in 2001 than in the previous year. However, per capita personnel costs increased at a much higher rate, of 35.7%, caused, among other factors, by a switchover to new accounting methods.

Depreciation – due to continuous IT investments – was HUF 0.8 billion, or 7.3% higher than in 2000. Other administration expenses (material and material-type expenses) increased 16.8% in 2001, while other non-interest expenses decreased by 16.0%.

ASSET-LIABILITIES STRUCTURE

On 31 December 2001, the total assets of OTP Bank Ltd. amounted to HUF 2,127.2 billion, 10.1%, or HUF 195.9 billion higher than the HUF 1,931.3 billion figure of 31 December 2000. OTP Bank Ltd. had the largest balance sheet total within the Hungarian banking sector, and its market share amounted to 22.3%.

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THE DISTRIBUTION OF ASSET-LIABILITY COMPONENTS*

	31 Dec. 2000		31 Dec. 2001		Change	
	HUF mn	prop.	HUF mn	prop.	HUF mn	%
Cash and Bank	482,350	25.0%	372,593	17.5%	-109,757	-22.8%
NBH clearing account	148,670	7.7%	104,931	4.9%	-43,739	-29.4%
NBH short-term placements	293,153	15.2%	212,500	10.0%	-80,653	-27.5%
Other	40,527	2.1%	55,162	2.6%	14,635	36.1%
Government securities	440,201	22.8%	481,079	22.6%	40,878	9.3%
Trading securities	184,275	9.5%	136,325	6.4%	-47,950	-26.0%
Investment securities	255,926	13.2%	344,754	16.2%	88,828	34.7%
Interbank placements**	233,922	12.1%	329,948	15.5%	96,026	41.1%
Customer placement	614,055	31.8%	769,782	36.2%	155,727	25.4%
Retail	180,178	9.3%	258,246	12.1%	78,068	43.3%
Corporate	393,218	20.4%	464,818	21.9%	71,600	18.2%
Municipal	40,659	2.1%	46,718	2.2%	6,059	14.9%
Other	79,394	4.1%	87,981	4.1%	8,587	10.8%
Intangible and tangible assets	52,690	2.7%	54,246	2.6%	1,556	3.0%
Accrued and deferred items	28,660	1.5%	31,529	1.5%	2,869	10.0%
TOTAL ASSETS	1,931,272	100.0%	2,127,158	100.0%	195,886	10.1%
Interbank liabilities	44,415	2.3%	25,133	1.2%	-19,282	-43.4%
Customer liabilities	1,632,978	84.6%	1,811,221	85.1%	178,243	10.9%
Retail	1,308,141	67.8%	1,405,642	66.1%	97,501	7.5%
Corporate	210,875	10.9%	253,568	11.9%	42,693	20.2%
Municipal	113,962	5.9%	152,011	7.1%	38,049	33.4%
Securities	19,607	1.0%	14,864	0.7%	-4,743	-24.2%
Provisions	11,317	0.6%	14,598	0.7%	3,281	29.0%
Accrued and deferred items	16,130	0.8%	22,288	1.0%	6,158	38.2%
Other	79,323	4.1%	80,538	3.8%	1,215	1.5%
Shareholder's equity	127,502	6.6%	158,516	7.5%	31,014	24.3%
TOTAL LIABILITIES	1,931,272	100.0%	2,127,158	100.0%	195,886	10.1%

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

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

ASSETS

Cash and bank. In connection with the change in the mandatory reserves, on 31 December 2001 the volume of the Bank's cash and bank was nearly HUF 110 billion less than in the previous year, and thus the proportion of cash and bank in total assets decreased from 25.0% to 17.5%. Of the various liquid assets, short-term placements at the National Bank decreased by more than HUF 80 billion and thus their proportion within total assets fell from 15.2% to 10.0%. The balance on the NBH clearing account was 29.4%, or HUF 43.7 billion less than the balance on 31 December 2000. The increase in other liquid assets was 36.1%, or HUF 14.6 billion.

Government securities. On 31 December 2001, the proportion of government securities within the Bank's portfolio stood at 22.6%; down negligibly from 22.8% a year earlier. The value of the portfolio increased 9.3%, from HUF 440.2 billion in 31 December 2000 to HUF 481.1 billion by 31 December 2001. Within the total of government securities, trading securities decreased 26.0%, to HUF 136.3 billion, while investment securities increased by a substantial 34.7%, to HUF 344.8 billion. This means that the proportion of investment securities within the total government securities portfolio increased to 71.7%, from the 58.1% of a year earlier.

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STRUCTURE OF GOVERNMENT SECURITIES

	31 Dec. 2000		31 Dec. 2001		Change	
	HUF mn	prop.	HUF mn	prop.	HUF mn	%
Trading securities						
Discounted T-Bills	17,648	4.0%	26,589	5.5%	8,941	50.7%
Hungarian Government Bonds	50,345	11.4%	87,342	18.2%	36,997	73.5%
Interest-bearing T-bills	278	0.1%	1,318	0.3%	1,040	374.1%
Bonds issued by NBH	61,569	14.0%	7,597	1.6%	-53,972	-87.7%
Foreign Government Bonds	1,167	0.3%	4,962	1.0%	3,795	325.2%
Foreign currency bonds issued by the Hungarian Republic	0	0.0%	4,548	0.9%	4,548	-
Treasury Government Bonds	53,268	12.1%	3,969	0.8%	-49,299	-92.5%
Total	184,275	41.9%	136,325	28.3%	-47,950	-26.0%
Investment securities						
Home fund financing bond	948	0.2%	711	0.1%	-237	-25.0%
Hungarian Government Bonds, Social Security Bonds	221,607	50.3%	254,413	52.9%	32,806	14.8%
Loan Consolidation State Bonds	17,171	3.9%	17,287	3.6%	116	0.7%
NBH foreign currency bonds	13,371	3.0%	5,320	1.1%	-8,051	-60.2%
NBH interest-bearing bonds	0	0.0%	9,816	2.0%	9,816	-
Foreign currency bonds issued by the Hungarian Republic	2,829	0.6%	2,772	0.6%	-57	-2.0%
Treasury Government Bonds	0	0.0%	46,123	9.6%	46,123	-
Foreign Government Bonds	0	0.0%	8,312	1.7%	8,312	-
Total	255,926	58.1%	344,754	71.7%	88,828	34.7%
Total government securities	440,201	100.0%	481,079	100.0%	40,878	9.3%

The HUF 48.0 billion drop in the trading securities portfolio is due to the combined effect of the significant – HUF 54.0 billion – drop in NBH-issued bonds, the HUF 49.3 billion decrease in Treasury Bonds and the increase in Hungarian Government Bonds and Discounted T-Bills. Within the investment securities of the portfolio, Treasury Bonds increased by HUF 46.1 billion, while the volume of Hungarian Government and Social Security Bonds increased by HUF 32.8 billion. The volume of foreign government bonds reached HUF 8.3 billion within the investment portfolio.

On 31 December 2001, Hungarian Government and Social Security Bonds represented the highest proportion in the total government securities portfolio (71.0%), which is 9.2 percentage points more than at the end of 2000. 10.4% of the total government securities portfolio were Treasury Bonds, which is a share 1.7 percentage points smaller than at the end of 2000. The share of NBH bonds within the total of government securities portfolio decreased substantially, by 12.3 percentage points due to a 70% decline in volume. The share of Discounted T-Bills within the total of government bonds increased by 1.5 percentage points, and it amounted to 5.5% at the end of the year. The share of foreign government bonds increased from 0.3% to 2.7%, due to a dynamic increase in volume, while the share of foreign currency bonds issued by the Hungarian Republic within the portfolio was a mere 1.5% despite a more than 250% increase in their volume.

Interbank Placements. Interbank placements represented 15.5% of total assets on 31 December 2001, only 3.4 percentage points more than in 2000. Their volume grew by HUF 96.0 billion, or 41.1%. At the end of 2001, the decisive majority of placements (93.9%) were placements maturing within one year, compared to 90.4% a year earlier. The increase in the proportion of placements with a maturity of less than one year in the total of interbank placements is due to the 46.5% increase in volume, exceeding HUF 98 billion. The volume of interbank placements maturing over one year decreased by 10.4%, and thus their

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proportion within total interbank placements decreased (to 6.1%). Within the total of interbank placements, the volume of HUF placements dropped 10.3%, and thus their share within the total of placements dropped to 23.7%, while the volume of foreign currency placements grew significantly, by 71.6%, and their share within the total of placements increased to HUF 76.3%. In 2001, the Bank remained a net lender on the interbank market, which can be attributed to the Bank's liquidity resulting from its traditionally high retail deposits. The volume of interbank placements exceeded interbank liabilities by over HUF 304 billion.

Customer loans. In line with the Bank's business policy, the portfolio of customer loans increased 25.4% in 2001, substantially exceeding the rate of increase of the balance sheet total, and thus their share within the total of assets increased from 31.8% to 36.2%. A decisive role in this was played by the 43.8%, or HUF 78.1 billion, increase in retail lending, which accounted for more than half of the increase in customer lending. The volume of corporate loans increased by 18.2% during the year, while the volume of municipality loans was 14.9% higher than in the previous year. Within customer loans, the share of corporate loans dropped from 64.0% to 60.4%, while the share of retail loans increased from 29.3% to 33.5%. As of year-end, the share of corporate loans within the total of customer placements was 6.1%.

Within corporate loans, which increased 18.2%, reaching HUF 464.8 billion by year-end, the share of loans given to financial and investment companies, insurance companies and special money and capital market institutions (PBBS) was HUF 35.2 billion. The total of loans granted to other business organisations grew 17.0%, reaching HUF 429.6 billion. Within the loans granted to business organisations, the volume of investment loans grew 69.0%, overdraft loans grew 43.7%, working capital loans grew by 6.9%, other loans increased by 75.1%, while the volume of foreign currency loans was 8.7% less than in the previous year. The volume of loans granted to small businesses grew 18.2%, while loans to non-profit organisations decreased very slightly, by 1.1%. Within the corporate loan portfolio, the share of loans granted to business enterprises increased 83.0%, while the share of small business loans was 3.4%, that of non-profit organisations 6.0% and that of PBBS loans 7.6%.

The rate of growth of the retail loan portfolio, that started in the previous years, accelerated in 2001, and by the end of the year the retail portfolio grew 43.3% due to the 44.8% expansion in housing loans and the 41.2% expansion in other retail loans. As of 31 December 2001, the balance of housing loans was HUF 150.8 billion, representing an increase of HUF 46.7 billion over the previous year. As of year-end, the combined balance of consumption and mortgage loans was HUF 107.4 billion, within which, in line with the Bank's strategy, overdraft loans linked to retail current accounts increased substantially, by 35.2%, with their volume amounting to more than HUF 56 billion. Due to an outstanding growth of 70%, the volume of mortgage loans reached HUF 46.3 billion by the end of the year.

The volume of municipality loans increased by HUF 6.1 billion, or 14.9% in 2001. The Bank thus retained its dominant position in the municipality lending market.

Examining the maturity structure of the customer loan portfolio, it can be concluded that, due to a growth in 2001 of 33.2%, which was above the average growth in customer loan volumes, the share of receivables with a maturity of over one year within the total of receivables had reached 70.3% by the end of the year. Within the total of placements with a maturity of over one year, the most dynamic growth – 46.0% – was attained in retail placements. Placements with a maturity of less than one year grew 10.0%, and their share within the total of receivables dropped to 29.7% from 33.9%.

CUSTOMER PLACEMENTS BY MATURITY (BASED ON GROSS LOAN RECEIVABLES)

	31 Dec. 2000		31 Dec. 2001		Change	
	HUF mn	prop.	HUF mn	prop.	HUF mn	%
Shorter than one year						
retail	43,764	7.1%	59,029	7.7%	15,265	34.9%
corporate	154,029	25.1%	158,120	20.5%	4,091	2.7%
municipal	10,417	1.7%	11,846	1.5%	1,429	13.7%
Total	208,210	33.9%	228,995	29.7%	20,785	10.0%

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(continued from page 37)

	31 Dec. 2000		31 Dec. 2001		Change	
	HUF mn	prop.	HUF mn	prop.	HUF mn	%
Over one year						
retail	136,413	22.2%	199,217	25.9%	62,804	46.0%
corporate	239,189	39.0%	306,698	39.8%	67,509	28.2%
municipal	30,243	4.9%	34,872	4.5%	4,629	15.3%
Total	405,845	66.1%	540,787	70.3%	134,942	33.2%
Total customer placements	614,055	100.0%	769,782	100.0%	155,727	25.4%

Of the total growth of HUF 20.8 billion in receivables from customer loans, more than 70%, a growth of HUF 15.3 billion, originated from the increase in retail loans, while close to 20%, or HUF 4.1 billion, originated from the growth in corporate loans. Retail loans with a maturity of less than one year grew 34.9% over the figure of the previous year, and their share within the total of loans with a maturity of less than one year increased to HUF 25.8%. Along with a modest, 2.7% increase in volume, corporate loans accounted for 69.0% of the short-term loan portfolio, and their share in 2001 was 5 percentage points less than in the previous year. Short-term municipality loans grew HUF 1.4 billion, or 13.7%, and their share within the total of short-term placements was just 5.2% as of 31 December 2001.

Within placements with a maturity of over one year, retail loans showed the largest rate of growth – of 46.0%. This means that the volume of retail loans was HUF 62.8 billion higher as at 31 December 2001 than it had been a year earlier, and the share of retail loans within the total of long-term loans grew from 33.6% to 36.8%. Corporate loans accounted for 56.7% of total loans with a maturity of over one year, and this share was 2.2% percentage points less than it had been at the end of 2000, due to a less-than-average growth rate of 28.2%. As of year-end 2001, the volume of municipality loans with a maturity of more than one year was 15.3% more than a year earlier, and their share within total loans of a maturity of over one year dropped to 6.4%.

LIABILITIES

Interbank liabilities: Due to a HUF 20 billion, or 43.4%, decrease in interbank liabilities in 2001, their proportion within total liabilities fell from 2.3% to 1.2%. Although the Bank was a net lender on the interbank HUF market, it remained constantly active as a borrower as well.

Customer deposits: On 31 December 2001, customer deposits accounted for 85.1% of the Bank's total liabilities, as opposed to 84.6% a year earlier. As the Bank's primary business line is retail banking, the majority of customer deposits (77.6%) came from retail customers, representing a dominant proportion (66.1% in 2001 and 67.8% in 2000) within total liabilities.

At the same time, the development in the different types of retail deposits within the retail portfolio varied widely. HUF deposits, representing 76.6% of retail deposits, increased by 10.8%, while foreign currency deposits decreased by 2.1% in connection with the strengthening of the Forint. Reflecting a strengthening of the trend that began in previous years, the volume of traditional savings schemes within HUF deposits (interest-bearing passbook deposits, savings notes, premium deposits) grew slightly (by 0.5%); thus, their proportion decreased by 4.3 percentage points, to 37.9%. After the stagnation in the previous year, the volume of savings schemes based on regular savings decreased by 2.1% in 2001, due to the fact that these products will be discontinued. In line with the Bank's intentions, the volume of retail current account deposits showed a prominent growth of 21.0%, increasing from HUF 520.8 billion to HUF 630.2 billion, and its proportion within total retail deposits reached 58.5% at the end of 2001.

Corporate deposits rose by 20.2%, that is, at a significantly higher rate than that of customer liabilities, and their proportion within total customer liabilities reached 14.0%. Within corporate deposits, HUF deposits grew at a more dynamic rate of 20.8%, while the growth in foreign currency deposits was 12.4%.

The volume of corporate deposits increased 33.4%, and its share within customer liabilities reached 8.4% at the end of the year.

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CUSTOMER LIABILITIES BY MATURITY

	31 Dec. 2000		31 Dec. 2001		Change	
	HUF mn	prop.	HUF mn	prop.	HUF mn	%
Shorter than one year						
retail	1,193,541	73.1%	1,297,240	71.6%	103,699	8.7%
corporate	210,652	12.9%	253,316	14.0%	42,664	20.3%
municipal	113,509	6.9%	151,302	8.4%	37,793	33.3%
Total	1,517,702	92.9%	1,701,858	94.0%	184,156	12.1%
Over one year						
retail	114,600	7.0%	108,402	6.0%	-6,198	-5.4%
corporate	223	0.0%	252	0.0%	29	13.1%
municipal	453	0.0%	709	0.0%	256	56.5%
Total	115,276	7.1%	109,363	6.0%	-5,913	-5.1%
Total customer liabilities	1,632,978	100.0%	1,811,221	100.0%	178,243	10.9%

Within customer deposits, deposits with a maturity of less than one year increased 12.1%, while those with a maturity of more than one year decreased by 5.1%, and thus the share of liabilities with a maturity of less than one year within the total of customer liabilities increased further, reaching 94.0% by year-end. The more than HUF 178 billion increase in total customer liabilities resulted from an increase of more than HUF 184 billion in short-term liabilities and a decrease of close to HUF 6 billion in long-term liabilities. More than 60% of the increase in short-term liabilities resulted from an increase in retail liabilities, while nearly all the reduction of long-term liabilities resulted from the reduction of retail liabilities with a maturity longer than one year.

Securities and deposit certificates: The volume of securities and deposit certificates issued by the Bank amounted to HUF 14.9 billion as of 31 December 2001, 24.2% lower than in 2000 – in line with the Bank's business policy objectives. Their proportion within liabilities fell from 1.0% to 0.7%. Deposit notes, accounting for 96.3% of the total volume of securities and deposit certificates, decreased by HUF 4.3 billion, and dropped to HUF 14.3 billion by the end of the year. The combined volume of the securities and deposit certificates issued by the Bank fell by close to 50%, to HUF 0.6 billion.

Equity: On 31 December 2001 the Bank's equity was HUF 158.5 billion, and the share of equity within the total of liabilities and equity increased from 6.6% in 2000 to 7.5% in 2001. From the HUF 31.0 billion increase in equity, HUF 27.3 billion can be attributed to the Bank's balance sheet profit and HUF 3.8 billion to the increase in general reserves. The Bank's equity calculated on one share of HUF 1,000 nominal value was HUF 5,661, corresponding to an increase of 24.3% over the previous year.

Provisions: Within the Bank's liabilities, the volume of provisions increased from HUF 11.3 billion to HUF 14.6 billion.

CHANGES IN PROVISIONS

	31 Dec. 2000	31 Dec. 2001	Change	
	HUF mn	HUF mn	HUF mn	%
Provisions for contingent and future liabilities	1,192	2,032	840	70.5%
Provision for exchange rate risk	70	0	-70	-100.0%
General risk provision	8,550	10,930	2,380	27.8%
Sovereign risk provision	580	0	-580	-100.0%
Other provisions	925	1,636	711	76.9%
Total provisions	11,317	14,598	3,281	29.0%

By 31 December 2001, the Bank had entirely completed the generation of general risk reserve (prescribed by the Credit Institutions Act), representing 1.25% of the risk-weighted total assets (the 2001 generation amounted to HUF 2.4 billion), and, as a result, the volume of general risk reserves increased to HUF 10.9 billion. The volume of reserves set aside for

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contingent and future liabilities increased by HUF 0.8 billion, reaching HUF 2 billion, and other provisions reached HUF 1.6 billion on 31 December 2001. The Bank eliminated the sovereign risk and exchange rate risks provisions in 2001 due to the change in regulations.

OFF-BALANCE SHEET LIABILITIES

The 2001 year-end volume of off-balance sheet liabilities increased more than twofold, from HUF 235.1 billion to HUF 507.8 billion. This change is attributable to the HUF 130.9 billion, or 69.7%, increase in contingent liabilities and the HUF 141.8 billion increase in future liabilities, representing a more than fourfold rise over the previous year. Due to this, the share of contingent liabilities within the total of off-balance sheet liabilities decreased slightly, to 62.8%. The most significant item of contingent liabilities, amounting to more than 50% of the Bank's off-balance sheet liabilities, is the volume of commitments originating from loan facility contracts, which increased by HUF 98.2 billion, or 62.4%. The value of guarantees assumed in the course of bank activities grew more than twofold.

