

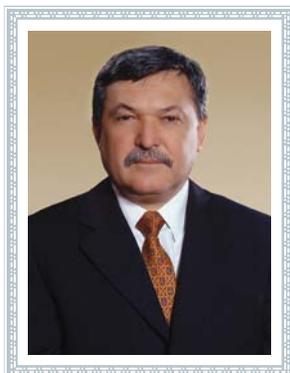
ANNUAL  
*Report*

2003

# CONTENTS

<b>SENIOR MANAGEMENT OF OTP BANK LTD.</b>	<b>4</b>
<b>MESSAGE FROM THE CHAIRMAN AND CHIEF EXECUTIVE OFFICER</b>	<b>5</b>
<b>FINANCIAL HIGHLIGHTS</b>	<b>7</b>
<b>MACROECONOMIC AND MONETARY ENVIRONMENT IN 2003</b>	<b>8</b>
<b>BUSINESS REVIEW</b>	<b>11</b>
<b>MANAGEMENT'S ANALYSIS</b>	<b>25</b>
<i>Management's Analysis of the Bank's Financial Position and the Results of Operation</i>	27
<i>Financial Summary</i>	55
<i>Differences Between the Profit and Loss Account of OTP Bank Ltd. Prepared According to Hungarian, and according to International, Accounting Principles for the Year Ending December 31, 2003</i>	56
<i>Material Differences Between OTP Bank Ltd.'s Audited and Consolidated Financial Statements as at December 31, 2003 Prepared According to International Financial Reporting Standards (IFRS) and According to Hungarian Accounting Rules (HAR)</i>	61
<b>FINANCIAL REPORT</b>	<b>67</b>
<i>Independent Auditor's Report (unconsolidated, based on HAR)</i>	68
<i>Balance Sheet (unconsolidated, based on HAR)</i>	69
<i>Profit and Loss Account (unconsolidated, based on HAR)</i>	71
<i>Independent Auditor's Report (consolidated, based on HAR)</i>	72
<i>Balance Sheet (consolidated, based on HAR)</i>	73
<i>Profit and Loss Account (consolidated, based on HAR)</i>	78
<i>Independent Auditor's Report (unconsolidated, based on IFRS)</i>	81
<i>Balance Sheet (unconsolidated, based on IFRS)</i>	82
<i>Profit and Loss Account (unconsolidated, based on IFRS)</i>	83
<i>Statement of Cash flow (unconsolidated, based on IFRS)</i>	84
<i>Statement of Changes in Shareholders' Equity (unconsolidated, based on IFRS)</i>	86
<i>Notes to Financial Statements (unconsolidated, based on IFRS)</i>	86
<i>Independent Auditor's Report (consolidated, based on IFRS)</i>	113
<i>Balance Sheet (consolidated, based on IFRS)</i>	114
<i>Profit and Loss Account (consolidated, based on IFRS)</i>	115
<i>Statement of Cash flow (consolidated, based on IFRS)</i>	116
<i>Statement of Changes in Shareholders' Equity (consolidated, based on IFRS)</i>	118
<i>Notes to Financial Statements (consolidated, based on IFRS)</i>	118
<b>SHAREHOLDER INFORMATION</b>	<b>149</b>
<i>Board of Directors of OTP Bank Ltd.</i>	150
<i>Supervisory Board of OTP Bank Ltd.</i>	151
<i>Information for Shareholders</i>	152
<i>Commitment to Social Causes</i>	154
<i>Combat against Money Laundering</i>	155

*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 LOGISTICS DIVISION



**DR. ANTAL PONGRÁCZ**  
*Deputy CEO*  
STAFF DIVISION



**LÁSZLÓ WOLF**  
*Deputy CEO*  
COMMERCIAL BANKING DIVISION

## MESSAGE FROM THE CHAIRMAN AND CHIEF EXECUTIVE OFFICER



*Dear Shareholders,*

With their exceptional performance in 2003, OTP Bank and the OTP Bank Group have proven that they are able to satisfy shareholder expectations over the long term. The results achieved in 2003 were outstanding not just by local standards but internationally as well.

The main value indicators for our shareholders are growth in after-tax profits, return on equity, earnings per share and increase in share price, as well as growth in the Bank's market value.

The OTP Bank Group closed 2003 with a consolidated after-tax profit of more than HUF 83 billion, which was 51% higher than in the previous year. Of this total, the profits of OTP Bank (HUF 71.5 billion) accounted for 86%, while among the results posted by the various subsidiaries, those of OTP Mortgage Bank (HUF 7.1 billion), OTP Fund Management (HUF 3.5 billion) and Merkantil Bank (HUF 2.4 billion) made notable contributions to the consolidated result. Also worthy of mention is the performance of new group member DSK Bank and its subsidiaries, whose consolidated after-tax profits were HUF 6.5 billion, of which HUF 1.5 billion originates from the period following their integration into the OTP Bank Group.

At the same time, return on average equity (ROAE) showed substantial growth, increasing at consolidated level from 26.2% in 2002 to 30.6% in 2003. Even in real terms – adjusting for an average yearly inflation rate of 4.7% – the increase (from 20.53% to 27.2%) is considerable.

Earnings per share also displayed strong growth. Consolidated, undiluted EPS was HUF 322 in 2003 compared with HUF 215 in the previous year – an increase of 50%.

The outstanding performance of the Bank and of the Bank Group in 2003 is reflected in the development of the company's share price, which increased during the year by 21%, to reach HUF 2,675 by year-end. An analysis of the movement of the share price over time shows that from the end of 1995 to the end of 2003, the price of the Bank's shares rose more than 28-fold (representing an average annual increase of 52%), while over this same period the BUX index barely rose more than six-fold (representing a 25% annual increase).

