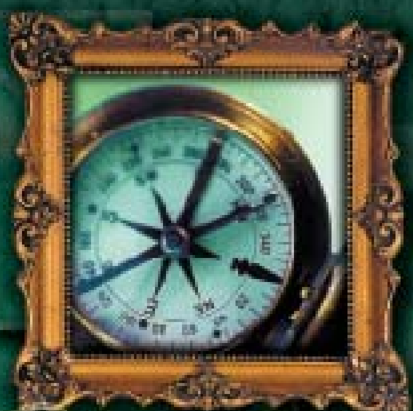

Annual Report

2001

OTP BANK LTD.

Annual Report

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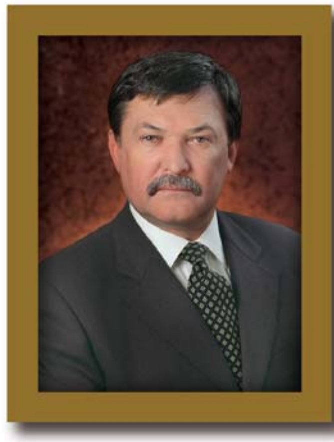
CONTENTS

Senior management of OTP Bank Ltd.



Dr. Sándor Csányi

Chairman-CEO

Dr. Zoltán Spéder

Vice Chairman, Deputy CEO

Strategic and Financial Division

Csaba Lantos

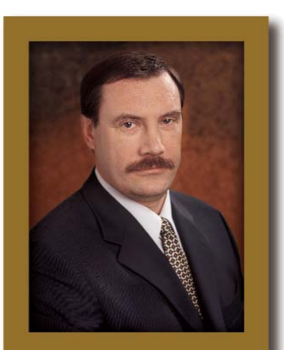
Deputy CEO

Retail Banking Division

Géza Lenk

Deputy CEO

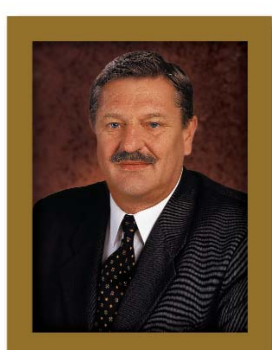
Credit Approval and
Risk Management Division



Gyula Pap

Deputy CEO

IT and Logistic Division



Dr. Antal Pongrácz

Deputy CEO

Staff Division

László Wolf

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:

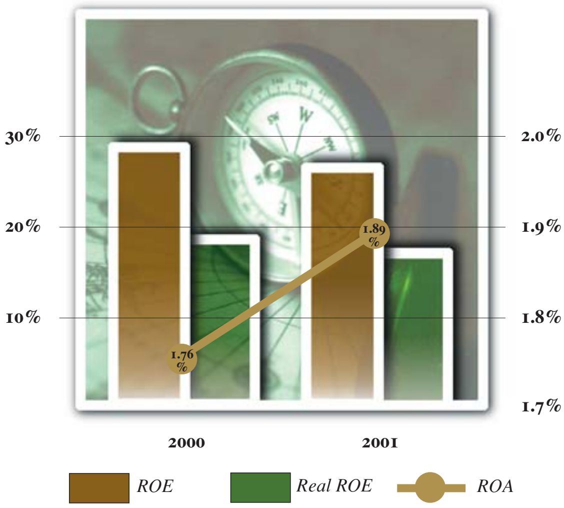
– the integration of the operations of OTP Securities Ltd. into the Bank's organisation, and the rationalisation of capital market services activity;
– the expansion of the circle of affiliated companies and of the range of their services (mortgage bank, health insurance fund), and the improvement of 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 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 criterial 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 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	12/312001
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%.

The growth in exports exceeded that of imports thro-ughout 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 manoevre 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 squeazed 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'etre, was ended;

- 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.