OFF-BALANCE SHEET LIABILITIES

	31 Dec. 2000		31 Dec. 2001		Change	
	HUF mn	prop.	HUF mn	prop.	HUF mn	%
Contingent liabilities						
Guarantees from bank activities	15,892	6.8%	36,487	7.2%	20,595	129.6%
Confirmed L/C	988	0.4%	3,798	0.7%	2,810	284.4%
Non-used part of credit line	157,403	66.9%	255,630	50.3%	98,227	62.4%
Options	12,555	5.3%	19,310	3.8%	6,755	53.8%
Liabilities expected from pending lawsuits	995	0.4%	3,487	0.7%	2,492	250.4%
Liabilities due to Multipont card	–	–	1	0.0%	1	–
Total	187,833	79.9%	318,713	62.8%	130,880	69.7%
Absolutely certain (future) liabilities						
Forward foreign currency purchase	47,289	20.1%	189,087	37.2%	141,798	299.9%
Repurchase value of claims sold under repurchase commitment	15	0.0%	0	0.0%	–15	–100.0%
Total	47,304	20.1%	189,087	37.2%	141,783	299.7%
Total off-balance sheet liabilities	235,137	100.0%	507,800	100.0%	272,663	116.0%

The growth in future liabilities originated completely 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 189.1 billion, corresponding to 37.2% of the whole of off-balance sheet commitments.

INVESTMENT, OTP GROUP

The management of the Group and the realisation of strategic investments continued to play a dominant role in the investment operations of OTP Bank in 2001. At the end of 2001, the book value of the Bank's investments amounted to HUF 40.5 billion, representing a HUF 5.7 billion, or 16.5% increase over the previous year. HUF 2.9 billion of this increase in the investment portfolio was due to a growth in the volume of permanent financial investments, and the change in OTP Group's permanent investments was higher than HUF 10 billion. Compared to HUF 50 million in the previous year, as of 31 December 2001 the volume of non-permanent investments was HUF 5.5 billion, which includes those of the shares of Zagrabacka Banka that were purchased in the interests of realising a price gain. (This transaction was successfully concluded in the first quarter of 2002.) In the course of the year, the volume of forced investments dropped to zero due to the sale of Hajdú-Bét Ltd.'s shares. In 2001 the dividends on investments amounted to HUF 127 million.

MANAGEMENT'S ANALYSIS

CHANGES IN INVESTMENTS

	31 Dec. 2000 HUF mn	31 Dec. 2001 HUF mn	HUF mn	Change %
Permanent financial investments	31,986	34,918	2,932	9.2%
of this: OTP Group	23,049	33,394	10,345	44.9%
Trading investments	50	5,537	5,487	10,974.0%
Forced investments	2,695	0	-2,695	-100.0%
Total investments:	34,731	40,455	5,724	16.5%

The aggregate registered capital of the companies within the OTP Group rose by more than HUF 3.7 billion, from HUF 28.2 billion at the end of 2000 to HUF 31.9 billion. The 13.3% increase in the Group's combined equity primarily resulted from the expansion of the Bank Group, i.e., the entry into the OTP Group of the new members (OTP Mortgage Bank Ltd., OTP Pension Fund Ltd.) and the increase in the share capital of existing Group members. Of the various book members, the net book-value of Hungarian International Finance Ltd. decreased by approximately HUF 60 million due to the change in the GBP exchange rate.

The changes implemented in the Group members' equity and ownership structure were on the one hand aimed at creating the conditions for further growth, and at ensuring compliance with the legal regulations on the other.

In 2001, the combined pre-tax profits of the Bank Group amounted to HUF 9.4 billion, or HUF 1.6 billion higher than in the previous year. From among the subsidiaries, OTP Fund Management Ltd., OTP Building Society Ltd., Meksantil Bank Ltd. and OTP Garancia Insurance Ltd. made the largest contribution to the combined pre-tax profit of OTP Group.

KEY FINANCIAL DATA OF OTP GROUP MEMBERS*

	31 Dec. 2000				31 Dec. 2001			
	OTP Bank Ltd.'s share ownership		Reg. capital	Pre-tax profit	OTP Bank Ltd.'s share ownership		Reg. capital	Pre-tax profit
	direct	indirect	HUF mn	HUF mn	direct	indirect	HUF mn	HUF mn
	%				%			
Banksoport								
OTP Garancia Insurance Ltd.	99.98	0.02	5,851	874	99.98	0.02	5,851	1,254
Merkantil Bank Ltd.	100.00	-	1,500	1,697	100.00	-	1,500	1,925
Merkantil Car Ltd.	-	100.00	20	281	-	100.00	20	462
Merkant-Ház Ltd.	-	100.00	3	90	-	100.00	3	64
OTP Fund Management Ltd.	5.00	95.00	900	1,655	5.00	95.00	900	2,413
OTP Pension Fund Ltd.	-	-	-	-	93.44	6.56	305	77
OTP Building Society Ltd.	100.00	-	1,000	953	100.00	-	1,500	1,652
OTP Mortgage Bank Ltd.	-	-	-	-	100.00	-	3,000	146
HIF Ltd.	100.00	-	1,191	199	100.00	-	1,131	184
OTP Securities Ltd.	100.00	-	1,000	19	100.00	-	1,000	-428
OTP Real Estate Ltd.	70.38	29.62	1,670	758	70.38	29.62	1,670	856
OTP Factoring Ltd.	50.00	50.00	300	530	50.00	50.00	300	635
OTP Real Estate Management Ltd.	-	100.00	61	103	-	100.00	61	273
Bank Center No. 1. Ltd.	100.00	-	5,956	409	100.00	-	5,956	-237
Inga Egy Ltd.	100.00	-	391	157	100.00	-	391	28
Inga Kettő Ltd.	100.00	-	5,665	46	100.00	-	5,665	101
Concordia-Info Ltd.	-	100.00	2,695	4	-	100.00	2,695	12
Total			28,203	7,775			31,948	9,417

* Az 2001. december 31-i állapot szerint.

MANAGEMENT'S ANALYSIS

OTP-Garancia Insurance Ltd.'s insurance premium income grew by 8.8%, increasing to HUF 42.3 billion. The share of the life and bank insurance business within total premium income was HUF 21.5 billion. The premium income of the non-life business reached HUF 20.7 billion, representing an increase of 17.9% over 2000. The gross value of damage claims amounted to HUF 20.4 billion in 2001. The company had a HUF 1,254 million pre-tax profit, representing a close to 150% increase over the previous year, and, at the same time, it increased its insurance reserves considerably – by more than HUF 12.5 billion. The Company's balance sheet total increased by 34.1%, and its equity reached HUF 5.6 billion as at 31 December 2001.

Merkantil Bank Ltd. expanded its activities dynamically in 2001. Its balance sheet total, which was HUF 59.4 billion at the end of 2002, grew 11.6%. Within the company's assets, car loans had a share of 80.0%, while the share of dealer financing was 9.5%. Merkantil Bank closed the year with a pre-tax profit of HUF 1,925 million, representing an increase of HUF 228 million over the previous year. The Bank's financial performance ratios were favourable. Return on average assets (ROAA) reached 2.8% and return on average equity (ROAE) reached 24.3%. The Company's equity increased by close to 30%, from HUF 5.4 billion to HUF 7.0 billion, while the ratio of equity to the balance sheet total increased from 10.2% in 2000 to 11.7%.

Merkantil Car Ltd.'s balance sheet total increased by HUF 11 billion during 2001, representing a HUF 47.8% growth in total assets compared with 2000. The volume of financial leasing increased from HUF 19.2 billion to HUF 31.9 billion. By year-end, the volume of production equipment financing deals had more than doubled, surpassing HUF 3.7 billion. The Company's pre-tax profit reached HUF 462 million in 2001. The balance sheet total of Merkantil-Ház Ltd. increased by 24.6% to HUF 6.6 billion in 2001. On 31 December 2001, the volume of long-term vehicle leasing amounted to HUF 1,965 million. The Company's pre-tax profits reached HUF 64 million in 2001.

In the course of 2001, **OTP Building Society Ltd.** concluded a total of 77 thousand new contracts at a value of close to HUF 50 billion. As of year-end, the volume of customer deposits was HUF 48.1 billion, while on 31 December 2001 the volume of customer deposits was HUF 54.1 billion, reflecting an increase in excess of 45%. The equity of the Building Society reached HUF 3.3 billion, and this is 6.1% of the balance sheet total. The company achieved a pre-tax profit of HUF 1,652 million in 2001, representing a 73.3% increase over that of the previous year.

Compared with the previous year, **OTP Fund Management Ltd.**'s pre-tax profit increased by HUF 758 million, reaching HUF 2,413 million, a reflection of the dynamic increase – from HUF 273.4 billion to HUF 367.3 billion – in the net asset value of the funds under the Company's management. With this increase, the Company's market share rose from 48.5% to more than 52%. On 31 December 2001, the value of pension funds under the Company's management reached HUF 101.7 billion, and as a result, the total value of assets under the Company's management reached HUF 470 billion.

Also in 2001 **OTP Pension Fund Ltd.** led the market both in terms of the number of pension fund accounts and the total value of its portfolio. As at the end of 2001, the Company managed 764 thousand private accounts and the combined value of the assets of the pension funds administered by the Company reached HUF 100 billion. The Company closed the year with a pre-tax income of HUF 77 million, and its balance sheet total was HUF 1,510.8 million.

In 2001 **OTP Real Estate Ltd.**'s pre-tax profit was HUF 856 million, HUF 98 million more than in 2000.

LOAN PORTFOLIO QUALITY, PROVISIONING

As at 31 December 2001, OTP Bank Ltd.'s total loan portfolio to be qualified was HUF 1,489.94 billion, representing an increase of close to HUF 253 billion, or 20.4%, over 2000. The ratio of qualified loans to the total loan portfolio fell in 2001, from 5.6% in 2000 to 4.6%.

MANAGEMENT'S ANALYSIS

OTP BANK LTD'S QUALIFIED LOAN PORTFOLIO

	31 Dec. 2000		31 Dec. 2001		Change	
	HUF mn	prop.	HUF mn	prop.	HUF mn	%
Securities (excluding Hungarian government securities)						
Problem-free	22,116	98.4%	27,784	98.8%	5,668	25.6%
Qualified	354	1.6%	335	1.2%	-19	-5.4%
Total	22,469	100.0%	28,119	100.0%	5,649	25.1%
Loans and interbank transactions (receivables)						
Problem-free	840,991	95.4%	1,074,121	96.0%	233,130	27.7%
Qualified	40,700	4.6%	44,606	4.0%	3,906	9.6%
Total	881,691	100.0%	1,118,727	100.0%	237,036	26.9%
Ownership stakes						
Problem-free	8,739	25.6%	17,650	51.4%	8,911	102.0%
Qualified	25,420	74.4%	16,717	48.6%	-8,703	-34.2%
Total	34,158	100.0%	34,367	100.0%	209	0.6%
Other						
Problem-free	63,720	99.7%	8,328	96.2%	-55,392	-86.9%
Qualified	186	0.3%	328	3.8%	141	75.9%
Total	63,906	100.0%	8,656	100.0%	-55,250	-86.5%
Off-balance sheet items						
Problem-free	232,830	99.0%	293,034	97.7%	60,203	25.9%
Qualified	2,307	1.0%	7,038	2.3%	4,731	205.1%
Total	235,137	100.0%	300,072	100.0%	64,935	27.6%
Grand total						
Problem-free	1,168,395	94.4%	1,420,917	95.4%	252,521	21.6%
Qualified	68,966	5.6%	69,023	4.6%	57	0.1%
Total	1,237,362	100.0%	1,489,940	100.0%	252,578	20.4%

Of the total **portfolio to be qualified** 75.1% consisted of outstandings as at the end of 2001 (31 December 2000: 71.3%), and 64.6% of this portfolio were qualified receivables related to the outstandings. 65.2% of the combined volume of provisions and value losses were connected with qualified receivables.

In 2001, **the total receivables** of OTP Bank increased by 26.9%, reaching HUF 1,118.7 billion by year-end. The share of problem-free receivables increased from 95.4% as at the end of 2000 to 96.0%, reflecting an improvement in the receivables portfolio. The volume of the to be monitored category was 1.6% of the total receivables portfolio as at year-end 2001, as opposed to 0.6% at the end of 2000, while the share of the below average category dropped from 4.0% to 2.4%.

Within the total of receivables, the share of **customer receivables** increased by HUF 144 billion, or 22.3%, reaching HUF 792.5 billion by the end of 2001, within which the share of the qualified portfolio dropped from 6.3% in the previous year to 5.6%, or HUF 44 billion, as at year-end 2001. Portfolio quality improved in the corporate business and deteriorated in the retail and municipality businesses.

In the retail division, under the circumstances of a 40.0% increase in receivables, the qualified volume grew 44.1%, which means that within the total of retail receivables, the share of qualified receivables grew from 5.5% to 5.7%. The increase in the qualified volume was particularly high for receivables with a bad qualification (HUF 4.1 billion, representing a 95.5% increase).

MANAGEMENT'S ANALYSIS

In the corporate division, under the circumstances of a 14.2% increase in receivables, the qualified volume decreased 2.9% and thus, within the total of corporate receivables, the share of qualified receivables fell from 7.5% in 2000 to 6.3% by the end of 2001. Within the qualified portfolio, the volume of the to be monitored category increased by HUF 12.1 billion, and its proportion within the total portfolio of corporate loans grew from 0.7 to 3.2%. Due to a HUF 13.0 billion drop in the volume of problematic loans, their share within the total portfolio of corporate loans decreased significantly, from 6.8% to 3.1%.

In the municipality division, under the circumstances of a 20.8% increase of receivables, the qualified volume experienced a more than threefold increase 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 0.5% (year-end 2000: 0.2%).

Receivables from financial institutions grew by 39.7% in 2001, and simultaneously the volume of the qualified portfolio dropped by 7%, while – similarly to the previous year – its share within the total of the financial institutions portfolio was 0.1%.

QUALIFIED LOANS BY BUSINESS LINES

	31 Dec. 2000		31 Dec. 2001		Change	
	HUF mn	prop.	HUF mn	prop.	HUF mn	%
Retail banking						
Problem-free	177,549	94.5%	248,203	94.3%	70,654	39.8%
Qualified	10,360	5.5%	14,926	5.7%	4,566	44.1%
To be monitored	2,561	1.4%	2,830	1.1%	269	10.5%
Bad	7,799	4.2%	12,096	4.6%	4,297	55.1%
Total	187,909	100.0%	263,129	100.0%	75,220	40.0%
Corporate banking						
Problem-free	372,956	92.5%	430,971	93.7%	58,015	15.6%
Qualified	30,067	7.5%	29,184	6.3%	-883	-2.9%
To be monitored	2,724	0.7%	14,857	3.2%	12,133	445.4%
Bad	27,343	6.8%	14,327	3.1%	-13,016	-47.6%
Total	403,023	100.0%	460,155	100.0%	57,132	14.2%
Municipal banking						
Problem-free	57,206	99.8%	68,893	99.5%	11,687	20.4%
Qualified	89	0.2%	326	0.5%	237	267.2%
To be monitored	8	0.0%	6	0.0%	-2	-23.0%
Bad	81	0.1%	320	0.5%	239	295.1%
Total	57,295	100.0%	69,219	100.0%	11,924	20.8%
Financial institutions						
Problem-free	233,280	99.9%	326,054	99.9%	92,774	39.8%
Qualified	183	0.1%	170	0.1%	-13	-7.0%
To be monitored	0	0.0%	0	0.0%		
Bad	183	0.1%	170	0.1%	-13	-7.0%
Total	233,463	100.0%	326,224	100.0%	92,761	39.7%
Total						
Problem-free	840,991	95.4%	1,074,121	96.0%	233,130	27.7%
Qualified	40,700	4.6%	44,606	4.0%	3,906	9.6%
To be monitored	5,293	0.6%	17,693	1.6%	12,400	234.3%
Bad	35,407	4.0%	26,913	2.4%	-8,494	-24.0%
Total	881,691	100.0%	1,118,727	100.0%	237,036	26.9%

MANAGEMENT'S ANALYSIS

The distribution of qualified loans by the various categories of qualification underwent a major transformation during the year. A substantial increase occurred in the to be monitored category which increased more than threefold during the year, and its share within the total of the qualified volume grew from 13.09% to 39.7%. 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 12.1 billion. At the same time, both the volume and the share within the total qualified volume of the doubtful and below average categories decreased substantially. The HUF 10.4 billion, close to 60%, drop in the doubtful category is attributable to the decrease in of this qualification category in the corporate business. Loans of the below average category decreased HUF 3.6 billion, experiencing also a close to 60% drop from which HUF 3.5 billion occurred in the corporate business. Due to the HUF 5.5 billion (48.4%) increase in the bad qualification category, its share within the total of the qualified volume grew from 27.7% in 2000 to 37.5%, which is primarily a consequence of the changes in the retail portfolio, where the volume of bad loans increased by HUF 4.1 billion in 2001, representing a doubling of the volume compared with the previous year. In the corporate portfolio the volume of loans with the bad categorisation grew by HUF 1.4 billion.

In the retail business line, with the exception of the bad category, the share of all the other qualified loan categories within the total of the qualified volume of the retail business decreased. Compared with the previous year, a substantial increase in the share of bad loans occurred – from 41.5% to 56.3%. In the corporate business there was a steep increase in the share within the total qualified volume of the to be monitored category – from 9.1% to 50.9%, whereas the share of the bad category increased from 22.4% to 27.7%, while the shares of the below average and doubtful categories decreased substantially.

THE STRUCTURE OF QUALIFIED LOANS

	31 Dec. 2000		31 Dec. 2001		Change		Percentage point change in proportion
	HUF mn	prop.	HUF mn	prop.	HUF mn	%	
To be monitored	5,293	13.0%	17,693	39.7%	12,400	234.3%	26.7%
Below average	6,154	15.1%	2,593	5.8%	-3,561	-57.9%	-9.3%
Doubtful	17,973	44.2%	7,578	17.0%	-10,395	-57.8%	-27.2%
Bad	11,280	27.7%	16,742	37.5%	5,462	48.4%	9.8%
Total qualified	40,700	100.0%	44,606	100.0%	3,906	9.6%	-

With the 9.6% increase of the qualified volume, the volume of provisions and value loss dropped from HUF 22.9 billion to HUF 21.7 billion, and thus the provision coverage ratio dropped from 56.2% to 48.6%.

THE COVERAGE OF QUALIFIED RECEIVABLES BY RISK PROVISIONS

	31 Dec. 2000	31 Dec. 2001	Change	
	HUF mn	HUF mn	HUF mn	%
Total receivables	881,691	1,118,727	237,036	26.9%
Problem-free receivables	840,991	1,074,121	233,130	27.7%
Qualified volume	40,700	44,606	3,906	9.6%
Value loss, provisions	22,872	21,683	-1,189	-5.2%
Coverage ratio	56.2%	48.6%		

MANAGEMENT'S ANALYSIS

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. 2000		31 Dec. 2001		Change	
	HUF mn	prop.	HUF mn	prop.	HUF mn	%
Retail	5,894	25.8%	9,982	46.0%	4,088	69.4%
Corporate	16,715	73.1%	11,331	52.3%	-5,384	-32.2%
Municipal	80	0.4%	200	0.9%	120	149.3%
Interbank	183	0.8%	170	0.8%	-13	-7.0%
Total	22,872	100.0%	21,683	100.0%	-1,189	-5.2%

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 provision dropped by HUF 5.4 billion in the corporate business, while in the retail business it increased by HUF 4.1 billion, and in the municipality and financial institutions 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 rose to 46.0%, while the share of the corporate division dropped to 52.3%.