The high regard in which the Bank is held among the professional community both at home and abroad is clearly illustrated by the fact that in 2003 a number of prestigious international business and financial journals, such as *Global Finance*, *Euromoney* and *The Banker*, voted OTP Bank best Hungarian bank, while the national publication *Figyelő Top 200* awarded our Bank the title of "Bank of the Year". As reasons for their choice, besides the outstanding results of the its financial operations, the magazines cited the Bank's successful Slovak and Bulgarian acquisitions.

Significant progress was made with regard to the integration of OTP Banka Slovensko and of the Bulgarian DSK Bank and its subsidiaries in 2003. As regards the DSK group, the corporate restructuring necessary to ensure operational efficiency has begun, as has the implementation of critical IT developments and the rationalisation of the branch network, while a number of new products have been launched, accompanied by intensive marketing

campaigns. The new business policy of OTP Banka Slovensko, which has just completed its first full financial year as a member of the OTP Group, has also brought significant results. Successful efforts have been made to increase the number of customers of the Slovak subsidiary, most notably in the retail segment, and its share of the main markets has also grown.

Besides its successful regional expansion, OTP Bank has pressed ahead with its strategic projects that are vital in the interests of maintaining the Bank's competitiveness in the long run, and of improving operational efficiency and the standard of services. The introduction of SAP, aimed at modernising the Bank's management systems, continued, and in 2003 the main developments in the accounting and controlling area were implemented. The purpose of these is to improve the quality of information flow, rationalise and centralise financial processes, and to ensure strict cost control. By the end of 2003, a significant portion of the

objectives of the previously launched Back Office Rationalisation project were achieved, retail loan services were enhanced, the efficiency of branch-office work was improved, and the creation of a central Back Office means the branches have been relieved of these administrative duties. The inputting of source data into the Transaction Database continued, and the use of the database for day-to-day business purposes has begun.

The activities and results of the Bank Group in 2003 represent a guarantee that in the years to come we will continue to create exceptional shareholder value, which is at the very heart of our business strategy. I hope that by doing so we will be able to retain the much appreciated confidence of our shareholders, and that besides our employees – to whom I would also like to express my sincerest thanks for their work throughout the year – they too will share in the future successes of the Bank and the Bank Group.



Dr. Sándor Csányi  
Chairman and  
Chief Executive Officer



## FINANCIAL HIGHLIGHTS

(unconsolidated, according to HAR)

PROFIT AND LOSS ACCOUNT	2002 HUF mn	2003 HUF mn	CHANGE
Net interest income	102,715	118,182	15.1%
Non-interest income	63,543	85,580	34.7%
Total income	166,258	203,762	22.6%
Non-interest expenses	95,557	110,234	15.4%
Operating profits	70,701	93,528	32.3%
Increase in provisions	13,523	13,261	- 1.9%
Profit before taxation	58,082	86,701	49.3%
Profit after taxation	47,197	71,562	51.6%

BALANCE SHEET*	2002 HUF bn	2003 HUF bn	CHANGE
Total Assets	2,390.1	2,758.6	15.4%
Loans and advances to customers	951.7	1,088.3	14.3%
Retail loans	329.8	318.2	- 3.5%
Corporate loans	558.6	691.2	23.7%
Municipal loans	63.3	78.9	24.6%
Interbank loans and advances	263.3	165.4	- 37.2%
Government securities in the Bank's portfolio	401.9	402.5	0.2%
Deposits from customers	2,011.0	2,234.9	11.1%
Retail deposits	1,523.7	1,656.3	8.7%
Corporate deposits	341.9	421.4	23.2%
Municipal deposits	145.4	157.2	8.1%
Total loans and advances	1,234.8	1,272.5	3.1%
Performing loans	1,183.4	1,216.7	2.8%
Qualified loans	51.4	55.7	8.5%
Provisions for possible loan losses	20.6	26.8	30.1%
Shareholder's equity	205.8	261.8	27.2%

PERFORMANCE RATIOS	2002	2003
Cost/income ratio, %	57.50	54.10
Return on Average Equity (ROAE), %	25.90	30.60
Return on Average Assets (ROAA), %	2.09	2.78
Capital Adequacy Ratio*, %	13.43	10.54
Undiluted EPS (HUF)	178.98	269.21
Diluted EPS (HUF)	168.56	255.58
Total Assets per employee* (HUF millions)	272.50	345.70
Total income per employee (HUF thousand)	19,414.00	23,986.00

MARKET SHARE*	2002	2003
Retail deposits, %	38	36
Retail loans, %	23	14
Corporate deposits, %	13	14
Corporate loans, %	13	12
Municipal deposits, %	66	75
Municipal loans, %	55	54

\* on December 31



## MACROECONOMIC AND MONETARY ENVIRONMENT IN 2003

The Hungarian economy was characterised by serious imbalances in 2003. Due to unfavourable trends in the global economy, the pace of economic growth slowed, the internal and external balances worsened, inflows of foreign direct investment proved insufficient to finance the current account deficit, and national debt levels rose. The forint depreciated, interest rates increased, and in the second half of the year the downward trend in inflation reversed, though the average annual rate still remained below that of the previous year. By the end of 2003, nearly two years of growth in employment levels had come to an end, and the unemployment rate had fallen to 5.5%. There was extremely rapid growth in real wages, due mainly to the low base figure and to the public-sector pay increases implemented in the course of the year. Despite all these factors, a positive change occurred in economic fundamentals during the year, although the quantifiable impact of this change is not yet reflected in the aggregate annual figures.

After a rise of 3.5% in the previous year, **gross domestic product** grew by 2.9% in 2003, which was 2.5 percentage points higher than the eurozone average, and was close to growth levels in the US. Of the countries about to join the EU, economic growth in the Czech Republic and Slovenia slowed, as was the case in Hungary, with GDP growth remaining below 3% in real terms, while among the Baltic states, Latvia and Lithuania posted growth rates in excess of 7%. Slovakia and Estonia achieved growth of more than 4%, and Poland 3.7%.