Within the total of **trading and investment securities** (excluding Hungarian government securities) the share of the qualified portfolio was just 1.2%, or HUF 335 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 34.4 billion, HUF 16.7 billion (48.6%) was not problem-free, which is, however, substantially lower than in the previous year (2000: HUF 25.4 billion, or 74.4%). The Bank recorded a value loss of HUF 5.0 billion on this volume of HUF 16.7 billion, which corresponds to a coverage ratio of 29.9%. Of the HUF 8.7 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 0.3 billion (3.8%).

Within **off-balance sheet items**, accounting for close to 20% of the total asset portfolio examined in terms of qualification, the volume of the qualified portfolio was 2.3%.

ASSET-LIABILITY MANAGEMENT

LIQUIDITY RISKS AND MARKET RISK MANAGEMENT

The supreme forum of 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 determined on the basis of the maximum acceptable loss.

TRENDS IN OTP BANK LTD.'S LIQUIDITY POSITION

OTP Bank Ltd.'s liquidity policy: With a view to maintaining profitability, the Bank's liquidity policy aims at meeting its payment obligations as and when they fall due and at carrying out the necessary transactions.

In order to be able to calculate its liquidity exposure, the Bank analyses the balance of the compulsory reserve account and the Treasury's portfolio on a daily basis, prepares a cash-flow analysis for eight days ahead, and prepares a maturity balance sheet each month. It reports to ALCO on a quarterly basis on any deviation from the limits defined for the gaps, the Treasury portfolio and the funding requirement determined on the basis of plans.

The positive gap in the short-term maturities of the HUF due balance sheet (that was set up through a regrouping of the deposits according to their potential maturity dates) was again large in 2001, as – similarly to the previous years – Treasury favoured the more profitable NBH deposits and, due to the negative yield curve, high-yield short-term money market instruments. The

MANAGEMENT'S ANALYSIS

Bank follows a stricter procedure than called for by the currently valid regulations: while the statutory provisions define large deposits as any deposit whose value exceeds 15% of the guarantee capital, the Bank considers all deposits greater than HUF 2 billion to be large deposits. The combined volume of the Bank's cash and bank holdings, its securities negotiable with the central bank and its short-term central-bank and interbank placements is nearly 16 times higher than the combined volume of large deposits. The Bank's cash, trading securities and deposits placed with the central bank and other commercial banks account for 34% of the balance sheet total.

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 much higher than value of liabilities. Within the foreign currency deposit portfolio, whose value expressed in Forint grew 4.2%, a structural shift towards EUR is observable, which is, in part, attributable to the favourable terms offered for deposit placements and for exchanging funds into EUR in the last quarter of 2001. Compared with 2000, there was a slight decrease in the volume of foreign currency loans, and consequently these loans accounted for only 39% of the total of foreign currency assets. The volume of trading and foreign currency securities increased considerably, reaching 10% of total assets by year-end.

MANAGING MARKET RISK

In accordance with Government Decree 244/2000, since the second quarter of 2001 the Bank has been reporting on a daily basis to the State Supervisory Authority the capital requirement of the position, counterparty and foreign exchange risk (calculated according to the so-called standard method) of the trading book positions.

In the second, third and fourth quarters, the average volume of the capital requirement was HUF 1,163 million, of which a value corresponding to HUF 704 million was required by position exposure, HUF 194 million by counterparty exposure and HUF 265 million by foreign exchange exposure.

The Bank also determines each day the capital requirement based on an internal Value at Risk model. In order to be able to determine the capital requirement more precisely and by a more sophisticated method, the Bank launched the development of this model, and this project will be finished in the second half of 2002.

INTEREST RATE RISK EXPOSURE

The Bank intends to keep potential losses in terms of net interest income and the market value of the portfolio that may result from adverse movements in market interest rates to within specified limits. To this end, the Bank is continuously measuring 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 HUF 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 2001 the NBH went over to its inflation-targeting system, and at the same time ensured a correspondence between its benchmark fortnightly deposit interest rate and the so-called central bank prime rate. The NBH reduced its benchmark interest rates in several steps, by 2 percentage points, and it also cut the mandatory reserve ratio from 11% to 6%. The volume of government bonds held by foreigners increased from HUF 733 billion to HUF 1,076 billion.

In 2001 the gap with a maturity of less than one year within the Bank's Forint re-pricing balance sheet to be short, i.e., the volume of liabilities that may be re-priced is higher than that of assets. The volume of floating interest rate HUF investment securities increased by HUF 116 billion. Treasury also increased its fixed interest rate volume that may be re-priced after a two-year maturity period, by close to HUF 30 billion. As of year-end 2001, interest-bearing foreign currency assets were HUF 56 billion higher than interest-bearing foreign currency liabilities. The interest position was relatively closed. Pursuant to a resolution of ALCO, the duration of the Bank's trading securities portfolio must not be higher than three years.

MANAGEMENT'S ANALYSIS

EXCHANGE RATE RISK EXPOSURE

As of 4 May 2001, the NBH widened the band within which the exchange rate of the Forint is permitted to fluctuate – from $\pm 2.25\%$ of the mid rate of the band to $\pm 15\%$. As of 1 October 2001, the crawling peg devaluation of the Forint introduced in 1995 was abolished, and the centre of the intervention band was fixed at a rate of 276.1 EUR/HUF.

In order to avoid potential losses resulting from adverse changes in exchange rates, the maximum level of the total open position is limited by the law (to 30% of the guarantee capital), and, at the same time, the Bank also has its own detailed internal exchange rate risk management regulation. In the course of the review of 2001, due to the change in the exchange rate mechanism, particular emphasis was placed on stop-loss and intraday limits. In addition to this, the Bank also limits the maximum level of the overnight open position as well as its various positions according to currency types.

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 6.9 billion in 2001, in contrast with HUF 10.5 billion in the previous year, while the average net foreign currency position was a short position of HUF 2.5 billion, as opposed to a short position of HUF 6.8 billion a year earlier.

FINANCIAL SUMMARY*

Balance Sheet	1997	1998	1999	2000	(HUF bn) 2001
Cash and bank	378.2	350.1	557.4	482.4	372.6
Government securities	371.3	468.6	300.9	440.2	481.1
Interbank deposits**	173.6	246.8	277.7	233.9	329.9
Loans and advances to customers	388.3	444.9	478.4	614.1	769.8
Retail	141.2	133.1	150.8	180.2	258.2
Corporate	223.7	280.4	291.4	393.2	464.8
Municipal	23.3	31.4	36.2	40.7	46.7
Intangible and fixed assets	36.5	44.1	52.1	52.7	54.2
Other	93.5	81.4	101.2	108.0	119.6
TOTAL ASSETS	1,441.4	1,635.8	1,767.5	1,931.3	2,127.2
Interbank liabilities	46.7	42.8	42.2	44.4	25.1
Deposits from customers	1,229.4	1,401.3	1,507.6	1,633.0	1,811.2
Retail	974.9	1,119.6	1,214.0	1,308.1	1,405.6
Corporate	155.9	177.8	189.9	210.9	253.6
Municipal	98.5	103.9	103.7	114.0	152.0
Securities issued	38.5	30.9	22.9	19.6	14.9
Provisions	9.5	11.4	11.1	11.3	14.6
Other	55.4	70.8	83.2	95.5	102.9
Shareholders' equity	61.9	78.6	100.7	127.5	158.5
Total liabilities	1,441.4	1,635.8	1,767.5	1,931.3	2,127.2
Net assets per share (NAV) (HUF, fully diluted)	2,210	2,806	3,595	4,554	5,661

PROFIT AND LOSS ACCOUNT	1997	1998	1999	2000	(HUF bn) 2001
Net interest income	84.3	86.5	84.0	86.9	98.3
Non interest income	10.3	21.1	30.3	39.0	42.8
Of wich: Net fee and commission income	16.6	20.7	24.0	32.0	40.0
Total income	94.6	107.5	114.3	125.8	141.1
Non-interest expenses	63.4	70.7	74.6	77.7	85.2
Operating income/profit	31.2	36.8	39.7	48.1	55.9
Provisions	12.0	11.2	10.2	7.9	8.5
Profit before taxation	19.2	25.6	33.3	40.2	47.4
Profit after taxation	15.3	21.1	28.3	32.5	38.4
Earnings per share (EPS) (HUF, undiluted)	589,55	802,32	1,071.27	1,241.32	1,457.67

KEY RATIOS	1997	1998	1999	2000	2001
Return on average assets ROAA %	1.13	1.37	1.67	1.76	1.89
Return on average equity ROAE %	27.14	30.07	31.62	28.51	26.85
Capital adequacy ratio %	13.58	13.33	15.23	15.45	14.11
Dividend per share (HUF)					
Dividend per preference share (HUF)	140	160	180	200	—
Dividend per common share (HUF)	140	160	180	200	275
Loan to deposit ratio %	31.6	32.4	31.7	38.6	42.5
Cost/income ratio %	67.0	65.8	65.3	61.7	60.4

* Unconsolidated, based on HAR.

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

MANAGEMENT'S SUMMARY OF THE DIFFERENCES BETWEEN THE PROFIT AND LOSS ACCOUNTS PREPARED ACCORDING TO THE INTERNATIONAL AND THE HUNGARIAN ACCOUNTING STANDARDS FOR THE YEAR ENDING DECEMBER 31, 2001

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):

	MSZSZ	IAS amendments	(HUF millions) IAS
Pre-tax profits	47,369	3,038	50,407
Taxes (deferred taxes in IAS) (-)	-8,971	-268	-9,239
After-tax profits	38,398	2,770	41,168

Profits after taxes according to IAS were HUF 2,770 million higher than according to HAR in 2001.

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

General risk provisions of HUF 2,380 million was generated in 2001 in the HAR profit and loss accounts based on the value of the risk weighted total assets.

Due to changes in HAR regulation, provisions for net foreign currency position and country risk have been cancelled, therefore provisions for exchange rate losses generated in the previous year in the amount of HUF 70 million based on the net foreign currency position and country risk provisions which were HUF 580 million have been released and accounted as income on the P&L.

The above provisions generated and released are not recognized by IAS, thus the provisions generated and released were reversed which resulted in a HUF 1,730 million profit increasing item in the IAS profit and loss accounts.

2. 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.

Similar regulations exist under HAR starting 2001, which has been accounted as follows:

- for securities in the portfolio as of 31 December 2000 the difference between face value and purchase value has been amortized for the remaining maturity on a straight line basis.
- for securities purchased in 2001 the difference between face value and purchase value has been amortized on a straight line basis between the date of purchase and date of maturity.

MANAGEMENT'S ANALYSIS

Modifications under IAS are as follows:

- Release of IAS accruals for the previous year of HUF 496 million
- Release of HAR accruals of HUF 1,505 million
- IAS accruals on 31 December, 2001 of HUF –1,508 million
- Total HUF 493 million

The above items increased the IAS profit by HUF 493 million in total.

3. 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, in 2000 HUF 350 million and in 2001 HUF 153 million was released from the provisions generated in the previous years. The latter was equal to the expenses paid by the Bank.

The above increases the IAS results by HUF 153 million.

4. ACCOUNTING OF FINANCE LEASES

The Bank leased and paid rental fees for computers and other equipments since 1995. Contrary to the HAR, IAS considers these transactions as finance leases, and the equipment is registered among tangible assets. Parts of these are equipments leased from AXIAL, and parts 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 88 million in total.

5. VALUATION OF FINANCIAL INSTRUMENTS ACCORDING TO IAS 39

Starting 1 January 2001 the IAS 39 standard is introducing valuation principles, which differ from HAR. At the Bank this resulted in modification of value relating to securities and off balance sheet financial instruments. Within securities a new category has been introduced and included into the balance sheet called: "Trading and sellable securities".

5.1 TRADING AND SELLABLE SECURITIES AND PARTICIPATIONS

The trading and sellable securities and sellable participations have to be presented in the balance sheet on market value. These valuation difference based on 31 December, 2000 volume, which was established based on 31 December, 2000 market value has been charged to shareholders equity. These increase IAS results by HUF 667 million.

MANAGEMENT'S ANALYSIS

5.2 DIFFERENCE IN ACCOUNTING FOR OFF BALANCE SHEET FINANCIAL INSTRUMENTS

Since IAS 39 is marking these instruments to market, in IAS the accruals of the end of the previous year; in HAR the provisions pending for derivative instruments and the accruals for swaps have to be cancelled and fair market valuation has to be made in IAS.

As a result of different accounting, the results of the release of accruals of the end of the previous year and the provisions pending for derivative instruments and the accruals for swaps was an increase of HUF 861 million.

In IAS the following modifications have been carried out:

- Reversal of accruals of HUF 543 million
- Reversal of HAR provisions for non covered futures instruments of HUF 473 million
- Reversal of HAR accruals of HUF –155 million
- Totaling HUF 861 million

The futures, swaps and derivative type options are considered a trading instruments and liabilities, therefore their value in the balance sheet should be their fair market value. The results from marking to market reached HUF –773 million. Consequently the modifications in the valuation of off balance sheet financial instruments increased IAS results by HUF 88 million.

The total effect of modifications based on IAS 39 increased IAS results by HUF 755 million (HUF 667 million under 5.1. and HUF 88 million under 5.2.).

6. 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 72 million in 2001.

7. 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 109 million against the current year's profit.

8. 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 realized 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 2001 profit changing items and the corporate tax rate of 18%, the assets resulting from deferred tax payment amounted to HUF 268 million.

DIFFERENCES BETWEEN THE CONSOLIDATED PROFIT AND LOSS ACCOUNTS PREPARED ACCORDING TO THE INTERNATIONAL AND THE HUNGARIAN ACCOUNTING STANDARDS FOR THE YEAR ENDING DECEMBER 31, 2001

Establishment of consolidated pre-tax profits

	HAR	IAS	(in HUF million) Difference
OTP Bank Ltd.	47,369	50,407	3,038
OTP-Garancia Insurance Ltd.	1,254	1,552	298
Merkantil Group	2,451	2,506	55
OTP Asset Management Ltd.	2,413	2,413	0
OTP Fund Services Ltd.	77	37	-40
OTP LTP Ltd.	1,652	1,818	166
OTP Mortgage Bank Ltd.	146	146	0
HIF Ltd.	184	177	-7
OTP Securities Ltd.	-428	-433	-5
OTP Real Estate Ltd.	856	856	0
OTP Factoring Ltd.	635	635	0
OTP Real Estate Asset Management Ltd.	273	278	5
Inga Ltd-s.	129	129	0
Bank Center No 1. Ltd.	-237	-237	0
Concordia Info Ltd.	12	12	0
I. Aggregate pre-tax profits	56,786	60,296	3,510
<i>Difference between aggregate and unconsolidated pre-tax profits</i>	<i>9,417</i>	<i>9,889</i>	<i>472</i>
Equity consolidation	505	131	-374
Capital consolidation	-172	-134	38
Intra-group transactions	171	62	-109
II. Total effect of consolidation	504	59	-445
III. Effect of other differences	-	150	150
Consolidated pre-tax profits	57,290	60,505	3,215
<i>Difference between consolidated and unconsolidated pre-tax profits</i>	<i>9,921</i>	<i>10,098</i>	<i>177</i>

As it could be seen from the table above majority of the differences between the consolidated accounts for the year ended 31 December, 2001 made under HAR and IAS is represented by the difference of the individual data of OTP Bank, to which as an increase factor is added the differences in the individual data of the subsidiaries, the effect of the adoption of IAS 39 for the measurement of fair value of financial instruments, the reversal of certain provisions and as a diminutive component, the effect of consolidation.

I. DIFFERENCES AT THE AGGREGATION OF THE FINANCIAL REPORTS

OTP Bank Ltd.

Adjustments to the HAR statements to present IAS accounts the components influencing the results:

– Premium and discount amortization on investment securities	HUF +493 million
– Difference in accounting for finance leases	HUF +88 million
– Reversal of statutory general provision, statutory provision for net foreign currency position, statutory country risk provision	HUF +1,730 million
– Profit on sale of Treasury Shares	HUF –72 million
– Allowance for possible losses on off-balance sheet commitments and contingent liabilities	HUF +153 million
– Reclassification of direct charges	HUF –109 million
– Fair value adjustment of held for trading and available-for-sale financial assets	HUF +667 million
– Difference in accounting for off- balance sheet financial instruments, fair value adjustment of derivative financial instruments	HUF 88 million
Total modification of pre-tax profits	HUF +3,038 million

Merkantil Group

– Difference in accounting for finance leases	HUF –100 million
– Reversal of statutory general provision	HUF 155 million
Total modification of pre-tax profits:	HUF +55 million

HIF Ltd.

In the IAS consolidated accounts, due to different technique used at expressing foreign currency accounts to HUF (the conversion difference in HAR is other income/expense, in IAS charged against equity).

Modification of pre-tax profits: HUF –7 million

OTP-Garancia Insurance Ltd.

Reversal of depreciation related to cost of reorganization increasing pretax profits in the value of HUF 95 million.

IAS does not recognize income/expenses based on stop-loss deals with reinsurers therefore IAS reverses HAR accounts increasing pretax profits by HUF 203 million.

Total modification of pre-tax profits HUF +298 million

OTP Securities Ltd.

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 company's self-audit a serious error, thus it posted the amount of HUF 5 million against the current year's profit.

MANAGEMENT'S ANALYSIS

OTP Building Society Ltd.

Reversal of statutory general provision and compensation provision accounted in HAR increase pre-tax profits by HUF 106 million.

OTP Fund Services Ltd.

Newly consolidated company where pretax profits is decreased by HUF 40 million in IAS, since under IAS retained earnings shown in reserves has to be accounted within the subject year's results.

II. DIFFERENCES IN THE EFFECT OF CONSOLIDATION

Effect of equity consolidation

Under HAR and IAS there is a difference as to which companies have to be equity consolidated. Under HAR and based on its accounting policy, the Bank equity consolidates those fully owned subsidiaries which are exempt from full consolidation and those associated companies where the nominal value of investment reaches HUF 50 million and where the ownership of the Bank reached at least 10%. There are 13 companies equity consolidated under HAR. Under IAS only limited number (2) of companies are consolidated. The companies consolidated under HAR are more profitable than those consolidated under IAS, decreasing consolidated pre-tax profits by HUF 374 million.

Effect of capital consolidation

One of the reasons for the difference between the HAQR and IAS accounts is the different accounting of amortization of active capital consolidation differences. The capital consolidation difference for Inga Ltds. is depreciated in a straight line over 5 years under HAR, while the full amount has been deducted in 1998 under IAS. Therefore the depreciation is decreasing the HAR results by HUF 15 million, and there is no such effect under IAS.

At the acquisition of Merkantil; Bank, under HAR a passive capital consolidation difference has been created, while under IAS, which established the capital consolidation difference for the Merkantil Group active capital consolidation difference has been created, for which the depreciation for the current year decreased IAS results by HUF 36 million.

At HIF Ltd. the subscribed capital is shown in the IAS accounts at original rate of exchange, while under HAR it has been continuously revalued at NBH exchange rates, creating a HUF 59 million increase in results under IAS.

Other differences HUF 10 million

Intra-group relations

The putting of self revision items into the profit and loss account created a decrease in pre-tax profits of HUF 37 million under IAS.

In 2000 OTP Bank has transferred funds of HUF 200 million with a final effect to OTP Fund Services. This has increased the value of investments at OTP Bank which has to be reversed at the consolidation of accounts, thus decreasing pre-tax profits by HUF 62 million.

III. EFFECT OF OTHER DIFFERENCES

Effect of IAS for establishment of fair value of financial instruments decreased pre-tax profits by HUF 3 million.

The securities held for trading, securities available for sale and investments considered as saleable financial instruments has to be presented at fair market value under IAS. Based on fair market value at 31 December 2001 the pre-tax profits has to be increased by HUF 20 million.

Derivative financial instruments are initially recognized at cost and subsequently are re-measured at their fair value. Changes in the fair value of derivative financial instruments that do not qualify for hedge accounting are recognized in the Consolidated Statement of Operations as they arise. All derivatives are carried as assets when fair value is positive and as liabilities when fair value is negative. Based on fair market value at 31 December 2001 the pre-tax profits have to be decreased by HUF 23 million.

Additional provisioning of HUF 400 million created under IAS in 2000 provisions of HUF 153 million has been released in relation to tax fine at OTP Securities levied in 2001.



FINANCIAL
Report

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INDEPENDENT AUDITORS' REPORT

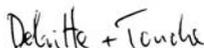
To the Shareholders and Board of Directors of National Savings and Commercial Bank Ltd.

We have audited, in accordance with Hungarian National and International Standards on Auditing, the unconsolidated financial statements of National Savings and Commercial Bank Ltd. (the "Bank") for the year ended December 31, 2001, prepared in accordance with Hungarian accounting regulations, from which the accompanying summarized unconsolidated financial statements (balance sheet and profit and loss account), included on pages 59 to 61 of this report, were derived. In our independent auditors' report dated March 22, 2002, we expressed an unqualified opinion on the unconsolidated financial statements, prepared in accordance with Hungarian accounting regulations, from which the accompanying summarized unconsolidated financial statements were derived.

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

For a better understanding of the Bank's unconsolidated financial position as at December 31, 2001, and the unconsolidated results of its operations for the year then ended, prepared in accordance with Hungarian accounting regulations and of the scope of our audit, the accompanying summarized unconsolidated financial statements should be read in conjunction with the unconsolidated financial statements and the related notes from which the summarized unconsolidated financial statements were derived and our independent auditors' report thereon.

Budapest, May 22, 2002



Deloitte & Touche

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BALANCE SHEET

(unconsolidated, based on HAR) as at December 31, 2001 and 2000 (in HUF mn)

ASSETS	2000	2001
1. CASH IN HAND, BALANCES WITH CENTRAL BANKS	482,350	372,593
2. TREASURY BILLS	440,201	481,079
a) held for trade	184,275	136,325
b) held as financial fixed assets (for long term investment)	255,926	344,754
3. LOANS AND ADVANCES TO CREDIT INSTITUTIONS	233,739	329,778
a) repayable on demand	3,667	6,415
b) other receivables from financial services	230,072	323,363
4. LOANS AND ADVANCES TO CUSTOMERS	627,633	765,998
a) receivables from financial services	627,087	765,364
aa) maturity not more than one year	299,827	326,797
ab) maturity more than one year	327,260	438,567
b) receivables from investment services	546	634
5. DEBT SECURITIES INCLUDING FIXED-INCOME SECURITIES	11,317	17,636
a) securities issued by local self-governing bodies and by other public bodies (not include the treasury bills issued by Hungarian state and securities issued by Hungarian National Bank)	0	0
b) securities issued by other bodies	11,317	17,636
6. SHARES AND OTHER VARIABLE-YIELD SECURITIES	1,420	7,262
a) shares and participations for trade		5,579
b) other variable-yield securities	1,420	1,683
7. SHARES AND PARTICIPATING INTEREST AS FINANCIAL FIXED ASSETS	590	877
8. SHARES AND PARTICIPATING INTEREST IN AFFILIATED UNDERTAKINGS	25,036	28,815
9. INTANGIBLE ASSETS	10,624	11,866
10. TANGIBLE ASSETS	42,066	42,380
a) tangible assets for financial and investment services	38,686	39,914
b) tangible assets not for directly financial and investment services	3,380	2,466
c) revaluation surplus on tangible assets	0	0
11. OWN SHARES	9,067	17,750
12. OTHER ASSETS	18,569	19,595
13. PREPAYMENTS AND ACCRUED INCOME	28,660	31,529
TOTAL ASSETS	1,931,272	2,127,158
From this:		
– CURRENT ASSETS	1,208,463	1,189,094
– FIXED ASSETS	694,149	906,535

FINANCIAL REPORT

LIABILITIES	2000	2001
1. LIABILITIES TO CREDIT INSTITUTIONS	44,415	25,133
a) repayable on demand	591	2,595
b) liabilities from financial services with maturity dates or periods of notice	43,824	22,538
2. LIABILITIES TO CUSTOMERS	1,600,265	1,778,685
a) saving deposits	366,672	363,961
b) other liabilities from financial services	1,226,492	1,413,015
c) liabilities from investment services	7,101	1,709
3. LIABILITIES FROM ISSUED DEBT SECURITIES	77,022	73,734
a) issued bond	1	1
b) issued other debt securities	1,032	554
c) issued debt securities according to act on accounting, but the act on securities not qualifies that certificates as securities	75,989	73,179
4. OTHER LIABILITIES	36,861	36,911
a) maturity not more than one year	36,861	36,911
b) maturity more than one year	0	0
5. ACCRUALS AND DEFERRED INCOME	16,130	22,288
a) accrued liabilities	327	385
b) accrued costs and expenses	15,803	21,903
c) deferred income	0	0
6. PROVISIONS	11,317	14,598
a) provisions for pensions and similar obligations	0	0
b) risk provision for off-balance sheet items (for pending and future liabilities)	1,192	2,032
c) general risk provision	8,550	10,930
d) other provision	1,575	1,636
7. SUBORDINATED LIABILITIES	17,760	17,293
a) subordinated loan capital	17,760	17,293
8. SUBSCRIBED CAPITAL	28,000	28,000
From this: repurchased own shares at face value	813	1,542
9. SUBSCRIBED BUT UNPAID CAPITAL (-)	0	0
10. CAPITAL RESERVES	52	52
a) premium (from share issue)	0	0
b) other	52	52
11. GENERAL RESERVES	25,610	29,450
12. RETAINED EARNINGS (ACCUMULATED PROFIT RESERVE) (±)	40,790	55,981
13. LEGAL RESERVES	9,067	17,750
14. REVALUATION RESERVE	0	0
15. PROFIT OR LOSS FOR THE FINANCIAL YEAR ACCORDING TO THE BALANCE SHEET (±)	23,983	27,283
TOTAL LIABILITIES	1,931,272	2,127,158
From this:		
– SHORT-TERM LIABILITIES	1,716,026	1,884,245
– LONG-TERM LIABILITIES	60,297	47,511
– EQUITY (CAPITAL AND RESERVES)	127,502	158,516
OFF BALANCE SHEET LIABILITIES	235,137	507,800
CONTINGENT LIABILITIES	187,833	318,713
FUTURE LIABILITIES	47,304	189,087
OFF BALANCE SHEET ASSETS	68,022	216,278

PROFIT AND LOSS ACCOUNT

(unconsolidated, based on HAR) for the years ended December 31, 2001 and 2000 (in HUF mn)

	2000	2001
1. Interest received and interest-type income	187,099	193,802
a) interest received on securities with fixed-interest signifying a creditor relationship	41,736	50,189
b) other interest received and interest-type income	145,363	143,613
2. Interest paid and interest-type expenses	100,246	95,460
INTEREST DIFFERENCE	86,853	98,342
3. Incomes from securities	160	127
4. Fees and Commission received	37,722	45,684
5. Fees and Commission paid	6,172	6,414
6. Profit or loss from financial transactions	2,167	-5,555
a) revenues from other financial services	8,252	26,897
b) expenses on other financial services	8,522	29,778
c) revenues from investment services (revenues from trading activities)	7,273	3,732
b) expenses on investment services (expenses from trading activities)	4,836	6,406
7. Other incomes from business	16,027	15,766
8. General administration expenses	50,611	60,063
a) personnel expenses	27,066	32,551
b) other administration expenses	23,545	27,512
9. Depreciation and amortization	10,371	11,129
10. Other expenses from business	37,048	33,712
11. Write-off of loans and provision for contingent and future liabilities	7,807	12,577
a) write-off of loans	8,854	11,280
b) provision for contingent and future liabilities	-1,047	1,297
12. Reversal of write-off of loans and credit for contingent and future liabilities	10,159	13,293
a) reversal of write-off of loans	10,159	12,841
b) credit for contingent and future liabilities	0	452
13. Write-off of securities for investing purposes, signifying a creditor relationship, equity investments in associated or other company	1,475	272
14. Reversal of write-off of securities for investing purposes, signifying a creditor relationship, and equity investments in associated or other company	681	4,098
15. Result of ordinary business activities	40,285	47,588
Including:		
RESULT OF FINANCIAL AND INVESTMENT SERVICES	42,481	46,616
RESULT OF NON-FINANCIAL AND INVESTMENT SERVICES	-2,196	972
16. Extraordinary revenues	6	214
17. Extraordinary expenses	75	433
18. Extraordinary profit or loss	-69	-219
19. Profit or loss before tax	40,216	47,369
20. Tax liabilities	7,733	8,971
21. After-tax profit or loss	32,483	38,398
22. Formation and utilization of general reserves (±)	-3,248	-3,840
23. Use of accumulated profit reserve for dividends and profit-sharing	0	0
24. Dividends and profit-sharing paid (approved)	5,252	7,275
25. Balance-sheet profit or loss figure	23,983	27,283

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INDEPENDENT AUDITORS' REPORT

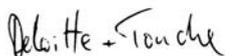
To the Shareholders and Board of Directors of National Savings and Commercial Bank Ltd.

We have audited, in accordance with Hungarian National and International Standards on Auditing, the consolidated financial statements of National Savings and Commercial Bank Ltd. (the "Bank") for the year ended December 31, 2001, prepared in accordance with Hungarian accounting regulations, from which the accompanying summarized consolidated financial statements (balance sheet and profit and loss account), included on pages 63 to 67 of this report, were derived. In our independent auditors' report dated March 27, 2002 we expressed an unqualified opinion on the consolidated financial statements, prepared in accordance with Hungarian accounting regulations, from which the accompanying summarized consolidated financial statements were derived.

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

For a better understanding of the Bank's consolidated financial position as at December 31, 2001 and the consolidated results of its operations for the year then ended prepared in accordance with Hungarian accounting regulations and of the scope of our audit, the accompanying summarized consolidated financial statements should be read in conjunction with the consolidated financial statements and the related notes from which the summarized consolidated financial statements were derived and our audit independent auditors' report thereon.

Budapest, May 22, 2002



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BALANCE SHEET

(consolidated, based on HAR) as at December 31, 2001 and 2000 (in HUF mn)

ASSETS	2000	2001
1. CASH IN HAND, BALANCES WITH CENTRAL BANKS	487,934	378,826
2. TREASURY BILLS	512,810	580,781
a) held for trade	223,429	185,203
b) held as financial fixed assets (for long term investment)	289,381	395,578
3. LOANS AND ADVANCES TO CREDIT INSTITUTIONS	226,544	335,015
a) repayable on demand	3,669	6,418
b) other receivables from financial services	222,875	328,597
ba) maturity not more than one year	200,775	308,827
bb) maturity more than one year	22,100	19,770
4. LOANS AND ADVANCES TO CUSTOMERS	676,022	824,696
a) receivables from financial services	673,173	823,333
aa) maturity not more than one year	302,908	329,963
ab) maturity more than one year	370,265	493,370
b) receivables from investment services	2,849	1,363
5. DEBT SECURITIES INCLUDING FIXED-INCOME SECURITIES	11,981	18,698
6. SHARES AND OTHER VARIABLE-YIELD SECURITIES	3,723	9,768
a) shares and participations for trade	1,709	5,679
b) other variable-yield securities	2,014	4,089
ba) held for trade	1,933	2,362
bb) held as financial fixed assets (for long term investment)	81	1,727
7. SHARES AND PARTICIPATING INTEREST AS FINANCIAL FIXED ASSETS	5,483	4,911
a) shares and participating interest as financial fixed assets	5,483	4,911
8. SHARES AND PARTICIPATING INTEREST IN AFFILIATED UNDERTAKINGS	2,091	2,456
a) shares and participating interest in affiliated undertakings	1,922	2,338
b) revaluation surplus on shares and participating interests	169	118
9. INTANGIBLE ASSETS	12,427	14,270
10. TANGIBLE ASSETS	56,702	58,639
a) tangible assets for financial and investment services	44,597	45,412
b) tangible assets not for directly financial and investment services	12,105	13,227
11. OWN SHARES	18,856	26,357
12. OTHER ASSETS	30,195	31,125
a) stocks (inventories)	9,845	10,999
b) other receivables (not from financial and investment securities)	20,350	20,126
13. PREPAYMENTS AND ACCRUED INCOME	32,134	35,415
a) accrued income	30,580	33,970
b) prepayments	1,554	1,445
TOTAL ASSETS	2,076,902	2,320,957
From this:		
– CURRENT ASSETS	1,275,395	1,276,238
– FIXED ASSETS	769,373	1,009,304

FINANCIAL REPORT

LIABILITIES	2000	2001
1. LIABILITIES TO CREDIT INSTITUTIONS	51,895	36,404
a) repayable on demand	596	2,546
b) liabilities from financial services with maturity dates or periods of notice	51,299	33,858
ba) not more than one year	31,068	13,782
bb) more than one year	20,231	20,076
2. LIABILITIES TO CUSTOMERS	1,667,203	1,867,298
a) saving deposits	366,673	363,961
aa) repayable on demand	41,754	42,831
ab) maturity not more than one year	314,672	321,130
ac) maturity more than one year	10,247	0
b) other liabilities from financial services	1,292,055	1,500,890
ba) repayable on demand	457,929	561,342
bb) maturity not more than one year	768,875	877,706
bc) maturity more than one year	65,251	61,842
c) liabilities from investment services	8,475	2,447
3. LIABILITIES FROM ISSUED DEBT SECURITIES	77,022	73,735
a) issued bond	1	1
b) issued other debt securities	1,032	555
ba) maturity not more than one year	883	538
bb) maturity more than one year	149	17
c) issued debt securities according to act on accounting, but the act on securities not qualifies that certificates as securities	75,989	73,179
ca) maturity not more than one year	71,170	69,076
cb) maturity more than one year	4,819	4,103
4. OTHER LIABILITIES	45,546	45,317
a) maturity not more than one year	44,613	44,460
b) maturity more than one year	72	48
c) (Calculated) Corporate tax difference due to consolidation	861	809
5. ACCRUALS AND DEFERRED INCOME	20,597	27,917
a) accrued liabilities	1,636	1,678
b) accrued costs and expenses	18,957	26,234
c) deferred income	4	5
6. PROVISIONS	53,340	70,376
a) provisions for pensions and similar obligations	0	0
b) risk provision for off-balance sheet items (for pending and future liabilities)	1,469	2,531
c) general risk provision	9,162	11,681
d) other provision	42,709	56,164
7. SUBORDINATED LIABILITIES	18,194	17,737
a) subordinated loan capital	17,760	17,293
aa) equity consolidation difference	434	444
8. SUBSCRIBED CAPITAL	28,000	28,000
From this: repurchased own shares at face value	1,568	2,217

FINANCIAL REPORT

LIABILITIES	2000	2001
9. SUBSCRIBED BUT UNPAID CAPITAL (-)	0	0
10. CAPITAL RESERVES	52	52
11. GENERAL RESERVES	25,610	29,450
12. RETAINED EARNINGS (ACCUMULATED PROFIT RESERVE) (±)	42,076	57,276
Retained earnings	40,953	56,095
equity change of equity consolidated subsidiaries	1,123	1,181
13. LEGAL RESERVES	9,067	17,750
14. REVALUATION RESERVE	0	0
15. PROFIT OR LOSS FOR THE FINANCIAL YEAR ACCORDING TO THE BALANCE SHEET (±)	29,888	35,175
16. SUBSIDIARIES' EQUITY INCREASES/DECREASES (±)	5,309	11,299
17. INCREASES/DECREASES DUE TO CONSOLIDATION (±)	3,103	3,171
– from debt consolidation difference	5,652	4,753
– from intermediate result difference	-2,549	-1,582
18. PARTICIPATION OF OUTSIDE MEMBERS (OTHER OWNERS)	0	0
TOTAL LIABILITIES	2,076,902	2,320,957
From this:		
– SHORT-TERM LIABILITIES	1,740,896	1,936,667
– LONG-TERM LIABILITIES	118,964	103,824
– EQUITY (CAPITAL AND RESERVES) (8-9+10+11±12+13+14±15)	143,105	182,173
OFF BALANCE SHEET LIABILITIES	234,971	509,918
CONTINGENT LIABILITIES	179,400	318,775
FUTURE LIABILITIES	55,571	191,143
OFF BALANCE SHEET ASSETS	77,957	218,338

PROFIT AND LOSS ACCOUNT

(consolidated, based on HAR) for the years ended December 31, 2001 and 2000 (in HUF mn)

	2000	2001
1. Interest received and interest-type income	201,080	211,521
a) interest received on securities with fixed-interest signifying a creditor relationship	45,461	54,839
b) other interest received and interest-type income	155,619	156,682
2. Interest paid and interest-type expenses	104,516	100,581
INTEREST DIFFERENCE (1-2)	96,564	110,940
3. Incomes from securities	427	504
4. Fees and Commission received	37,742	44,365
a) revenues from other financial services	33,866	41,151
b) revenues from investment services (except incomes from trading activities)	3,876	3,214
5. Fees and Commission paid	6,554	7,616
a) expenses on other financial services	6,070	7,199
b) expenses on investment service (except expenses from trading activities)	484	417
6. Profit or loss from financial transactions (6/a-6/b+6/c-6/d)	2,538	-2,347
a) revenues from other financial services	8,791	27,414
b) expenses on other financial services	9,296	27,564
c) revenues from investment service (revenues from trading activities)	10,497	4,773
d) expenses on investment services (expenses from trading activities)	7,454	6,970
7. Other incomes from business	93,271	110,624
a) incomes from non financial and investment services	81,717	99,406
b) other revenues	11,359	10,630
bb) other revenues due to consolidation	195	588
8. General administration expenses	54,307	63,868
a) personnel expenses	29,699	35,237
aa) wage costs	17,976	21,758
ab) other payments to personnel	3,633	4,062
ac) contributions on wages and salaries	8,090	9,417
b) other administration expenses	24,608	28,631
9. Depreciation and amortization	10,891	11,579
10. Other expenses from business	103,572	122,723
a) expenses from non-financial and investment services	62,134	69,062
b) other expenses	23,642	30,093
ba) other expenses due to debt consolidation	2	9
bb) other expenses due to consolidation	252	90
c) expenses of consolidated subsidiaries	17,542	23,469

FINANCIAL REPORT

	2000	2001
11. Write-off of loans and provision for contingent and future liabilities	10,509	16,583
a) write-off of loans	11,142	14,640
b) provision for contingent and future liabilities	-633	1,943
12. Reversal of write-off of loans and credit for contingent and future liabilities	4,370	14,942
a) reversal of write-off of loans	4,366	14,355
b) credit for contingent and future liabilities	4	587
13. Write-off of securities for investing purposes, signifying a creditor relationship, equity investments in associated or other company	1,842	233
14. Reversal of write-off of securities for investing purposes, signifying a creditor relationship, and equity investments in associated or other company	681	1,580
15. Result of ordinary business activities	47,918	58,006
Including:		
RESULT OF FINANCIAL AND INVESTMENT SERVICES	46,035	51,762
RESULT OF NON-FINANCIAL AND INVESTMENT SERVICES	1,883	6,244
16. Extraordinary revenues	20	134
17. Extraordinary expenses	361	850
18. Extraordinary profit or loss (16-17)	-341	-716
19. Profit or loss before tax (±15±18)	47,577	57,290
20. Tax liabilities	9,138	10,938
a) (Calculated) Corporate tax difference due to consolidation (±)	-161	-52
21. After-tax profit or loss (±19-20)	38,600	46,404
22. Formation and utilization of general reserves (±)	-3,460	-4,140
23. Use of accumulated profit reserve for dividends and profit-sharing	0	0
24. Dividends and profit-sharing paid (approved)	5,252	7,089
25. Balance-sheet profit or loss figure (±21±22+23-24)	29,888	35,175

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INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying unconsolidated balance sheets of National Savings and Commercial Bank Ltd. ("the Bank") as at December 31, 2001 and 2000, and the related unconsolidated statements of income, cash flows and changes in shareholders' equity for the years then ended, included on pages 69 to 91 of this report. These unconsolidated financial statements are the responsibility of the Bank's management. Our responsibility is to express an opinion on these unconsolidated financial statements based on our audits.