The slowdown reached its lowest point towards the middle of the year, and then in the second half a positive change occurred in the Hungarian economy. With respect to production, the added value of industrial – and more specifically, manufacturing – output was the main driver behind the acceleration in growth, while with regard to the use of GDP, an upturn in exports and manufacturing-sector investments, as well as a drop-off in household consumption were all indicative of a favourable trend.

**Industrial output in 2003** outperformed even the most optimistic of expectations. After moderate, 2.8% overall growth in 2002, output grew by 6.4% in 2003. The upswing was due to the general global economic recovery, a strengthening of foreign and domestic demand, and a

stocking up on inventory following the depletion in stock levels during the previous economic downturn. The improving performance was to a large extent concentrated among the multinational corporations, while small and medium-sized companies were less able to participate in the upswing. Despite the various investment-incentive schemes, their opportunities for growth were limited due to tough competition and low profitability levels.

Following an exceptionally high increase of 17.8% in the previous year, **construction industry output** rose by a total of just 0.7% in 2003. During the year, the marked decline in state construction projects was offset by a growth in residential construction, and thus, after a fall caused by the inclement weather in the first quarter, output began to climb once again. Production levels in the largest sub-branch of the construction industry – structurally complete buildings – fell by 9%, while, by comparison, that of building services and of construction finishing works increased by 13.8% and 16.7%, respectively. Two contrary trends were observable in the construction industry last year: the output of the larger firms (i.e. those employing more than 300 people) fell by 5.2%, while that of smaller companies (employing less than 5 people) rose by 16.2%. This was mainly due to the marked increase in production volumes related to building services and construction finishing works. That the upswing in the sector has come to an end is suggested by the fact that the volume of contracts concluded at the end of the year was some 50% lower than the exceptionally high base figure of the previous year. Within this, the number of contracts concluded for the construction of buildings decreased by 26.9%, and those for the construction of other facilities by 63.3%.

In 2003 the number of residential units built exceeded all expectations. The more than 35,500 apartments taken occupancy of represented an increase of 13% over the previous year, and authorisation for the construction of a further 59,000 new units shows an increase of 22%. Most of the apartments were completed in the second half of the year. New residential units had not been built in this quantity since 1991, while the number of construction permits was the highest since 1986.

The outstanding performance of the **agricultural sector** in 2001 was followed by two drought years. In both of these

## MACROECONOMIC ENVIRONMENT

periods this was caused by a combination of unfavourable weather conditions, world-market recession and even less favourable market conditions. Overall, production fell by 5.6% in 2003, with crop production down 13–14% from the base figure, and livestock production are 3–4% lower. Sales of agricultural produce stagnated, with sales of crops and garden produce falling 5%, and sales of livestock and animal produce rising by 5.5% over the year.

The **domestic use of GDP** grew by 5.5% in 2003. The growth in the volume of **national economy investments** was lower than in the previous year, up by just 3.1%. The expansion in household consumption was notable, although the pace of growth was slightly slower.

The composition of capital investments differed fundamentally from that of 2002, and changed to an altogether healthier growth trend. The relatively high growth in 2002 had been largely due to state investments, while in the private sector manufacturing investments, critical for companies in the industry, had fallen by nearly 10%. In 2003 manufacturing investments became the principal economic driver, growing by 11.3%. This favourable change is reflected in the sectoral and technical distribution of investments: In 2002, a 10% growth in construction-industry investments had been accompanied by a stagnation in machinery investments, and in 2003, with the cut-backs in state-funded projects, construction declined, while machinery investments increased by 12.3%.

**Household consumption**, which accounts for nearly two-thirds of the domestic use of GDP, rose by 6.5% compared to the previous year, significantly outstripping the rate of growth of GDP itself, while gross household savings were 13% higher at current prices than in the previous year, and 6.9% higher in real terms. This growth in consumption was due largely to the increase in real wages that occurred in 2002. The average gross monthly salary of HUF 137,187 exceeded that of the previous year by 12.0%, and the **average net income** of HUF 88,751 represented an increase of 14.3%. The increase in gross income was lower in the private sector, at 8.9%, and the rise in net average income was 12.3%. The mid-year pay increases in 2003 affected mainly public sector workers. In the state sector average gross salaries for the year increased by 17.5% to HUF 160,843, and average net income by 18%, to HUF 99,659, exceeding the average salary levels in the private sector. The fact that net incomes rose more quickly than gross incomes was due to the abolition of income tax on the minimum wage, the partial adjustment of taxation to

inflation, and the modification of employee tax discounts. On the national-economy level, the increase in wages coupled with falling inflation led to a notable, 9.2%, increase in **real wages**, though this was more modest than that of the previous year.

In the **jobs market**, the growth in the employment rate came to an end, and the unemployment rate worsened somewhat over the year as a whole, from 5.8% to 5.9%.

**Inflation** reached its lowest rate in mid-2003, at which point the trend changed, and inflation rose continuously. Despite this, the growth in prices slowed on average over the year, from 5.3% to 4.7%, although the twelve-month price change measured in December grew from 4.8% to 5.7%. The pace of growth in consumer prices in most consumer goods categories (food, clothing, other articles, fuel) slowed, while the price of alcoholic drinks, tobacco products and household energy grew, and in the case of consumer durables prices effectively fell. The monthly producer price indices indicated a growth rate that was still below 1% in the first half of the year, and then with the weakening of the forint, the rate began to rise steadily, increasing by an average of 2.4% over the year.

Economic growth, which was slow to commence, was accompanied by a significant worsening of the **external and internal balances**.

The **public finance** deficit was HUF 1,054 billion in 2003 – the equivalent of 5.7% of the annual GDP. The deficit was significantly lower than in the previous year, but notably in excess of the target rate of 4.5% of GDP. The Maastricht ratio was –5.9%. National debt levels grew to 59%. Besides the unfavourable trends in the global economy, a series of economic policy errors committed while trying to make good on election promises resulted in a major overstepping of the budgeted annual spending limits. Despite austerity measures taken during the year to curb state expenditure, public spending exceeded the planned figure by HUF 471 billion. Expenditure by central government and welfare organisations, as well as funds expended on interest payments and housing subsidies, all exceeded the predetermined limits. Another factor that led to an increase in the deficit was the loss of revenue that resulted from the altered scheduling of VAT payments and re-transfers.

The **current account deficit** – calculated using a new method – amounted to EUR 6.5 billion for the year, which is EUR 1.6 billion higher than in 2002. A major contributory factor to the change in the current account balance

## MACROECONOMIC ENVIRONMENT

relative to the previous year and measured in accordance with international standards, was the increase in the trade deficit. Indeed, there was only a slight change in the income and transfer balance (including reinvested incomes). The deterioration in the balance of services was related to weak performance in tourism.

The country's gross external debt level (including shareholders' loans) increased by EUR 6.7 billion to EUR 45.7 billion, and net debt grew by EUR 3 billion, to EUR 19.3 billion. As of the end of 2003, the government sector and the National Bank of Hungary (MNB) accounted for 44.6% of the nation's net debt.

In response to speculative attacks on the forint at the start of the year, national reserves were raised from HUF 9.9 billion to above HUF 14 billion, and at year-end they slightly exceeded the EUR 10 billion level generally regarded as acceptable.

The **foreign trade** deficit grew by some EUR 800 million during the year, approaching EUR 4.3 billion by year-end. Export volumes expanded by nearly 9%, and import volumes by 10% over the year as a whole. The fact that net exports fell only slightly over the year was due largely to the favourable trends that began in the second half, with the growth in exports exceeding that of imports in each of the three months of the last quarter. A notable characteristic in terms of foreign trade in 2003 was that the share of Hungarian exports to developed countries, including the EU, declined by 1.7%. Within exports to developed economies, the share of machinery exports increased dynamically, while exports of manufactured goods fell by 6.5%. Hungary's exports to central and eastern European countries expanded by an impressive 20%, as a result of which the share of this region in Hungary's total exports increased to nearly 16%.

## MONETARY POLICY

2003 was characterised by a volatile and difficult-to-predict monetary environment. Within the space of one year, the benchmark central-bank rates – if we also take into account the changes to the interest rate corridor – ranged from 3.5% to 13.5%, while the forint exchange rate fluctuated significantly. The speculative attacks in January and the depreciation of the mid-rate in June also contributed to the fluctuations in the value of the forint. The unpredictability of monetary policy was due primarily to the tensions between inflationary targets and

budgetary policy objectives, as well as the speculative money flows to which they gave rise.

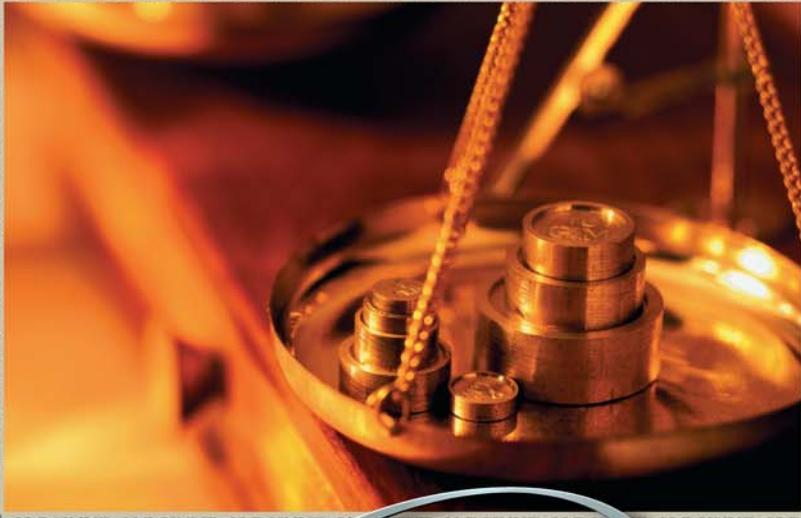
In 2003, in response to the growing volatility of the forint, the central-bank base rate increased from 6.5% to 12.5%. The course that interest rates followed during the year was not consistent, however. At the start of the year, the inconsistency between exchange rate policy and inflationary targets led to a strengthening of the forint, and then, as it reached the edge of the band, to a speculative attack. At this point the central bank tried to ward off a further increase in forint purchases by cutting interest rates and widening the interest corridor. Up until mid-year, the forint exchange rate was essentially stable, but then the 2.27% shifting of the band in June led to the forint's losing some 6 or 7% in value within just one day.

Overnight lending rates rose from 7.5% to 13.5% over the course of the year, and from 3.5% to 11.5% for overnight borrowing. The width of the interest corridor determined by the overnight deposit and loan interest rates rose from +/- 1 percentage point to +/- 3 percentage points, and then returned to the January rate. Despite the growth in inflation in the second half of the year, the Monetary Council's 300-basis-point rate hike had, by the end of the year, resulted in a rise in the real interest rate on two-week deposits to around 7%, leading once again to an inflow of speculative capital.

The **statutory reserve regulations** did not change significantly in 2003, with the reserve rate having remained unchanged at 5% since August 2002. The interest compensation paid on the statutory reserve increased in several stages, in line with changes in the benchmark rate, by a total of 600 basis points, from 5.75% to 11.75%.

Major reserve-related regulatory changes are set to come into force from January 1, 2004, the purpose of which is to improve the competitiveness of the banking sector, and to bring Hungary's regulations into line with ECB directives.

**Government bond yields** on the shorter maturities remained stable at 6% until June, after which the two-stage interest rate hike led to a rise in yields, first to just above 9%, and then to above 12% in November. The extent of the yield increase on government bonds of over one year's maturity was inversely proportional to the length of their maturity, with yields on three-year papers increasing from 6.66% to 10.19%, and yields on ten and fifteen-year bonds rising by just 1.5 percentage points. The yield curve, which had been virtually flat at the start of the year, had become strongly inverted by the end of the year.