We conducted our audits in accordance with International Standards on Auditing. Those Standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

Consolidated financial statements have not been presented at the date of this report, as required by International Accounting Standard No. 27. We draw attention to Notes 2.3 and 2.6 to the unconsolidated financial statements, which explain why consolidated financial statements have not been presented and the method of accounting for unconsolidated subsidiaries, respectively.

In our opinion, except for the effects on the financial statements of the matter referred to in the preceding paragraph, the financial statements present fairly, in all material respects, the unconsolidated financial position of the Bank as at December 31, 2001 and 2000, and the unconsolidated results of its operations, cash flows and changes in shareholders' equity for the years then ended in accordance with International Accounting Standards.

Budapest, March 22, 2002



Deloitte & Touche

Deloitte
Touche
Tohmatsu

BALANCE SHEET

(unconsolidated, based on IAS) as at December 31, 2001 and 2000 (in HUF mn)

	2001	2000
Cash, due from banks and balances with the National Bank of Hungary	375,540	492,509
Placements with other banks, net of allowance for possible placement losses	326,830	223,580
Securities held for trading and available-for-sale	106,255	90,472
Loans, net of allowance for possible loan losses	760,164	625,673
Accrued interest receivable	26,999	26,882
Equity investments	33,175	26,638
Debt securities held-to-maturity	398,746	361,554
Premises, equipment and intangible assets, net	56,727	55,673
Other assets	19,144	17,000
TOTAL ASSETS	2,103,580	1,919,981
Due to banks and deposits from the National Bank of Hungary and other banks	25,133	44,415
Deposits from customers	1,842,722	1,663,932
Liabilities from issued securities	556	1,033
Accrued interest payable	8,770	11,093
Other liabilities	57,297	55,413
Subordinated bonds and loans	17,293	17,760
TOTAL LIABILITIES	1,951,771	1,793,646
Share capital	28,000	28,000
Retained earnings and reserves	141,559	107,402
Treasury shares	-17,750	-9,067
TOTAL SHAREHOLDERS' EQUITY	151,809	126,335
TOTAL LIABILITIES AND SHAREHOLDER'S EQUITY	2,103,580	1,919,981

The accompanying notes to unconsolidated financial statements on pages 72 to 91 form an integral part of these unconsolidated financial statements.

PROFIT AND LOSS ACCOUNT

(unconsolidated, based on IAS) for the years ended December 31, 2001 and 2000 (in HUF mn)

	2001	2000
INTEREST INCOME:		
Loans	91,571	80,703
Placements with other banks	17,700	16,912
Due from banks and balances with the National Bank of Hungary	33,017	47,374
Securities held for trading and available-for-sale	8,316	7,332
Debt securities held-to-maturity	40,860	33,211
TOTAL INTEREST INCOME	191,464	185,532
INTEREST EXPENSE:		
Due to banks and deposits from the National Bank of Hungary and other banks	2,670	2,975
Deposits from customers	90,570	94,441
Liabilities from issued securities	45	1,107
Subordinated bonds and loans	1,391	1,591
TOTAL INTEREST EXPENSE	94,676	100,114
Net interest income	96,788	85,418
Provision for possible loan losses	6,640	5,683
Credit for possible placement losses	-13	-56
	6,627	5,627
Net interest income after provision for possible loan and placement losses	90,161	79,791
NON-INTEREST INCOME:		
Fees and commissions	46,404	38,220
Foreign exchange gains and losses, net	2,421	3,052
Gains and losses on securities, net	-2,549	2,176
Gains and losses on real estate transactions, net	-59	-85
Dividend income	127	160
Other	2,037	1,437
TOTAL NON-INTEREST INCOME	48,381	44,960
NON-INTEREST EXPENSES:		
Fees and commissions	6,406	6,374
Personnel expenses	32,551	27,066
Depreciation and amortization	12,475	11,663
Other	36,703	39,624
TOTAL NON-INTEREST EXPENSES	88,135	84,727
Income before income taxes	50,407	40,024
Income taxes	9,239	7,636
Net income after income taxes	41,168	32,388
Earnings per share (in HUF)	1,563	1,238

The accompanying notes to unconsolidated financial statements on pages 72 to 91 form an integral part of these unconsolidated financial statements.

STATEMENT OF CASH FLOW

(unconsolidated, based on IAS) for the years ended December 31, 2001 and 2000 (in HUF mn)

	2001	2000
OPERATING ACTIVITIES		
Net income after income taxes	41,168	32,388
<i>Adjustments to reconcile income after income taxes to net cash provided by operating activities:</i>		
Depreciation and amortization	12,475	11,663
Provision for possible loan losses	6,640	5,683
Credit for possible placement losses	-13	-56
Lower of cost and market adjustment on trading securities	-	50
(Credit)/provision for permanent diminution in value of investments	-3,829	744
Provision for possible losses on other assets	-1,239	1,498
Provision/(credit) for possible losses on off-balance sheet commitments and contingent liabilities, net	1,299	-344
Unrealised gains on fair value adjustment of securities held for trading and available-for-sale	-667	-
Unrealised losses on fair value adjustment of derivative financial instruments	773	-
Effect of deferred taxes	268	-97
<i>Changes in operating assets and liabilities:</i>		
Net increase in accrued interest receivable	-117	-4,460
Net (increase)/decrease in other assets, excluding advances for investments and before provisions for possible losses	-1,233	797
Net decrease in accrued interest payable	-2,323	-4,011
Net (decrease)/increase in other liabilities	-4,039	6,883
Net Cash Provided by Operating Activities	49,163	50,738
INVESTING ACTIVITIES		
Net (increase)/decrease in placements with other banks, before provision for possible placement losses	-103,237	46,748
Net (increase)/decrease in securities held for trading and available-for-sale before unrealised gains or losses	-15,251	47,674
Net increase in equity investments, before provision for permanent diminution in value	-2,708	-3,400
Net increase in debt securities held-to-maturity	-36,775	-184,997
Net decrease/(increase) in advances for investments included in other assets	38	-20
Net increase in loans, before provision for possible loan losses	-141,131	-142,596
Net additions to premises, equipment and intangible assets	-13,529	-11,904
Net Cash Used in Investing Activities	-312,593	-248,495
FINANCING ACTIVITIES		
Net (decrease)/increase in due to banks and deposits from the National Bank of Hungary and other banks	-19,282	2,207
Net increase in deposits from customers	178,790	139,244
Net decrease in liabilities from issued securities	-477	-5,815
(Decrease)/increase in subordinated bonds and loans	-467	1,126
Profit on sale of treasury shares	72	70
Increase in treasury shares	-8,683	-7,018
Net decrease/(increase) in the compulsory reserve established by the National Bank of Hungary	75,611	-1,247
Dividends paid	-3,492	-4,787
Net cash provided by financing activities	222,072	123,780
Net decrease in cash and cash equivalents	-41,358	-73,977
<i>Cash and cash equivalents at the beginning of the year</i>	<i>309,361</i>	<i>383,338</i>
Cash and cash equivalents at the end of the year	268,003	309,361

The accompanying notes to unconsolidated financial statements on pages 72 to 91 form an integral part of these unconsolidated financial statements.

STATEMENT OF CHANGES IN SHAREHOLDER'S EQUITY

(unconsolidated, based on IAS) for the years ended December 31, 2001 and 2000 (in HUF mn)

	Share Capital	Retained Earnings and Reserves	Treasury Share	Total
Balance as at January 1, 2000	28,000	80,196	-2,049	106,147
Net income after income taxes	-	32,388	-	32,388
Profit on sale of treasury shares	-	70	-	70
Change in carrying value of treasury shares	-	-	-7,018	-7,018
Dividends declared on common shares	-	-5,207	-	-5,207
Dividends declared on preference shares	-	-45	-	-45
Balance as at December 31, 2000	28,000	107,402	-9,067	126,335
Net income after income taxes	-	41,168	-	41,168
Profit on sale of treasury shares	-	72	-	72
Change in carrying value of treasury shares	-	-	-8,683	-8,683
Effects of adoption of IAS 39	-	192	-	192
Dividends proposed on common shares	-	-7,275	-	-7,275
Balance as at December 31, 2001	28,000	141,559	-17,750	151,809

The accompanying notes to unconsolidated financial statements on pages 72 to 91 form an integral part of these unconsolidated financial statements.

NOTES TO FINANCIAL STATEMENTS

NOTE 1: ORGANIZATION AND BASIS OF FINANCIAL STATEMENTS

1.1. GENERAL

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

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

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

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

The Annual General Meeting on April 25, 2001 approved resolution No. 6/1/2001 concerning the conversion of HUF 1,150 million HUF 1,000 nominal value preference shares issued by the Bank to common shares.



FINANCIAL REPORT

As at December 31, 2001 approximately 92% of the Bank's shares were held by domestic and foreign private and institutional inventors. The remaining shares are owned by employees (2%) and the Bank (6%).

The Bank provides a full range of commercial banking services through a nationwide network of 424 branches in Hungary.

1.2. ACCOUNTING

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

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

Certain of the accounting principles prescribed for statutory purposes are different from those generally recognized in international financial markets. In order to present the unconsolidated financial position and results of operations of the Bank in accordance with International Accounting Standards ("IAS"), certain adjustments have been made to the Bank's Hungarian unconsolidated statutory accounts, (see Note 31).

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

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

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

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

Comparative amounts with respects to the Bank's security portfolios in the unconsolidated financial statements have been reclassified to ensure comparability with current period presentation.

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

2.1. BASIS OF PRESENTATION

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

FINANCIAL REPORT

2.2. FOREIGN CURRENCY TRANSLATION

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

2.3. CONSOLIDATED FINANCIAL STATEMENTS

These financial statements present the Bank's unconsolidated financial position and results of operations. See Note 2.7 for the description of the method of accounting for investments in subsidiaries and associated companies in these unconsolidated financial statements. Consolidated financial statements are expected to be issued by the end of April 2002.

2.4. DEBT SECURITIES HELD-TO-MATURITY

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

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

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

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

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

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

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

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

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

FINANCIAL REPORT

2.7. EQUITY INVESTMENTS

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

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

2.8. PREMISES, EQUIPMENT AND INTANGIBLE ASSETS

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

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

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

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

2.9. LEASES

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

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

2.10. TREASURY SHARES

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

2.11. INCOME TAXES

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

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2.12. OFF-BALANCE SHEET COMMITMENTS AND CONTINGENT LIABILITIES

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

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

2.13. DERIVATIVE FINANCIAL INSTRUMENTS

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

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

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

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

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

2.14. UNCONSOLIDATED STATEMENT OF CASH FLOWS

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

2.15. COMPARATIVE FIGURES

Certain amounts in the 2000 unconsolidated financial statements have been reclassified to conform with current period presentation.

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

		2001	(in HUF mn) 2000
Cash on hand:	in HUF	38,540	32,986
	in foreign currency	10,630	5,559
		<i>49,170</i>	<i>38,545</i>
Due from banks and balances with NBH:			
Short-term:	in HUF	320,279	400,904
	in foreign currency	4,360	48,727
		<i>324,639</i>	<i>449,631</i>
Long-term:	in foreign currency	1,731	4,333
Total		375,540	492,509

Based on the requirements for compulsory reserves set by the National Bank of Hungary, the balance of compulsory reserves amounted to approximately HUF 107,537 million and HUF 183,148 million as at December 31, 2001 and 2000, respectively.

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

		2001	(in HUF mn) 2000
Short-term:	in HUF	73,206	78,825
	in foreign currency	235,455	126,757
		<i>308,661</i>	<i>205,582</i>
Long-term:	in HUF	8,300	8,300
	in foreign currency	10,039	9,881
		<i>18,339</i>	<i>18,181</i>
Total		327,000	223,763
Allowance for possible placement losses		-170	-183
		326,830	223,580

Placements with other banks in foreign currency as at December 31, 2001 and 2000 bear interest rates in the range from 1% to 6.5% and from 3.1% to 9.4%, respectively.

Placements with other banks in HUF as at December 31, 2001 and 2000 bear interest rates in the range from 8.4% to 11.3% and from 9.8% to 12.5%, respectively.

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

	2001	(in HUF mn) 2000
Balance as at January 1	183	239
Credit for possible placement losses	-13	-56
Balance as at December 31	170	183

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

	2001	2000 <i>(in HUF mn)</i>
Securities held for trading		
Hungarian Government discounted Treasury bills	7,545	17,648
Hungarian Government interest bearing Treasury bills	1,333	278
Government bonds	23,197	33,314
Bonds issued by National Bank of Hungary	5,129	3,659
Other securities	6,041	2,587
	43,245	57,486
Securities available-for-sale		
Government bonds	44,267	22,291
Other securities	18,743	10,695
	63,010	32,986
Total	106,255	90,472

Approximately 65% and 88% of the held for trading and available-for-sale securities portfolio was denominated in HUF as at December 31, 2001 and 2000, respectively.

Interest rates on securities ranged from 2.8% to 14% and from 2.8% to 16% as at December 31, 2001 and 2000, respectively.

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

	2001	2000 <i>(in HUF mn)</i>
Within five years:		
variable interest	64,260	37,721
fixed interest	18,957	50,952
	83,217	88,673
Over five years:		
variable interest	670	330
fixed interest	14,678	49
	15,348	379
Non-interest-bearing securities	7,690	1,420
Total	106,255	90,472

NOTE 6: LOANS AND ALLOWANCE FOR POSSIBLE LOAN LOSSES

	2001	2000 <i>(in HUF mn)</i>
Short-term loans and trade bills (within one year)	334,740	308,374
Long-term loans and trade bills (over one year)	444,964	337,115
	779,704	645,489
Allowance for possible loan losses	-19,540	-19,816
	760,164	625,673

Foreign currency loans represent approximately 18% and 25% of the loan portfolio, before allowance for possible losses, as at December 31, 2001 and 2000, respectively.

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Loans denominated in HUF, with a maturity within one year as at December 31, 2001 and 2000, bear interest rates in the range from 14% to 29% and from 17% to 29%, respectively.

Loans denominated in HUF, with a maturity over one year as at December 31, 2001 and 2000, bear interest rates in the range from 11.1% to 21.5% and from 13.4% to 24.3%, respectively.

Approximately 3% and 6% of the gross loan portfolio represented loans on which interest is not being accrued as at December 31, 2001 and 2000, respectively.

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

	2001		(in HUF mn) 2000	
Commercial loans	464,123	60%	406,011	63%
Municipality loans	55,745	7%	53,727	8%
Housing loans	149,512	19%	103,293	16%
Consumer loans	110,324	14%	82,458	13%
	779,704	100%	645,489	100%

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

	2001	(in HUF mn) 2000
Balance as at January 1	19,816	22,444
Provision for possible loan losses	6,640	5,683
Write-offs	-6,916	-8,311
Balance as at December 31	19,540	19,816

The Bank sells non-performing loans without recourse to a wholly owned subsidiary, OTP Factoring Ltd, see Note 22.

NOTE 7: EQUITY INVESTMENTS

	2001	(in HUF mn) 2000
Equity investments:		
Controlling interest	36,876	30,361
Significant interest	365	4,458
Other	1,160	874
	<i>38,401</i>	<i>35,693</i>
Allowance for permanent diminution in value	-5,226	-9,055
	33,175	26,638

As at December 31, 2001 and 2000, except as follows, all investments were in companies incorporated in Hungary. As at December 31, 2001 and 2000, the Bank held an investment in a company incorporated in the United Kingdom, the carrying value of which is HUF 1,132 million and HUF 1,192 million, respectively.

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Equity investments in companies in which the Bank has a controlling interest are detailed as follows:

	31 December 2001.		31 December 2000	
	Held (direct and indirect)	Cost	Held (direct and indirect)	Cost
OTP-Garancia Insurance Ltd.	100%	7,472	100%	5,972
OTP Real Estate Ltd.	100%	1,175	100%	1,175
OTP Securities Ltd.	100%	750	100%	750
Merkantil Bank Ltd.	100%	1,600	100%	1,600
OTP Building Society Ltd.	100%	1,950	100%	1,950
HIF Ltd.	100%	1,132	100%	1,192
Bank Center No. 1. Ltd.	100%	9,364	100%	9,364
OTP Factoring Ltd.	100%	150	100%	150
INGA One Ltd.	100%	407	100%	407
INGA Two Ltd.	100%	5,892	100%	5,892
OTP Funds Servicing and Consulting Ltd.	100%	1,317	100%	242
OTP Fund Management Ltd.	100%	1,653	100%	1,653
OTP Mortgage Bank Company Ltd.	100%	3,000	–	–
AIR-Invest Ltd.	100%	1,000	–	–
Other	100%	14	100%	14
Total		36,876		30,361

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

	2001	2000
Balance as at January 1	9,055	8,311
(Credit)/provision for permanent diminution in value	–3,829	744
Balance as at December 31	5,226	9,055

NOTE 8: HELD-TO-MATURITY INVESTMENTS

	2001	2000
Government securities	376,582	303,043
Hungarian Government discounted Treasury bills	19,068	–
Bonds issued by the National Bank of Hungary	2,496	57,910
Other debt securities	600	601
Total	398,746	361,554

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

	2001	2000
Within five years: variable interest	166,385	168,652
fixed interest	157,240	119,461
	323,625	288,113
Over five years: variable interest	50,661	53,630
fixed interest	24,460	19,811
	75,121	73,441
Total	398,746	361,554

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Approximately 97% and 96% of the debt securities portfolio was denominated in HUF as at December 31, 2001 and 2000, respectively. In most cases, interest on variable rate securities is based on the interest rates of 90 day Hungarian Government Treasury bills and is adjusted semi-annually.

Interest rates on fixed interest securities denominated in HUF ranged from 7.5% to 14% and from 7.5% to 16% as at December 31, 2001 and 2000, respectively. Interest on fixed rate and variable rate securities is, in most cases, paid semi-annually.

NOTE 9: PREMISES, EQUIPMENT AND INTANGIBLE ASSETS

	2001	(in HUF mn) 2000
Land and buildings	33,982	32,494
Machinery and equipment	50,319	45,047
Construction in progress	2,942	1,640
Intangible assets	26,197	21,147
	<i>113,440</i>	<i>100,328</i>
Accumulated depreciation and amortization	-56,713	-44,655
	56,727	55,673

NOTE 10: OTHER ASSETS

	2001	(in HUF mn) 2000
Receivables due to collection of Hungarian Government securities	113	256
Property held for sale	1,174	1,189
Due from Government for interest subsidies	685	510
Trade receivables	2,540	1,637
Advances for securities and investments	496	534
Deferred tax asset	22	332
Taxes recoverable	191	96
Inventories	1,015	1,137
Other advances	309	503
Credits sold under deferred payment scheme	4,447	5,668
Subsidies paid on behalf of the Government	408	804
Margin account balance	513	58
Accounts with Investment Funds and Pension Funds	-	91
Settlement accounts	1,498	2,007
Receivables from investing services	682	563
Prepayments and accrued incomes	1,646	1,620
Fair value of derivative financial instruments	20	-
Other	5,054	2,903
	<i>20,813</i>	<i>19,908</i>
Allowance for possible losses on other assets	-1,669	-2,908
	19,144	17,000

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

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

	2001	(in HUF mn) 2000
Balance as at January 1	2,908	1,410
(Credit)/provision for possible losses	-1,239	1,498
Balance as at December 31	1,669	2,908

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

	2001	(in HUF mn) 2000
Within one year: in HUF	4,783	4,714
in foreign currency	3,421	22,215
	8,204	26,929
Over one year: in HUF	7,821	10,033
in foreign currency	9,108	7,453
	16,929	17,486
Total	25,133	44,415

Due to banks and deposits from the National Bank of Hungary and other banks payable in HUF within one year as at December 31, 2001 and 2000, bear interest rates in the range from 9.7% to 10.8% and from 10.8% to 11.8%, respectively.

Due to banks and deposits from the National Bank of Hungary and other banks payable in HUF over one year as at December 31, 2001 and 2000, bear interest rates in the range from 3% to 9.8% and from 3% to 11%, respectively.

Due to banks and deposits from the National Bank of Hungary and other banks payable in foreign currency within one year as at December 31, 2001 and 2000, bear interest rates in the range from 1.1% to 2.5% and from 2% to 6.9%, respectively.

Due to banks and deposits from the National Bank of Hungary and other banks payable in foreign currency over one year as at December 31, 2001 and 2000, bear interest rates in the range from 1.4% to 9.2% and from 5% to 8%, respectively.

NOTE 12: DEPOSITS FROM CUSTOMERS

	2001	(in HUF mn) 2000
Within one year: in HUF	1,467,714	1,289,578
in foreign currency	359,052	349,454
	1,826,766	1,639,032
Over one year: in HUF	15,956	24,900
Total	1,842,722	1,663,932

Deposits from customers payable in HUF within one year as at December 31, 2001 and 2000, bear interest rates in the range from 0.5% to 8.5% and from 1% to 8.5%, respectively.

Deposits from customers payable in HUF over one year as at December 31, 2001 and 2000, bear interest rates in the range from 6.5% to 8.5% and from 6.5% to 9.5%, respectively.

Deposits from customers payable in foreign currency as at December 31, 2001 and 2000, bear interest rates in the range from 0.1% to 2.1% and from 0.1% to 4%, respectively.

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NOTE 13: LIABILITIES FROM ISSUED SECURITIES

	2001	(in HUF mn) 2000
With original maturity:		
Within one year	538	883
Over one year	18	150
	556	1,033

Liabilities from issued securities are denominated in HUF at interest rates in the range from 3.8% to 8.3% and from 6% to 8.8% as at December 31, 2001 and 2000, respectively.

NOTE 14: OTHER LIABILITIES

	2001	(in HUF mn) 2000
Taxes payable	1,804	2,227
Giro clearing accounts	13,942	15,977
Accounts payable	4,876	3,903
Salaries and social security payable	5,539	3,380
Liability from security trading	5,177	9,134
Allowances for possible losses on off-balance sheet commitments and contingent liabilities	3,491	2,345
Dividends payable	7,758	5,789
Accrued expenses	2,977	1,686
Suspense accounts	3,228	3,720
Settlements of government housing subsidies	–	1,509
Loans for collection	967	1,237
Fair value of derivative financial instruments	841	–
Other	6,697	4,506
	57,297	55,413

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

	2001	(in HUF mn) 2000
Allowance for litigation	779	995
Allowance for other off-balance sheet commitments and contingent liabilities	1,253	197
Other allowances for expected liabilities	1,162	703
Allowance for housing warranties	297	450
Balance as at December 31	3,491	2,345

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

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

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

	2001	(in HUF mn) 2000
Balance as at January 1	2,345	3,039
Provision/(credit) for off-balance sheet commitments and contingent liabilities, net	1,299	-344
Write-off of allowance for housing warranties	-153	-350
Balance as at December 31	3,491	2,345

NOTE 15: SUBORDINATED BONDS AND LOANS

In 1993, the Bank issued HUF 5 billion in bonds, which are subordinated to the other liabilities of the Bank and subscribed by the Hungarian Ministry of Finance. Interest on subordinated bonds and the frequency of payment of interests are based on condition of interest of 2013/C credit consolidated government bonds, which is a variable-rate bond, the interest payable and the rate of interest are fixed twice a year. The semi-annual interest payable was 5.53% as at June 20, 2001 and 5.57% as at December 20, 2001. The original maturity was 20 years. The proceeds of the subordinated bonds were invested in Hungarian Government bonds with similar interest conditions and maturity.

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

NOTE 16: SHARE CAPITAL

	2001	(in HUF mn) 2000
Authorized, issued and fully paid:		
Common shares of HUF one thousand each	28,000	26,850
Preference shares of HUF one thousand each	-	1,150
	28,000	28,000

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

The Annual General Meeting on April 25, 2001 approved the conversion of 1,150 thousand pieces of preference shares issued by Bank to registered common shares.

NOTE 17: RETAINED EARNINGS AND RESERVES

	2001	(in HUF mn) 2000
Balance as at January 1	107,402	80,196
Income after income taxes	41,168	32,388
Opening adjustment due to adoption of IAS 39	192	-
Profit on sale of Treasury Shares	72	70
Dividends	-7,275	-5,252
Balance as at December 31	141,559	107,402

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The Bank's reserves under Hungarian Accounting Standards were HUF 130,515 million and HUF 99,501 million as at December 31, 2001 and 2000 respectively. Of these amounts, legal reserves represent HUF 29,450 million and HUF 25,610 million, respectively. The legal reserve is not available for distribution.

Dividends for the year ended December 31, 2000 represent the dividends declared by the Bank's shareholders for both preference and common shares at the Annual General Meeting in 2001.

Dividends for the year ended December 31, 2001 represent the dividends to be proposed to the Bank's shareholders by management of the Bank at the forthcoming Annual General Meeting in 2002.

NOTE 18: TREASURY SHARES

	2001	(in HUF mn) 2000
Nominal value (Common Shares)	1,542	813
Carrying value	17,750	9,067

NOTE 19: OTHER EXPENSES

	2001	(in HUF mn) 2000
Lower of cost and market adjustment	–	50
(Credit)/provision for permanent diminution in value of equity investments	–3,829	744
(Credit)/provision for other assets	–1,239	1,498
Provision/(credit) for possible losses on off-balance sheet commitments and contingent liabilities	1,299	–344
Administration expenses, including rent	15,696	15,176
Advertising	2,198	2,057
Taxes, other than income	6,823	5,715
Services	11,507	10,248
Professional fees	2,039	2,178
Other	2,209	2,302
	36,703	39,624

NOTE 20: INCOME TAXES

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

	2001	(in HUF mn) 2000
Current tax	8,971	7,733
Deferred tax	268	–97
	9,239	7,636

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A reconciliation of the deferred tax asset is as follows:

	2001	(in HUF mn) 2000
Balance as at January 1	332	235
Effects of adoption of IAS 39	-42	-
Deferred tax credit	-268	97
Balance as at December 31	22	332

A reconciliation of the income tax charge is as follows:

	2001	(in HUF mn) 2000
Income before income taxes	50,407	40,024
Permanent differences due to movements in statutory provisions	-1,731	737
Dividend income	-127	-160
Other permanent differences	2,778	1,822
Adjusted tax base	51,327	42,423
Income tax at 18%	9,239	7,636

NOTE 21: OFF-BALANCE SHEET COMMITMENTS, CONTINGENT LIABILITIES AND FINANCIAL INSTRUMENTS

	2001	(in HUF mn) 2000
Commitments:		
Forward purchase commitments, foreign exchange	189,087	47,289
Repurchase agreements	-	15
	<i>189,087</i>	<i>47,304</i>
Contingent liabilities:		
Commitments to extend credit	255,630	157,403
Guarantees arising from banking activities	36,487	15,892
Confirmed letters of credit	3,799	988
Options	19,309	12,555
Other	1	-
Local tax contingency	542	542
	<i>315,768</i>	<i>187,380</i>
Total	504,855	234,684

In the normal course of business, the Bank enters into financial instrument transactions to hedge its liquidity, interest and foreign currency risks. The Bank operates a system of market risk and counterparty limits which are designed to restrict exposure to movements in market prices and counterparty concentrations. The Bank also monitors adherence to all limits on a daily basis.

The Bank has a legal case against the Municipality of Budapest in connection with local tax paid in previous years. The Bank paid the total amount of local tax due, but the Municipality of Budapest has challenged the allocation of the tax between the various Hungarian municipalities. The total amount of local tax being claimed by the Municipality of Budapest is HUF 542 million. Management believes this claim by the Municipality of Budapest to be groundless and is vigorously defending the Bank against this claim. No provision for possible loss has been recorded by the Bank.

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



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NOTE 22: RELATED PARTY TRANSACTIONS

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

During the year ended December 31, 2001 and 2000 the Bank sold, without recourse, non-performing loans and the related accrued interest receivable to OTP Factoring for HUF 1,423 million and HUF 2,030 million, respectively. The gross book value of such credits was HUF 5,564 million and HUF 9,895 million, respectively, with a corresponding allowance for possible loan losses of HUF 4,774 million and HUF 7,005 million, respectively. The underlying mortgage rights were also transferred to OTP Factoring. Gains or losses related to such transactions are included in the unconsolidated financial statements.

Commissions received by the Bank from OTP Securities in relation to securities transactions were HUF 806 million and HUF 1,076 million for the years ended December 31, 2001 and 2000, respectively. Losses recorded by the Bank from the sale of securities to OTP Securities were HUF 262 million for the year ended December 31, 2001, and gains recorded were HUF 817 million for year ended December 31, 2000.

Commissions received by the Bank from OTP Building Society in relation to finalised customer contracts were HUF 461 million and HUF 291 million for the years ended December 31, 2001 and 2000, respectively.

Insurance premiums paid by the Bank to OTP-Garancia Insurance were HUF 685 million and HUF 549 million for the years ended December 31, 2001 and 2000, respectively.

Commissions received by the Bank from OTP Fund Management in relation to custody activity were HUF 319 million and HUF 258 million in relation to trading activity were HUF 1,571 million and HUF 1,265 million for the years ended December 31, 2001 and 2000, respectively.

Commissions received by the Bank from OTP Real Estate in relation to its activity were HUF 1,167 million and HUF 961 million for years ended December 31, 2001 and 2000, respectively.

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

NOTE 23: CASH AND CASH EQUIVALENTS

	2001	2000
	<i>(in HUF mn)</i>	
Cash, due from banks and balances with the NBH	375,540	492,509
Compulsory reserve established by the NBH	-107,537	-183,148
	268,003	309,361

NOTE 24: TRUST ACTIVITIES

The Bank acts as a trustee for certain loans granted by companies or employers to their employees, mainly for housing purposes. The ultimate risk for these loans rests with the party advancing the funds. As these loans and related funds are not considered to be assets or liabilities of the Bank, they have been excluded from the accompanying Unconsolidated Balance Sheet. The total amount of such loans managed by the Bank as a trustee amounted to HUF 42,843 million and HUF 42,955 million as at December 31, 2001 and 2000, respectively.

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NOTE 25: CONCENTRATION OF ASSETS AND LIABILITIES

Approximately 38% and 46% of the Bank's total assets consisted of receivables from, or securities issued by, the Hungarian Government or the National Bank of Hungary as at December 31, 2001 and 2000, respectively. There were no other significant concentrations of the Bank's assets or liabilities as at December 31, 2001 and December 31, 2000, respectively.

NOTE 26: MATURITY ANALYSIS OF ASSETS AND LIABILITIES AND LIQUIDITY RISK

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

As at December 31, 2001

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

Deposits from customers represent 94.4 % of Total Liabilities (see also Note 28.)



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As at December 31, 2000

	Short-term (within one year)	Long-term	(in HUF mn) Total
Cash, due from banks and balances with the National Bank of Hungary	488,176	4,333	492,509
Placements with other banks, net of allowance for possible placement losses	205,399	18,181	223,580
Securities held for trading and available-for-sale	50,461	40,011	90,472
Loans, net of allowance for possible loan losses	300,967	324,706	625,673
Accrued interest receivable	26,882	–	26,882
Equity investments	–	26,638	26,638
Debt securities held-to-maturity	84,907	276,647	361,554
Premises, equipment and intangible assets, net	–	55,673	55,673
Other assets	17,000	–	17,000
TOTAL ASSETS	1,173,792	746,189	1,919,981
Due to banks and deposits from the National Bank of Hungary and other banks	26,929	17,486	44,415
Deposits from customers	1,639,032	24,900	1,663,932
Liabilities from issued securities	883	150	1,033
Accrued interest payable	11,093	–	11,093
Other liabilities	55,413	–	55,413
Subordinated bonds and loans	–	17,760	17,760
TOTAL LIABILITIES	1,733,350	60,296	1,793,646
Share capital	–	28,000	28,000
Retained earnings and reserves	–	107,402	107,402
Treasury shares	–9,067	–	–9,067
TOTAL SHAREHOLDERS' EQUITY	–9,067	135,402	126,335
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	1,724,283	195,698	1,919,981
LIQUIDITY (DEFICIENCY)/EXCESS	– 550,491	550,491	–

Deposits from customers represent 92.8 % of Total Liabilities. (see also Note 28).

NOTE 27: NET FOREIGN CURRENCY POSITION AND FOREIGN CURRENCY RISK

As at December 31, 2001

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

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As at December 31, 2000

	USD	EUR	Others	(in HUF mn) Total
Assets	150,619	192,580	46,732	389,931
Liabilities	-162,973	-183,434	-47,487	-393,894
Off-balance sheet assets and liabilities, net	13,305	-7,579	117	5,843
Net position	951	1,567	-638	1,880

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

NOTE 28: INTEREST RATE RISK MANAGEMENT

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

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

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

NOTE 29: EARNINGS PER SHARE

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

	2001	2000
Net income after income taxes (in HUF mn)	41,168	32,388
Declared preference dividends (in HUF mn)	-	-45
Net income after income taxes for the year attributable to common shareholders (in HUF mn)	41,168	32,343
Weighted average number of common shares outstanding during the year (piece)	26,341,861	26,132,521
Earnings per share (in HUF)	1,563	1,238

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

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NOTE 30: POST BALANCE SHEET EVENTS

During 2001, OTP Bank, has entered into a sale purchase agreement to acquire 92.6% interest in the Investična a Rozvojová Banka (IRB) a credit bank in Slovakia which is expected to close in the second quarter of 2002. The cost of the transaction will be SKK 700 million. After finishing the transaction the OTP Bank's investment in the IRB will have risen to 95.7%.

According to unaudited financial statements prepared in accordance with Slovak Accounting Standards, IRB had total assets of approximately SKK 24 billion as at December 31, 2001.

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

	Retained Earnings and Reserves Jan. 1, 2001	Income for the year Ended Dec. 31, 2001	Dividends	Direct Movements on Reserves	Retained Earnings and Reserves Dec. 31, 2001 <i>(in HUF mn)</i>
Hungarian financial statements	99,501	38,398	-7,275	-109	130,515
Adjustments to Hungarian financial statements:					
Reversal of statutory general provision	8,549	2,380		-	10,929
Reversal of statutory provision for net foreign currency position	70	-70		-	-
Reversal of statutory country risk provision	580	-580		-	-
Premium and discount amortization on investment securities	-913	493		417	-3
Allowance for possible loan losses	-1,340	-		-	-1,340
Allowance for possible losses on off-balance sheet commitments and contingent liabilities	-450	153		-	-297
Increase of investment in subsidiary, recorded as an expense in the Hungarian financial statements	1,012	-		-	1,012
Difference in accounting for finance leases	61	88		-	149
Deferred taxation	332	-268		-42	22
Difference in accounting for off-balance sheet financial instruments	-542	861		-	319
Fair value adjustment of derivative financial instruments	-	-773		-48	-821
Fair value adjustment of held for trading and available-for-sale financial assets	-	667		-135	532
Profit on sale of Treasury Shares	-	-72		72	-
Reclassification of direct charges	-	-109		109	-
Reclassification of direct charge related to local tax	542	-	-	-	542
International financial statements	107,402	41,168	-7,275	264	141,559

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INDEPENDENT AUDITORS' REPORT

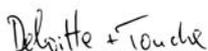
To the Shareholders and Board of Directors of National Savings and Commercial Bank Ltd.

We have audited the accompanying consolidated balance sheets of National Savings and Commercial Bank Ltd. and its subsidiaries ("the Bank") as at December 31, 2001 and 2000, and the related consolidated statements of operations, cash flows and changes in shareholders' equity for the years then ended, included on pages 93 to 116 of this report. These consolidated financial statements are the responsibility of the Bank's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with International Standards on Auditing. Those Standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Bank as at December 31, 2001 and 2000, and the consolidated results of its operations, cash flows and changes in shareholders' equity for the years then ended in accordance with International Accounting Standards.

Budapest, March 27, 2002



Deloitte & Touche

Deloitte
Touche
Tohmatsu

BALANCE SHEET

(consolidated, based on IAS) as at December 31, 2001 and 2000 (in HUF mn)

	2001	2000
Cash, due from banks and balances with the National Bank of Hungary	381,773	497,493
Placements with other banks, net of allowance for possible placement losses	332,088	216,354
Securities held for trading and available-for-sale	228,563	169,508
Loans, net of allowance for possible loan losses	771,334	650,902
Accrued interest receivable	29,797	28,480
Equity investments	2,816	2,548
Debt securities held-to-maturity	401,603	362,961
Premises, equipment and intangible assets, net	73,334	70,097
Other assets	68,337	54,813
TOTAL ASSETS	2,289,645	2,053,156
Due to banks and deposits from the National Bank of Hungary and other banks	36,952	51,945
Deposits from customers	1,891,512	1,697,966
Liabilities from issued securities	40,074	30,445
Accrued interest payable	12,626	13,638
Other liabilities	123,902	108,754
Subordinated bonds and loans	17,293	17,760
TOTAL LIABILITIES	2,122,359	1,920,508
Share capital	28,000	28,000
Retained earnings and reserves	165,643	123,504
Treasury shares	-26,357	-18,856
TOTAL SHAREHOLDERS' EQUITY	167,286	132,648
TOTAL LIABILITIES AND SHAREHOLDER'S EQUITY	2,289,645	2,053,156

The accompanying notes to consolidated financial statements on pages 96 to 116 form an integral part of these consolidated financial statements.

PROFIT AND LOSS ACCOUNT

(consolidated, based on IAS) for the years ended December 31, 2001 and 2000 (in HUF mn)

	2001	2000
INTEREST INCOME:		
Loans	104,722	91,597
Placements with other banks	17,584	16,153
Due from banks and balances with the National Bank of Hungary	33,359	47,702
Securities held for trading and available-for-sale	16,632	14,267
Debt securities held-to-maturity	41,165	33,383
TOTAL INTEREST INCOME	213,462	203,102
INTEREST EXPENSE:		
Due to banks and deposits from the National Bank of Hungary and other banks	3,276	4,435
Deposits from customers	91,884	94,961
Liabilities from issued securities	3,189	3,686
Subordinated bonds and loans	1,391	1,591
Other	234	39
TOTAL INTEREST EXPENSE	99,974	104,712
Net interest income	113,488	98,390
Provision for possible loan losses	6,165	5,674
Credit for possible placement losses	-13	-56
Net interest income after provision for possible loan and placement losses	107,336	92,772
NON-INTEREST INCOME:		
Fees and commissions	49,233	41,161
Foreign exchange gains and losses, net	3,067	1,805
Gains and losses on securities, net	-255	3,050
Gains and losses on real estate transactions, net	2,244	1,892
Dividend income	673	588
Insurance premiums	38,975	36,163
Other	5,033	3,445
TOTAL NON-INTEREST INCOME	98,970	88,104
NON-INTEREST EXPENSES:		
Fees and commissions	9,094	8,219
Personnel expenses	41,366	34,643
Depreciation and amortization	15,017	13,363
Other	80,324	76,907
TOTAL NON-INTEREST EXPENSE	145,801	133,132
Income before income taxes	60,505	47,744
Income taxes	-11,552	-8,991
Net income	48,953	38,753
Consolidated earnings per share (in HUF)	1,912	1,512

The accompanying notes to consolidated financial statements on pages 96 to 116 form an integral part of these consolidated financial statements.