*Q* BUSINESS *Review*

# BUSINESS REVIEW

In 2003 OTP Bank continued to carry out large-scale capital projects aimed at strengthening its competitiveness, rationalising and streamlining operations, cutting costs and improving the quality of services.

The Bank forged ahead with its introduction of a SAP system, the aim of which is to modernise the Bank's management and managerial decision-support systems, to improve the quality of information generation and processing, and to rationalise and centralise financial processes and ensure strict cost control. In 2003, major development was focused on the controlling area.

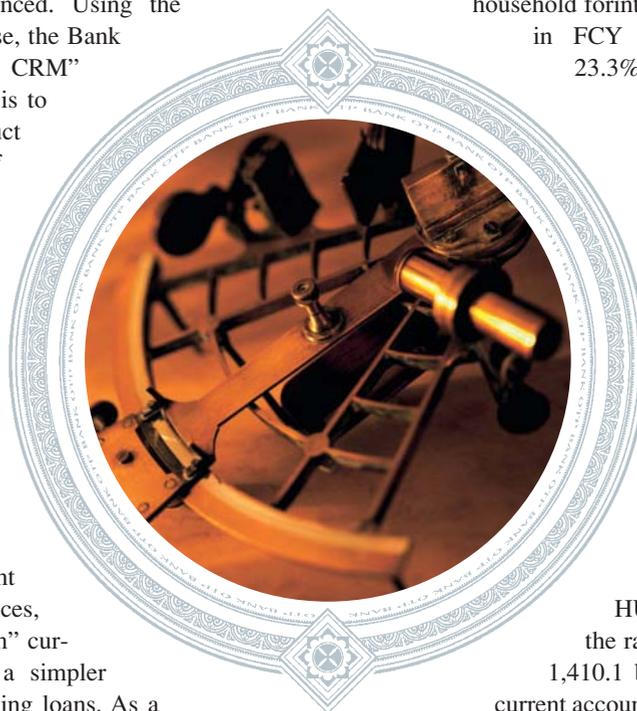
In 2002 the implementation of a *transaction data warehouse* (TDW) began, to support product development and sales activities. In 2003, the range of inputted source data was expanded, the layout of standard reports finalised and reports themselves entered into the data warehouse, and continuous operation commenced. Using the resources of the data warehouse, the Bank began to develop the "Mini CRM" system, the purpose of which is to support sales through product offers tailored to the needs of specific customer groups.

In the frame of the *BOR* (*Back Office Rationalisation*) Project as a result of the comprehensively streamlining and centralising of back-office processes, the labour requirement in the areas affected the project decreased by 38%. Further improvements in 2003 included an improvement to the quality of lending services, automated approval of "A-loan" current account overdrafts and a simpler disbursement process for housing loans. As a result of the project the branch network was relieved of its back-office workload, since a Central Back-Office Directorate was established in to manage, at national level, the accounts and files related to housing loans, as well as corporate credit accounts.

Some of the Bank's central units relocated to the new central office building in 2003. The office building, with an area of approximately 32,000 square metres, houses 1,000 employees in a state-of-the arts working environment. In total, 12 of the branch office development projects were completed in 2003. Under the technical development program, 138 ATMs were installed and/or relocated. Some 40 smaller technical projects were completed, with a value of less than HUF 10 million each, and video surveillance systems were installed in 120 branches.

## RETAIL BANKING DIVISION

OTP Bank continues to be the largest participant in Hungary's retail banking market. Based on the combined balance sheet of monetary institutions, at year-end 2003 the Bank had a market share of 35.8% (2002: 39.2%) in household forint deposits, 35.9% (2002: 35.4%) in FCY deposits, and 14.2% (2002: 23.3%) in household loans.



### RETAIL DEPOSITS

By year-end 2003 the volume of retail deposits managed by the Bank had reached HUF 1,656.3 billion, representing an 8.7% increase over last year's figure. Retail deposits accounted for 74.1% of customer deposits.

Within retail deposits, forint deposits increased by 12.0%, or HUF 151 billion, far outstripping the rate of inflation. Within the HUF 1,410.1 billion of forint deposits, retail current account deposits – a key product line – saw the greatest increase, of HUF 161.7 billion or 19.4%, to reach HUF 996.2 by December 31, 2003. Within retail forint deposits, the volume of time deposits on current accounts was 70.6% (in 2002: 66.3%). Following a slight, 1.8%, decline over the year, the total balance of

## BUSINESS REVIEW

passbook deposits amounted to HUF 382.9 billion as of December 31, 2003, with the result that their share of total deposits fell from 31% in the previous year to 27% in 2003.

The volume of foreign currency deposits fell by 1.6%, to HUF 260.8 billion, accounting for a modest 14.9% of retail deposits as at year-end 2003 (in 2002: 17.4%). Although the decline in the volume of foreign currency deposits slowed significantly in 2003, it did not stop. The reduction was mainly due to the favourable interest rates on retail forint deposits and strengthening of the forint exchange rate.

In 2003, the Bank launched two important new retail deposit products: the foreign currency savings account, available since the second quarter, and 2-month time deposits on current accounts, available since December 2003.

Within the framework of anti-money laundering effort, based on regulations, the bank has sized up those clients on whom it did not have sufficient information meeting the regulation and initiated an effort to collect the data missing.

### RETAIL LOANS

Changes (on June 16 and December 22) to the system of state housing loan subsidies had a major impact on the volume of retail loans in 2003 also, triggering an upsurge in demand for loans in early summer and the final months of the year. Retail loans of total banking system grew dynamically by almost 60% during 2003 similarly to previous years. Within these housing loans increased by around 92% to almost HUF 1,510 billion while consumer loans were 22.5% higher.

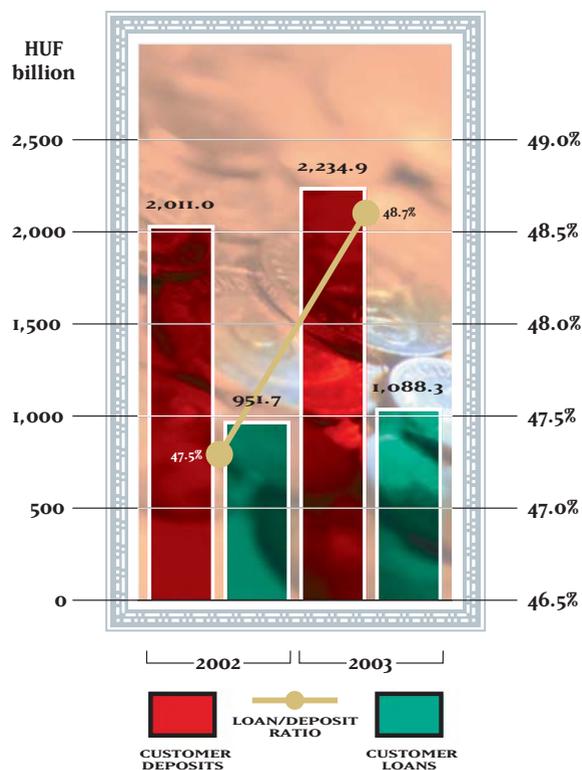
By the end of December 2003, the volume of housing loans provided by the OTP Bank was HUF 318.2 billion, 3.5% lower than at year-end 2002, due to the fact that the majority of the loans extended by the Bank were subsidised loans, later transferred to OTP Mortgage Bank.

By year-end, the volume of housing loans in OTP Bank's balance sheet had decreased by 13.6% to HUF 183.6 billion, giving the Bank a 12.3% market share of the housing loans market. The volume of the 142,000 syndicated housing loans transferred to OTP Mortgage Bank was HUF 635 billion, representing an 88.1% increase over the previous year. The total housing loans of OTP Bank and OTP Mortgage Bank amounted to HUF 788 billion thus the total market share held by OTP Bank Group – including the almost HUF 9 billion loans provided by OTP Building Society as well – was 52.9%.

In 2003 the volume of consumer loans provided by the Bank increased by 14.6% to HUF 134.6 billion. Lagging 8 percentage points behind the rate of bank sector growth, this resulted in a 1.3-percentage-point loss in market share, which stood at 17.5% on December 31, 2003.

Within consumer loans, the volume of “A-, B-, and C-loan” overdraft facilities on retail current accounts grew dynamically, by 29.2%, to HUF 90.6 billion. Owing to vigorous growth in demand for subsidised housing loans, the volume of mortgage-backed loans decreased by 31.2% against the previous year, to HUF 31.3 billion at year-end 2003.

CUSTOMER ASSETS AND LIABILITIES



In order to maintain the competitiveness of the lending activity and to improve the standard of customer service the Bank took noteworthy steps in year 2003. In the frame of the Back Office Rationalisation Project the process of lending services was reorganised. Main objectives of the changes were to reduce the duration of disbursement process and to simplify the product range.

The “A-loan” current account overdraft facility was overhauled in 2003. The improvements included automatic loan approval, an easing of the related administrative

## BUSINESS REVIEW

burden and an increase in the amount of available credit to twice the amount of the monthly wages transferred on a regular basis to the given customer's current account.

Improvements in the process for providing durable goods loans, the result of a product development project commenced earlier, led to a sharp increase in the volume of loans of this type towards the end of the year, while the volume of loans related to credit cards, a new product launched in October, reached approximately HUF 465 million.

### INVESTMENT SERVICES

#### SECURITIES TRADING AND SECURITIES ACCOUNT MANAGEMENT

Changes to the macroeconomic environment had a serious impact on the investments market in 2003. The June, and especially the November increases in the central bank base rate, caused the volume of investment funds, especially bond and money market funds, to plummet. As a result, in 2003 the investment funds posted losses for the first time in their history.

The increases in interest rates prompted investors to seek fixed-rated investments. Consequently a high volume of OTP Optima investment fund units were redeemed, with most of the capital reinvested in government bonds and promotional two-month time deposits.

The market value of the investment portfolio managed by the Bank exceeded HUF 1,118 billion as at year-end 2003, which represents an increase of 9.5% despite the adverse market conditions. Commission revenues on securities grew even more dynamically. Their volume was 37.2% higher in 2003 than in 2002, amounting to a total of HUF 5.6 billion.

In order to increase customer satisfaction the closing balance mailed at the end of each month has been modified and expanded with the data related to the turnover on cash account.

#### PRIVATE BANKING SERVICES

On January 1, 2003, OTP Bank introduced a new range of private banking options, further expanding the range of services and investment advise on offer, thus enabling the bank to offer services of outstanding quality to its most discerning customers. Simultaneously, customer acquisition activity commenced, targeting potential new private banking and preferred private banking customers.

Due to the new customer acquisition strategy adopted last year, and despite a reduction in the number of customers brought about by the increase in fees introduced simultaneously with the new private banking offer, the number of private banking customers increased by 11.7%. At year-end 2003, the number of private banking customers was over 8,000. It should be noted that 42.5% of the increase in the number of customers was attributable to new customer acquisitions, whose assets totalled almost HUF 14 billion.