STATEMENT OF CASH FLOW

(consolidated, based on IAS) for the years ended December 31, 2001 and 2000 (in HUF mn)

	2001	2000
OPERATING ACTIVITIES		
Net Income	48,953	38,753
<i>Adjustments to reconcile Net Income to net cash provided by operating activities</i>		
Depreciation and amortization	15,017	13,363
Provision for possible loan losses	6,165	5,674
Credit for possible placement losses	-13	-56
Credit for permanent diminution in value of held-to-maturity investments	-	-29
(Credit)/provision for permanent diminution in value of equity investment	-1,340	1,266
(Credit)/provision for possible losses on other assets	-353	2,081
Provision for possible losses on off-balance sheet commitments and contingent liabilities, net	2,145	460
Net income from accounting for associates under the equity method of accounting	131	117
Net increase in insurance reserves	12,437	16,089
Unrealised gains on fair value adjustment of securities held for trading and available-for-sale	-687	-
Unrealised losses on fair value adjustment of derivative financial instruments	796	-
Effect of deferred taxes	464	-148
<i>Changes in operating assets and liabilities</i>		
Net increase in accrued interest receivable	-1,317	-4,671
Net increase in other assets, excluding advances for investments and before allowance for possible losses	-13,692	-4,912
Net decrease in accrued interest payable	-1,012	-3,344
Net (decrease)/increase in other liabilities	-6,623	3,530
Net Cash Provided by Operating Activities	61,071	68,173
INVESTING ACTIVITIES		
Net (increase)/decrease in placements with other banks, before provision for possible placement losses	-115,721	42,296
Net (increase)/decrease in securities held for trading and available-for-sale, before unrealised gains or losses	-40,661	33,861
Net decrease/(increase) in equity investments, before provision for permanent diminution in value	931	-3,383
Net increase in debt securities held-to-maturity	-38,225	-198,964
Net decrease in advances for investments, included in other assets	38	210
Net increase in loans, before provision for possible loan losses	-141,697	-133,617
Net additions to premises, equipment and intangible assets	-18,254	-15,522
Net Cash Used in Investing Activities	-353,589	-275,119
FINANCING ACTIVITIES		
Net decrease in due to banks and deposits from the National Bank of Hungary and other banks	-14,993	-9,691
Net increase in deposits from customers	193,546	150,541
Net increase in liabilities from issued securities	9,629	13,045
Net (decrease)/increase in subordinated bonds and loans	-467	1,126
Profit on sale of treasury shares	72	70
Foreign currency translation (loss)/gain	-84	74
Increase in treasury shares	-7,501	-13,698
Net decrease/(increase) in compulsory reserves at National Bank of Hungary	77,955	-3,713
Dividends paid	-3,404	-4,787
Net Cash Provided by Financing Activities	254,753	132,967
Net Decrease in Cash and Cash Equivalents	-37,765	-73,979
<i>Cash and cash equivalents at the beginning of the year</i>	<i>309,269</i>	<i>383,248</i>
Cash and Cash Equivalents at the End of the Year	271,504	309,269

The accompanying notes to consolidated financial statements on pages 96 to 116 form an integral part of these consolidated financial statements.

STATEMENT OF CHANGES IN SHAREHOLDER'S EQUITY

(consolidated, based on IAS) for the years ended December 31, 2001 and 2000 (in HUF mn)

	Share Capital	Retained Earnings and Reserves	Treasury Shares	Total
Balance as at January 1, 2000	28,000	89,651	-5,158	112,493
Net income	-	38,753	-	38,753
Profit on sale of treasury shares	-	70	-	70
Change in carrying value of treasury shares	-	-	-13,698	-13,698
Dividends declared on common shares	-	-4,999	-	-4,999
Dividends declared on preference shares	-	-45	-	-45
Foreign currency translation gain	-	74	-	74
Balance as at December 31, 2000	28,000	123,504	-18,856	132,648
Net income	-	48,953	-	48,953
Profit on sale of treasury shares	-	72	-	72
Change in carrying value of treasury shares	-	-	-7,501	-7,501
Dividends proposed on common shares	-	-7,050	-	-7,050
Effects of adoption of IAS 39	-	248	-	248
Foreign currency translation gain	-	-84	-	-84
Balance as at December 31, 2001	28,000	165,643	-26,357	167,286

The accompanying notes to consolidated financial statements on pages 96 to 116 form an integral part of these consolidated financial statements.

NOTES TO FINANCIAL STATEMENTS

NOTE 1: ORGANIZATION AND BASIS OF CONSOLIDATED FINANCIAL STATEMENTS

1.1. GENERAL

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

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

At an extraordinary General Assembly, on September 3, 1997, the Bank issued a preferential voting share with a nominal value of HUF 1 thousand (the "Special Share") to the State Privatization and Holding Company. The Special Share gives the power to the State



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Privatization and Holding Company to control the outcome of certain shareholder votes in accordance with the Bank's Articles of Association and the right to delegate one member to the Bank's Board of Directors and one member to the Supervisory Board of the Bank.

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

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

As at December 31, 2001 approximately 92% of the Bank's shares were held by domestic and foreign private and institutional inventors. The remaining shares are owned by employees (2%) and the Bank (6%).

The Bank provide a full range of financial services through a nationwide network of 424 branches in Hungary.

1.2. ACCOUNTING

The Bank and its subsidiary companies (together the "Group") maintains its accounting records and prepares its statutory accounts in accordance with the commercial, banking and fiscal regulations prevailing in Hungary.

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

Certain of the accounting principles prescribed for statutory purposes are different from those generally recognized in international financial markets. In order to present the consolidated financial position and consolidated results of operations in accordance with International Accounting Standards ("IAS"), certain adjustments have been made to the consolidated Hungarian statutory accounts.

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

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

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

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

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

Comparative amounts with respects to the Group's security portfolios in the consolidated financial statements have been reclassified to ensure comparability with current period presentation.

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NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

2.1. BASIS OF PRESENTATION

These consolidated financial statements have been prepared under the historical cost convention with the exception of securities held for trading and available-for-sale and financial instruments that are recorded on fair value. Revenues and expenses are recorded in the period in which they are earned or incurred.

2.2. FOREIGN CURRENCY TRANSLATION

Assets and liabilities denominated in foreign currencies are translated into HUF at exchange rates quoted by the National Bank of Hungary (“NBH”) as of the date of the consolidated financial statements. Income and expenses arising in foreign currencies are converted at the rate of exchange on the transaction date. Resulting foreign exchange gains or losses are recorded in the Consolidated Statement of Operations. Net differences resulting from translating foreign currency financial statements of consolidated subsidiaries are presented as an element of retained earnings and reserves in the Consolidated Balance Sheet.

2.3. PRINCIPLES OF CONSOLIDATION

Included in these consolidated financial statements are the accounts of those subsidiaries in which the Bank holds a controlling interest. The list of the major fully consolidated subsidiaries, the percentage of issued capital owned by the Bank and the description of their activities is provided in Note 23. However, certain subsidiaries in which the Bank holds a controlling interest have not been consolidated in accordance with IAS because it is either intended that the shares shall be disposed of in the near future or the effect of consolidating such companies is immaterial to the consolidated financial statements as a whole (see Note 2.8.).

2.4. ACCOUNTING FOR ACQUISITIONS

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

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

Negative goodwill, which represents the residual fair value of the identifiable assets and liabilities acquired over the cost of acquisition, is amortized as deferred income to the Consolidated Statement of Operations on a straight-line basis over a period not exceeding five years or until the date of disposal of the acquired company, whichever is shorter.

2.5. DEBT SECURITIES HELD-TO-MATURITY

Investments in securities are accounted on a settlement date basis and are initially measured at cost. At subsequent reporting dates, debt securities that the Group has the expressed intention and ability to hold to maturity (held-to-maturity debt securities) are measured at amortised cost, less any impairment losses recognised to reflect irrecoverable amounts. The annual amortisation of any

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discount or premium on the acquisition of a held-to-maturity debt security is aggregated with other investment income receivable over the term of the investment so that the revenue recognised in each period represents a constant yield on the investment.

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

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

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

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

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

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

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

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

2.8. EQUITY INVESTMENTS

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

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

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

FINANCIAL REPORT

2.9. PREMISES, EQUIPMENT AND INTANGIBLE ASSETS

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

Buildings	1–6%
Machinery and equipment	8–33.3%
Vehicles	14,5–33%
Leased assets	16,7–33.3%
Goodwill	20%
Software	14,5–33.3%
Property rights	16,7%

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

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

2.10. LEASES

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

The Group as lessor

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

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

The Group as lessee

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

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

FINANCIAL REPORT

2.11. PROPERTIES HELD FOR RESALE

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

2.12. INSURANCE RESERVES

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

2.13. TREASURY SHARES

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

2.14. INCOME TAXES

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

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

2.15. OFF-BALANCE SHEET COMMITMENTS AND CONTINGENT LIABILITIES

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

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

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2.16. DERIVATIVE FINANCIAL INSTRUMENTS

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

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

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

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

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

2.17. CONSOLIDATED STATEMENT OF CASH FLOW

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

2.18. SEGMENTAL REPORTING

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

2.19. COMPARATIVE FIGURES

Certain other amounts in the December 31, 2000 consolidated financial statements have been reclassified to conform with current year presentation.

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

		2001	(in HUF mn) 2000
Cash on hand:	in HUF	38,811	33,205
	in foreign currency	10,631	5,560
		49,442	38,765
Due from banks and balances with the National Bank of Hungary:			
Short-term:	in HUF	326,173	405,641
	in foreign currency	4,427	48,754
		330,600	454,395
Long-term:	in foreign currency	1,731	4,333
Total		381,773	497,493

Based on the requirements for compulsory reserve set by the National Bank of Hungary, the balance of compulsory reserves maintained by the Group amounted to HUF 110,269 million and HUF 188,224 million as at December 31, 2001 and 2000, respectively.

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

		2001	(in HUF mn) 2000
Short-term:	in HUF	78,764	71,899
	in foreign currency	235,455	126,757
		314,219	198,656
Long-term:	in HUF	8,000	8,000
	in foreign currency	10,039	9,881
		18,039	17,881
		332,258	216,537
Allowance for possible placement losses		-170	-183
		332,088	216,354

Placements with other banks in foreign currency as at December 31, 2001 and 2000, bear interest rates in the range from 1% to 6.5% and from 3.1% to 9.4%, respectively.

Placements with other banks in HUF as at December 31, 2001 and 2000, bear interest rates in the range from 8.3% to 11.3% and from 9.8% to 12.5%, respectively.

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

	2001	(in HUF mn) 2000
Balance as at January 1	183	239
Credit for possible placement losses	-13	-56
Balance as at December 31	170	183

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

	2001	2000 <i>(in HUF mn)</i>
Held for trading securities:		
Hungarian Government discounted Treasury bills	36,510	39,157
Hungarian Government interest bearing Treasury bills	1,352	282
Government bonds	38,059	53,010
Bonds issued by National Bank of Hungary	27,230	6,817
Other securities	9,573	4,950
	<i>112,724</i>	<i>104,216</i>
Available for sale securities:		
Government bonds	75,281	49,055
Other bonds	18,846	11,372
Other securities	21,712	4,865
	<i>115,839</i>	<i>65,292</i>
Total	228,563	169,508

Approximately 83% and 93% of the held for trading and available-for-sale securities portfolio was denominated in HUF as at December 31, 2001 and 2000, respectively.

Held for trading and available-for-sale securities are primarily denominated in HUF. Interest rates on trading securities are ranged from 2.8% to 14% and from 2.8% to 16% as at December 31, 2001 and 2000, respectively.

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

	2001	2000 <i>(in HUF mn)</i>
Whitin five years:		
with variable interest	66,966	42,460
with fixed interest	110,826	110,916
	<i>177,792</i>	<i>153,376</i>
Over five years:		
with variable interest	1,360	2,112
with fixed interest	17,440	5,359
	<i>18,800</i>	<i>7,471</i>
Non-interest bearing securities	31,971	8,661
Total	228,563	169,508

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

	2001	2000 <i>(in HUF mn)</i>
Short-term loans and trade bills (within one year)	342,822	315,805
Long-term loans and trade bills (over one year)	478,883	385,198
	<i>821,705</i>	<i>701,003</i>
Allowance for possible loan losses	-50,371	-50,101
	<i>771,334</i>	<i>650,902</i>

Foreign currency loans represent approximately 13% and 20% of the total loan portfolio, before allowance for possible losses, as at December 31, 2001 and 2000, respectively.

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Loans denominated in HUF, with a maturity within one year as at December 31, 2001 and year 2000, bear interest rates in the range from 6% to 29% and from 12.9% to 29%, respectively.

Loans denominated in HUF, with maturity over one year as at December 31, 2001 and 2000 bear interest rates in the range from 6% to 22.1% and from 7% to 24.3%, respectively.

Approximately 6.6% and 9.8% of the gross loan portfolio represented loans on which interest is not being accrued as at December 31, 2001 and 2000, respectively.

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

	2001		(in HUF mn) 2000	
Commercial loans	460,298	56%	426,946	61%
Municipality loans	55,809	7%	53,790	8%
Housing loans	156,237	19%	109,727	16%
Consumer loans	149,361	18%	110,540	15%
	821,705	100%	701,003	100%

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

	2001	(in HUF mn) 2000
Balance as at January 1	50,101	45,312
Provision for possible loan losses	6,165	5,674
Write-offs	-5,895	-855
Balance as at December 31	50,371	50,101

NOTE 7: EQUITY INVESTMENTS

	2001	(in HUF mn) 2000
Equity investments:		
Unconsolidated subsidiaries	1,217	391
Associated companies	3,391	5,578
Other	1,293	1,004
	<i>5,901</i>	<i>6,973</i>
Allowance for permanent diminution in value	-3,085	-4,425
	2,816	2,548
Total assets of unconsolidated subsidiaries	4,011	7,190

As at December 31, 2001 and 2000, except as follows all investments are in companies incorporated in Hungary. As at December 31, 2001 and 2000 the Bank held an investment in a company with a book value of ATS 450,000, incorporated in the Republic of Austria and a company incorporated in Romania with a book value of USD 164,348.

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NOTE 10: OTHER ASSETS

	2001	(in HUF mn) 2000
Receivables due from collection of Hungarian Government securities	113	256
Property held for sale	9,677	8,415
Due from Hungarian Government for interest subsidies	685	510
Trade receivables	4,785	3,296
Advances for securities and investments	496	534
Taxes recoverable	1,259	1,271
Inventories	1,365	1,306
Credits sold under deferred payment scheme	2,856	3,607
Subsidies paid on behalf of the Government	408	804
Receivables from leasing activities	34,496	23,450
Receivables due from KELER	1,743	2,387
Receivables due from insurance bond holders	912	576
Margin account balance	508	58
Receivables due from pension funds and fund management	–	91
Settlement accounts	1,498	2,007
Receivables from investing services	682	563
Prepayments and accrued income	2,918	3,655
Fair value of derivative financial instruments	35	–
Other	7,689	6,168
	72,125	58,954
Allowance for possible losses on other assets	–3,788	–4,141
	68,337	54,813

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

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

	2001	(in HUF mn) 2000
Balance as at January 1	4,141	2,060
(Credit)/provision for possible losses on other assets	–353	2,081
Balance as at December 31	3,788	4,141

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

	2001	(in HUF mn) 2000
Within one year: in HUF	5,236	4,257
in foreign currency	11,642	27,459
	16,878	31,716
Over one year: in HUF	7,822	10,039
in foreign currency	12,252	10,190
	20,074	20,229
Total	36,952	51,945

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Due to banks and deposits from the National Bank of Hungary and other banks payable in HUF within one year as at December 31, 2001 and 2000, bear interest rates in the range from 3% to 10.8% and from 7% to 11.8%, respectively.

Due to banks and deposits from the National Bank of Hungary and other banks payable in HUF over one year as at December 31, 2001 and 2000, bear interest rates in the range from 3% to 9.8% and from 3% to 11%, respectively.

Due to banks and deposits from the National Bank of Hungary and other banks payable in foreign currency within one year as at December 31, 2001 and 2000, bear interest rates in the range from 1.1% to 2.5% and from 2% to 6.9%, respectively.

Due to banks and deposits from the National Bank of Hungary and other banks payable in foreign currency over one year as at December 31, 2001 and 2000, bear interest rates in the range from 1.4% to 9.2% and from 5% to 8%, respectively.

NOTE 12: DEPOSITS FROM CUSTOMERS

	2001	(in HUF mn) 2000
Within one year: in HUF	1,498,199	1,292,942
in foreign currency	359,052	349,454
	<i>1,857,251</i>	<i>1,642,396</i>
Over one year: in HUF	34,261	55,570
Total	1,891,512	1,697,966

Deposits from customers payable in HUF within one year as at December 31, 2001 and 2000, bear interest rates in the range from 0.5% to 9.2% and from 1% to 9.7%, respectively.

Deposits from customers payable in HUF over one year as at December 31, 2001 and 2000, bear interest rates in the range from 3% to 8.5% and from 3% to 9.5%, respectively.

Deposits from customers payable in foreign currency as at December 31, 2001 and 2000, bear interest rates in the range from 0.1% to 2.1% and from 0.1% to 4%, respectively.

NOTE 13: LIABILITIES FROM ISSUED SECURITIES

	2001	(in HUF mn) 2000
With original maturity:		
Within one year	5,688	5,548
Over one year	34,386	24,897
	40,074	30,445

Liabilities from issued securities are denominated in HUF and as at December 31, 2001 and 2000, bear interest at rates in the range from 3.8% to 9.2% and from 6% to 9.8%, respectively.

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NOTE 14: OTHER LIABILITIES

	2001	(in HUF mn) 2000
Deferred tax liabilities	617	99
Taxes payable	2,483	2,673
Giro clearing accounts	14,389	16,069
Accounts payable	8,352	6,463
Insurance reserves	52,228	39,791
Salaries and social security payable	6,452	3,574
Liability from security trading	5,177	9,134
Allowance for possible losses on off-balance sheet commitments and contingent liabilities	5,225	3,233
Dividends payable	7,509	5,638
Liabilities from leasing activities	792	3,742
Advances received from customers	915	2,311
Accrued expenses	4,161	4,581
Settlements of government housing subsidies	–	1,509
Loan for collection	967	1,237
Sundry loan received	2,700	–
Suspense accounts	3,228	3,720
Fair value of derivative financial instruments	843	–
Other	7,864	4,980
	123,902	108,754

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

	2001	(in HUF mn) 2000
Allowance for litigation	779	995
Allowance for possible losses on off-balance sheet commitments and contingent liabilities	1,999	474
Other allowances for expected liabilities	1,915	1,136
Allowance for housing warranties	532	628
Balance as at December 31	5,225	3,233

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

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

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Movements in the allowance for off-balance sheet commitments and contingent liabilities can be summarized as follows:

	2001	(in HUF mn) 2000
Balance as at January 1	3,233	3,123
Provision for possible off-balance sheet commitments and contingent liabilities	2,145	460
Write-off	-153	-350
Balance as at December 31	5,225	3,233

Movements in insurance reserves can be summarized as follows:

	2001	(in HUF mn) 2000
Balance as at January 1	39,791	23,702
Net increase in insurance reserves	12,437	16,089
Balance as at December 31	52,228	39,791

NOTE 15: SUBORDINATED BONDS AND LOANS

In 1993, the Bank issued HUF 5 billion in bonds, which are subordinated to the other liabilities of the Bank and subscribed by the Hungarian Ministry of Finance. Interest on subordinated bonds and the frequency of payment of interests are based on condition of interest of 2013/C credit consolidated government bonds, which is a variable-rate bond, the interest payable and the rate of interest are fixed twice a year. The semi-annual interest payable was 5.53% as at June 20, 2001 and 5.57% as at December 20, 2001. The original maturity was 20 years. The proceeds of the subordinated bonds were invested in Hungarian Government bonds with similar interest conditions and maturity.