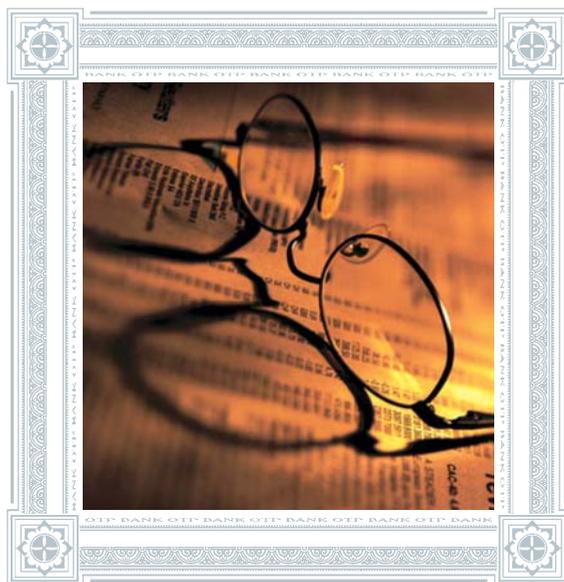
The average assets per private banking customer increased by 25% over 2002. The closing volume of the private banking portfolio on December 31, 2003 was 40% higher over one year.

Based on the number of customers, OTP Bank's private banking services have an estimated market share of approximately 35%, while in terms of the volume of its managed portfolio the Bank presumably leads the market with a share of approximately 30% for 2003.

From November 2003 our Private Banking website is also available for private banking customers to gain information about banking products and services and also about stock markets.

### BANKCARD BUSINESS

At year-end of 2003, the number of bankcards issued by the Bank was 3,522 thousand (in 2002: 3,323,000), a 6% increase over the previous year's figure.



## BUSINESS REVIEW

At year-end 2003, the number of forint-based bankcards issued in the retail sector exceeded 3,423,000, representing a rise of 5.5% over the 3,243,000 cards at year-end 2002. Within this, the number of the traditional debit cards issued to current-account holders was 2,819,000, the number of Multipont cards was 201,000 and the number of cards associated with “B-loan” and “C-loan” overdraft facilities was 173,000 and 136,000 respectively at the end of the year 2003. There were 89,000 of the various other types of retail bankcard used at year-end 2003.

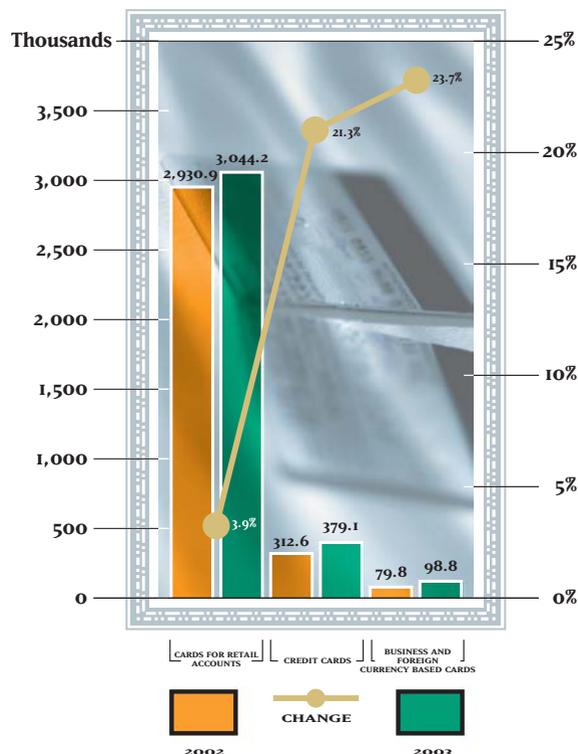
The last quarter of 2003 saw the introduction of a traditional credit card product, aimed specifically at retail customers, and of which 5,885 were distributed between October and December 2003. The other very successful product was the Multipont bank card. In the frame of Multipont program owing to the proper marketing campaign and the expansion of the network the number of new cards issued in 2003 was 80,000, it means 66% growth. The number of Gold debit cards grew considerably as well (by 4,180).

At year-end 2003, the number of business cards was 92,000, representing an increase of 23.5%. The overwhelming majority of these (a total of 71,000) were domestic corporate and business cards. The Bank also issued 3,000 Széchenyi Cards. The number of foreign currency cards issued by the Bank increased by 1,415 to 6,780 in 2003.

By year-end 2003, the number of OTP-operated ATMs increased to 1,305, from 1,168 in the previous year. In 2003, the number of transactions carried out using ATM’s owned by OTP was 72.2 million, and the total volume of those transactions was HUF 1,822 billion. The number of ATM transactions carried out using cards issued by the Bank was 69.6 million, with a total volume of HUF 1,697 billion. Compared to the previous year, the number of transactions increased by 6.8% and 5.8% and turnover was up by 19% and 18% respectively on the acceptor and issuer side.

By December 31, 2003, the number of POS terminals was 20,452, which represents an increase of 2,411 compared to the previous year. The Bank operated 2,773 of these terminals in its own branches, 12,640 at commercial outlets and 5,039 at post offices. The number of POS terminals at commercial outlets grew by 18.7% in 2003. In 2003, the number of transactions made using OTP Bank’s own POS network was 42.6 million, with a volume of HUF 353 billion, which represents a

**BANKCARDS ISSUED**



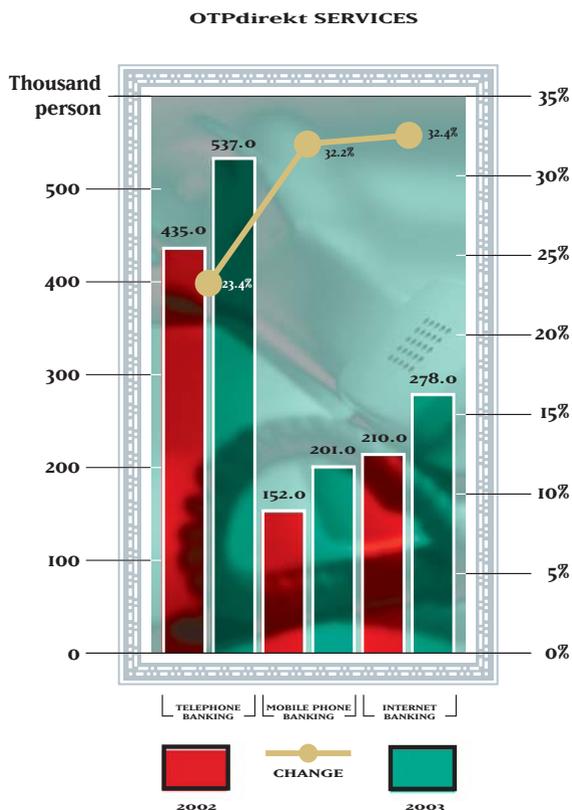
34% in the number of transactions and a 35% increase turnover. On the issuer side, both the number of transactions and turnover increased by 35% compared to 2002. Thus, the 34.7 million transactions carried out by OTP Bank’s customers resulted in a turnover of close to HUF 260 billion.