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

NOTE 16: SHARE CAPITAL

	2001	(in HUF mn) 2000
Authorized, issued and fully paid:		
Common shares of HUF one thousand each	28,000	26,850
Preference shares of HUF one thousand each	-	1,150
	28,000	28,000

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

The Annual General Meeting on April 25, 2001 approved the conversion of 1,150 thousand pieces of preference shares issued by Bank to registered common shares.

FINANCIAL REPORT

NOTE 17: RETAINED EARNINGS AND RESERVES

	2001	2000 <i>(in HUF mn)</i>
Balance as at January 1	123,504	89,651
Net income	48,953	38,753
Profit on sale of treasury shares	72	70
Opening adjustment due to adoption of IAS No 39	248	–
Dividends	–7,050	–5,044
Foreign currency translation (loss)/gain	–84	74
Balance as at December 31	165,643	123,504

The Bank's unconsolidated reserves under Hungarian Accounting Standards were HUF 130,515 million and HUF 99,501 million at December 31, 2001 and 2000, respectively. Of these amounts, legal reserves represent HUF 29,450 million and HUF 25,610 million, respectively. The legal reserves are not available for distribution.

Dividends for the year ended December 31, 2000 represent the dividends declared by the Bank's shareholders for both preference and common shares at the Annual General Meeting in 2001.

Dividends for the year ended December 31, 2001 represent the dividends to be proposed to the Bank's shareholders by management of the Bank at the forthcoming Annual General Meeting in 2002.

NOTE 18: TREASURY SHARES

	2001	2000 <i>(in HUF mn)</i>
Nominal value (Common Shares)	2,217	1,568
Carrying value	26,357	18,856

NOTE 19: OTHER EXPENSES

	2001	2000 <i>(in HUF mn)</i>
Lower of cost and market adjustment	–	–29
(Credit)/provision for permanent diminution in value of investments	–1,340	1,266
Provision for possible losses on other assets	–353	2,081
Provision for off-balance sheet commitments and contingent liabilities	2,145	460
Administration expenses, including rent	18,009	17,219
Advertising	2,972	2,931
Taxes, other than income taxes	7,905	6,673
Services	13,234	11,911
Insurance claims paid	19,767	13,377
Net increase in insurance reserves	12,437	16,089
Professional fees	1,878	2,034
Other	3,670	2,895
	80,324	76,907

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NOTE 20: INCOME TAXES

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

A reconciliation of the income tax charges is as follows:

	2001	2000 <i>(in HUF mn)</i>
Current tax	11,088	9,139
Deferred tax	464	- 148
	11,552	8,991

A reconciliation of the deferred tax liability is as follows:

	2001	2000 <i>(in HUF mn)</i>
Balance as at January 1	- 99	- 247
Effects of adoption of IAS 39	- 54	-
Deferred tax (charge)/credit	- 464	148
Balance as at December 31	- 617	- 99

A reconciliation of the income tax charge is as follows:

	2001	2000 <i>(in HUF mn)</i>
Income before income taxes	60,505	47,744
Permanent timing differences	3,511	2,005
Adjusted income before income taxes	64,016	49,749
Income taxes	11,552	8,991

NOTE 21: OFF-BALANCE SHEET COMMITMENTS, CONTINGENT LIABILITIES AND FINANCIAL INSTRUMENTS

	2001	2000 <i>(in HUF mn)</i>
Commitments:		
Forward purchase commitments, foreign exchange	191,139	55,428
Forward purchase commitments, securities	4	114
Repurchase agreements	-	15
Forward purchase commitments, BUX-index	-	14
	191,143	55,571
Contingent liabilities:		
Commitments to extend credit	255,554	147,834
Guarantees arising from banking activities	36,606	15,477
Confirmed letters of credit	3,799	988
Options	19,309	14,064
Local tax contingency	542	542
Others	21	-
	315,831	178,905
Total	506,974	234,476

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In the normal course of business, the Bank enters into financial instrument transactions to hedge its liquidity, interest and foreign currency risks. The Bank operates a system of market risk and counterparty limits that are designed to restrict exposure to movements in market prices and counterparty concentrations. The Bank also monitors adherence to all limits on a daily basis.

The Bank has a legal case against the Municipality of Budapest in connection with local tax paid in previous years. The Bank paid the total amount of local tax due, but the Municipality of Budapest has challenged the allocation of the tax between the various Hungarian municipalities. The total amount of local tax being claimed by the Municipality of Budapest is HUF 542 million. Management believes this claim by the Municipality of Budapest to be groundless and is vigorously defending the Bank against this claim. No provision for possible loss has been recorded by the Bank.

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

NOTE 22: CASH AND CASH EQUIVALENTS

	2001	(in HUF mn) 2000
Cash, due from banks and balances with the National Bank of Hungary	381,773	497,493
Compulsory reserve established by the National Bank of Hungary	-110,269	-188,224
	271,504	309,269

NOTE 23: MAJOR SUBSIDIARIES

	Ownership (Direct and Indirect)		Activity
	2001	2000	
OTP-Garancia Insurance Ltd.	100%	100%	insurance
OTP Real Estate	100%	100%	real estate management and development
OTP Securities	100%	100%	brokerage
HIF Ltd.	100%	100%	forfeiting
Merkantil Bank	100%	100%	financing car purchases
Merkantil Car	100%	100%	financing car purchases, leasing
OTP LTP	100%	100%	financing flat purchase and reconstruction
Bank Center No. 1.	100%	100%	letting real estates
OTP Faktoring	100%	100%	work-out
Inga Companies	100%	100%	property management
OTP Fund Management	100%	100%	fund management
OTP Funds Servicing and Consulting	100%	-	fund services
OTP Mortgage Bank Company	100%	-	mortgage loaning

Except for HIF Ltd., all consolidated subsidiaries, including those listed above, as at December 31, 2001 and 2000 are incorporated in Hungary. HIF Ltd. is a company incorporated in the United Kingdom.

NOTE 24: TRUST ACTIVITIES

The Bank acts as a trustee for certain loans granted by companies or employers to their employees, mainly for housing purposes. The ultimate risk for these loans rests with the party advancing the funds. As these loans and related funds are not considered to be assets or liabilities of the Bank, they have been excluded from the accompanying consolidated Balance Sheet. The total amount of such loans managed by the Bank as a trustee amount to HUF 42,843 million and HUF 42,955 million as at December 31, 2001 and 2000, respectively.

FINANCIAL REPORT

NOTE 25: CONCENTRATION OF ASSETS AND LIABILITIES

Approximately 40% and 47% of the Group's total assets consisted of receivables from, or securities issued by, the Hungarian Government or the National Bank of Hungary as at December 31, 2001 and 2000, respectively. There were no other significant concentrations of the Group's assets or liabilities as at December 31, 2001 and 2000.

NOTE 26: NET FOREIGN CURRENCY POSITION AND FOREIGN CURRENCY RISK

As at December 31, 2001

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

As at December 31, 2000

	USD	EUR	Others	(in HUF mn) Total
Assets	155,527	179,168	46,710	381,405
Liabilities	-167,392	-186,790	-47,695	-401,877
Off-balance sheet assets and liabilities, net	12,821	-2,821	2,066	12,066
Net position	956	-10,443	1,081	-8,406

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

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

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

As at December 31, 2001

	Within 3 months	Within one year and over 3 months	Within 5 years and over one year	Over 5 years	(in HUF mn) Total
Cash, due from banks and balances with the National Bank of Hungary	378,826	1,216	1,480	251	381,773
Placements with other banks, net of allowance for possible placement losses	139,904	174,145	17,499	540	332,088
Securities held for trading and available-for-sale	61,909	49,783	92,050	24,821	228,563
Loans, net of allowance for possible loan losses	91,999	206,633	305,914	166,788	771,334

FINANCIAL REPORT

<i>(folytatás az előző oldalról)</i>	Within 3 months	Within one year and over 3 months	Within 5 years and over one year	Over 5 years	<i>(in HUF mn)</i> Total
Accrued interest receivable	22,989	6,244	386	178	29,797
Equity investments	–	–	–	2,816	2,816
Debt securities held-to-maturity	42,801	55,154	225,674	77,974	401,603
Premises, equipment and intangible assets, net	695	569	25,341	46,729	73,334
Other assets	21,686	17,351	27,847	1,453	68,337
TOTAL ASSETS	760,809	511,095	696,191	321,550	2,289,645
Due to banks and deposits from the National Bank of Hungary and other banks	5,396	11,563	17,563	2,430	36,952
Deposits from customers	1,505,280	354,921	30,025	1,286	1,891,512
Liabilities from issued securities	1,242	4,446	34,386	–	40,074
Accrued interest payable	5,216	4,809	2,601	–	12,626
Other liabilities	53,054	17,289	16,818	36,741	123,902
Subordinated bonds and loans	–	–	12,293	5,000	17,293
TOTAL LIABILITIES	1,570,188	393,028	113,686	45,457	2,122,359
Share capital	–	–	–	28,000	28,000
Retained earnings and reserves	–	–	–	165,643	165,643
Treasury shares	–	–26,357	–	–	–26,357
TOTAL SHAREHOLDERS' EQUITY	–	–26,357	–	193,643	167,286
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	1,570,188	366,671	113,686	239,100	2,289,645
LIQUIDITY (DEFICIENCY)/EXCESS	–809,379	144,424	582,505	82,450	–

Deposits from Customers represent 89.1% of Total Liabilities.

December 31, 2000

	Short-term (within one year)	Long-term (over one year)	<i>(in HUF mn)</i> Total
Cash, Due from Banks and Balances with the National Bank of Hungary	493,160	4,333	497,493
Placements with Other Banks, Net of Allowance for Possible Placement Losses	198,473	17,881	216,354
Held for Trading and Available-for-sale Financial Assets	80,395	89,113	169,508
Loans, Net of Allowance for Possible Loan Losses	278,113	372,789	650,902
Accrued Interest Receivable	28,480	–	28,480
Equity Investments	–	2,548	2,548
Held-to-maturity Investments	84,907	278,054	362,961
Premises, Equipment and Intangible Assets, Net	–	70,097	70,097
Other assets	54,813	–	54,813
TOTAL ASSETS	1,218,341	834,815	2,053,156
Due to Banks and Deposits from the National Bank of Hungary and Other Banks	31,716	20,229	51,945
Deposits from Customers	1,642,396	55,570	1,697,966
Liabilities from Issued Securities	5,548	24,897	30,445
Accrued Interest Payable	13,638	–	13,638
Other Liabilities	108,754	–	108,754

FINANCIAL REPORT

<i>(continued from page 115)</i>	<i>(in HUF mn)</i>		
	Short-term (within one year)	Long-term (over one year)	Total
Subordinated Bonds and Loans	–	17,760	17,760
TOTAL LIABILITIES	1,802,052	118,456	1,920,508
Share Capital	–	28,000	28,000
Retained Earnings and Reserves	–	123,504	123,504
Treasury Shares	–18,856	–	–18,856
TOTAL SHAREHOLDERS' EQUITY	–18,856	151,504	132,648
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	1,783,196	269,960	2,053,156
LIQUIDITY (DEFICIENCY)/EXCESS	–564,855	564,855	–

Deposits from Customers represent 88.4% of Total Liabilities.

NOTE 28: INTEREST RATE RISK MANAGEMENT

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

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

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

NOTE 29: EARNINGS PER SHARE

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

	2001	2000
Consolidated net income (in HUF mn)	48,953	38,753
Preference dividends (in HUF mn)	–	–45
Consolidated net income for the year attributable to common shareholders (in HUF mn)	48,953	38,708
Weighted average number of common shares outstanding during the year (piece)	25,607,005	25,598,092
Consolidated earnings per share (in HUF)	1,912	1,512

NOTE 30: POST BALANCE SHEET EVENTS

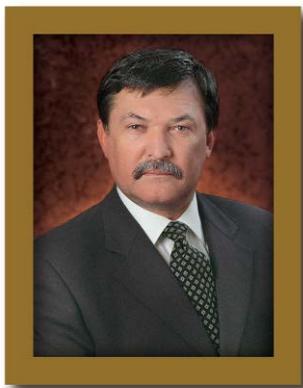
During 2001, OTP Bank, has entered into a sale purchase agreement to acquire 92.6% interest in the Investičná a rozvojová banka (IRB) a credit bank in Slovakia which is expected to close in the second quarter of 2002. The cost of the transaction will be SKK 700 million. After finishing the transaction the OTP Bank's investment in the IRB will have risen to 95.7%.

According to unaudited financial statements prepared in accordance with Slovak Accounting Standards, IRB had total assets of approximately SKK 24 billion as at December 31, 2001.



SHAREHOLDER *Information*

BOARD OF DIRECTORS OF OTP BANK



DR. SÁNDOR CSÁNYI
Chairman-CEO
OTP Bank Ltd.



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



MIHÁLY BAUMSTARK
Chairman-CEO
Villány Vinery Ltd.



DR. TIBOR BÍRÓ
Head of Department
Budapest Economic College



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



DR. ISTVÁN KOCSIS
General Director
ÉMÁSZ Ltd.



CSABA LANTOS
Deputy CEO
OTP Bank Ltd.



GÉZA LENK
Deputy CEO
OTP Bank Ltd.



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



DR. JÓZSEF VÖRÖS
Professor
Faculty of Economics, Pécs University

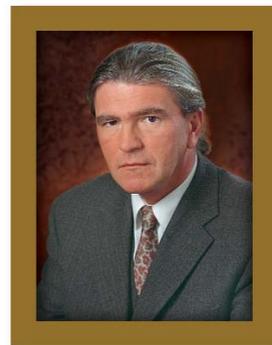
*S*UPERVISORY BOARD OF OTP BANK



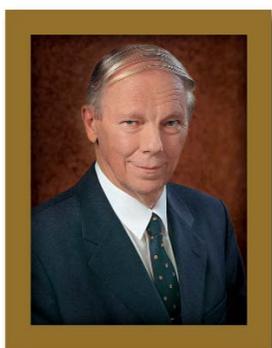
MRS. ZSÓFIA ZSAKÓ GYULAI
Managing Director
OTP Bank Ltd. Banking Operation Division



TIBOR TOLNAY
Chairman-CEO
Magyar Építők Ltd.



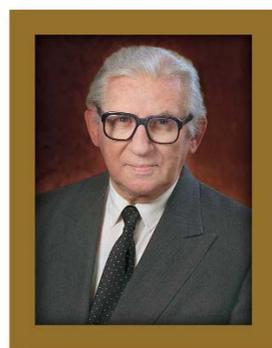
DR. GÁBOR HORVÁTH
Lawyer



DR. GÁBOR NAGY
Head of Codification Group
Accounting Division, Ministry of Finance



KLÁRA VÉCSEI
Deputy Managing Director
OTP Bank Ltd. "Northern Hungary Region"



DR. TIBOR ZIMÁNYI
Economist
(Till 26 April, 2002)

INFORMATION FOR SHAREHOLDERS

GENERAL COMPANY DETAILS

HEAD OFFICE OF OTP BANK LTD.:
H-1051 Budapest, Nádor utca 16. • Phone: (36-1) 353-1444 • Fax: (36-1) 312-6858

SHARE CAPITAL

The Bank's share capital on 31 December 2001 was HUF 28,000,001,000, represented by 28,000,0001 ordinary shares with a face value of HUF 1000 each, and one voting preference share with a face value of HUF 1,000 shares with a face value of HUF 1,000 each. (On 11 March 2002 the dematerialisation of the shares was completed. From the same date 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. Since then, the Bank's share capital is HUF 28,000,001,000, represented by 280,000,000 ordinary shares with a face value of HUF 100 each, and one voting preference share with a face value of HUF 1,000.)

OWNERSHIP STRUCTURE ON 31 DECEMBER 2001

	Shareholder	Participation in share capital (share ownership)
Domestic shareholding	State (represented by ÁPV Ltd.) State budgetary organization APV Ltd.	1 voting preference (golden) share 0,1%
	Management and employees	2,2%
	Treasury shares	5,5%
	Other domestic investors	45,0%
	<i>Total</i>	<i>52,8%</i>
	Foreign shareholding	Foreign investors
Total		100,0%

STOCK EXCHANGE LISTING

Ordinary shares of the Bank are listed in Category "A" on the Budapest Stock Exchange. The Global Depository Receipts (GDRs) traded abroad and are listed on the Luxembourg Stock Exchange, Regulation S GDRs and are traded on SEAQ International in London. Rule 144A GDRs are traded in the PORTAL system. Till the share splitting each GDR represented 1 ordinary share after that 1 GDR represents 2 ordinary shares. The Depository agent of OTP GDRs is the Bank of New York and the custodial agent is OTP Bank (The stock exchange code of OTP shares is "OTP", Reuters: "OTPB.BU.")

PARTICIPATION AND VOITING RIGHTS AT THE GENERAL MEETING

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

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

A copy of the authorisation shall be deposited together with the shares – or, in the case of shareholders not required to deposit their shares, it shall be presented during the period specified for shareholders to deposit their shares – at the location specified in the invitation to the General Meeting.



SHAREHOLDER INFORMATION

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

- the holders of shares shall be effectively entered in the Company's Share Register.
- the voting right relating to the ownership of the shares shall not violate the provisions of the By-Laws, which circumstance shall be verified through monitoring by the Company following the receipt of notification from KELER.
- participation in the General Meeting and the exercise of the voting rights of the organisation exercising the ownership rights inherent in the golden share issued to the Hungarian state is governed by the general stipulations, notwithstanding that, in terms of certain issues specified in the Articles of Association of OTP Bank, the consent of the owner of the golden share is required for passing a resolution.
- The Custody Agreement signed between Bank of New York and OTP Bank Ltd. governs participation in the General Meeting and the exercise of voting rights of GDR owners.

DIVIDEND

The General Meeting of OTP Bank Ltd., held on 26 April 2002, passed a resolution that dividends for the business year 2001 shall be 27.5% of the face value of the shares.

Prerequisites of paying dividends on the shares are as follows:

- Share ownership of the shareholder shall not violate the stipulations of the Act CXII of 1996 on Credit Institutions and Business Ventures ("Hpt.")
- The owner of registered shares shall have been effectively entered in the Share Register of OTP Bank Ltd.
- OTP Bank Ltd. shall have details available that are suitable for identifying the shareholder, the information being sent by KELER Ltd., in the case of shares deposited in custody with KELER Ltd. by the way of a custodian, or, in the case of shares deposited with a custodian, by the custodian.

After examination of the Share Register entry and the Share Register, OTP Bank Ltd. will transfer the dividend to the custodian, or, should the shareholder request so by the way of the custodian, to the shareholder's bank account.

DIVIDEND PAYMENT LOCATION

Payment of dividends payable on shares traded in Hungary is performed by the designated branch offices of OTP Bank Ltd. Dividend payment for GDR holders is performed through the Bank of New York.

DIVIDEND PAYMENT DATE: FROM 17 JUNE 2002

Individual shareholders may make enquires on shares and dividends as well as resolutions passed on the General Meeting at the Secretariat of OTP Bank Ltd. Phone: (36-1) 312-5085

INVESTOR RELATIONS

Institutional Shareholders of OTP Bank Ltd. may request information related to the Bank at the following addresses:

OTP Bank Ltd., Investor Relations
H-1051 Budapest, Nádor u. 16. Phone: +(36-1) 269-1693, Fax: +(36-1) 331-6312
e-mail: investor.relations@otpbank.hu

ANNOUNCEMENTS

OTP Bank Ltd. fulfils its obligation related to corporate events and information reporting, pursuant to Act CXX. of 2001, in Magyar Tőkepiac (Hungarian Capital Market), the Stock Exchange Gazette, as well as in the national dailies Napi Gazdaság (Daily Economy) and Világgazdaság (World Economy).

INTERNET

Address of the Bank's Internet site: www.otpbank.hu

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