OTP Bank intends to expand further the range of its bank cards in the future. The objective is to set up – through the monitoring of trends in the world market and through surveying the domestic special demand – a high level card selection which meets all the requirements.

## ELECTRONIC SERVICES

The Bank retained its market-leading position with respect to all electronic banking channels (estimated market shares: 74% in Internet services, 43% in mobile banking and 41% in telephone banking services). The number of customers with a contract pertaining to the use of the Bank’s electronic channels increased sharply in 2003 (by 32% both for Internet and the mobile banking services, and by 24% in the case of telephone banking services).

## BUSINESS REVIEW



Some 537,000 customers made over 1 million phone calls to the telephone held desk. The 278,000 users of internet banking services initiated nearly 6 million transactions via the Internet, while 201,000 customers used mobile phone-based services.

In 2003 the operation of electronic banking channels underwent major changes, with the expansion of OTPdirekt internet banking services – through a full technological upgrade – to include new functions (such as the setting up of standing orders and direct debits, as well as foreign currency transfers), the introduction of the Account Control service and the expansion of OTPdirekt telephone banking with the Call-Back Centre, dealing with calls related to product enquiries and loan repayment matters (durable goods loans, A-loan overdraft, credit cards, housing loans).

### COMMERCIAL BANKING DIVISION

In 2003, the Bank retained its leading position in the corporate banking market. As at December 31, 2003, the Bank's share of the corporate deposits and corporate loans market was 14.3% and 12.0% respectively.

Total corporate deposits stood at HUF 421.4 billion, representing a 23.2% increase over the previous year. The share of foreign currency deposits within total corporate deposits was 4.6%. Some 60% of the corporate deposit total came from incorporated business entities, the number of which increased by 27.8% over the year. The volume of foreign currency deposits held by incorporated business entities decreased by 6.1%.

The volume of deposits held by small enterprises grew by 13.1% to HUF 49.6 billion, while that of deposits held by sole entrepreneurs rose 14.1%, to HUF 23.5 billion at year-end 2003.

Total corporate loans increased by 23.7% to more than HUF 691.2 billion. FCY loans accounted for 43.3% of corporate loans, the volume of which increased 47.3% year on year.

The total of loans to incorporated business entities was HUF 645.1 billion representing an increase of 24.3% over the previous year, within which the volume of FCY loans grew by 45.9%, current account loans by 21.0% and capital investment loans by 5.1%. By year-end 2003 the volume of loans to small enterprises had grown by 27.7% to HUF 9.5 billion, and the volume of FCY loans had increased by a factor of 1.5. The volume of loans to sole entrepreneurs reached HUF 11.2 billion, representing an increase of 21.3%.

As of December 31, 2003, the greatest proportion of the corporate loan portfolio, 18.2%, had been lent to companies from the real estate and business services sector, 15.8% went to companies in the manufacturing sector, 13.5% to the electricity, gas, heat and water supply sector, 13.4% to trading companies and 12.4% to companies providing transport, storage, postal and telecommunications services. The share of the agricultural sector within the corporate portfolio amounted to 4.4%.

In the course of 2003, the most dynamic growth in loan placements was in the transport, storage, postal and telecommunications services sector (HUF 52.9 billion), but there was also a notable increase (HUF 20.0 billion) in loans to trading companies.

In 2003, the Bank shifted its focus to SME customers. Accordingly, a number of new credit products were developed and introduced, including *Midi Hitel*, *Európa Hitel*, *Lánchíd Faktoring*, loans to apartment blocks and housing associations, the financing of arable land pur-

## BUSINESS REVIEW

chases, corporate savings accounts and revamped factoring services. The *Széchenyi Card*, with its credit limit increased from HUF 1 million to HUF 5 million, grew in popularity in the course of 2003. The number of these cards had grown to nearly 3,000 by year-end 2003, with a credit volume of HUF 4.6 billion.

In 2003 the Bank developed preferential account holding packages and loan products for condominiums and housing cooperatives.

At the year-end 2003 almost 8,000 customer terminals were in use among entrepreneurs disposing over large account turnover. In 2003, cash pool services were expanded to include automatic interest settlement, joint collateral appraisal, and the opportunity to conduct the full range of foreign currency transactions through electronic channels.

### MUNICIPALITY BANKING

OTP continued to retain its leading position in the municipality banking sector. In 2003, over 81% of this customer group, a total of 2,587 municipalities, together with the institutions that they financed, held their current accounts at OTP Bank.

At year-end 2003, the total of deposits held by the municipalities and their institutions was HUF 157.2 billion, 8.1% up on the previous year. Despite intensive market acquisition campaigns by competitors, the Bank's market share of municipality deposits grew from 66.2% to 74.9%. The Bank's portfolio of municipality loans, which has been continuously increasing since the end of 2002, grew by 24.6%, reaching HUF 78.9 billion. However, the Bank's share of the municipality loan market fell to around 54.3%.

The year 2003 saw a steady increase in the number of municipality customers using the customer terminals, from 3,638 customers in 2002 to 3,972 customers at year-end 2003. This was accompanied by an increase in the number of customers using the treasury and Cash Management systems.

### CUSTOMS SERVICES

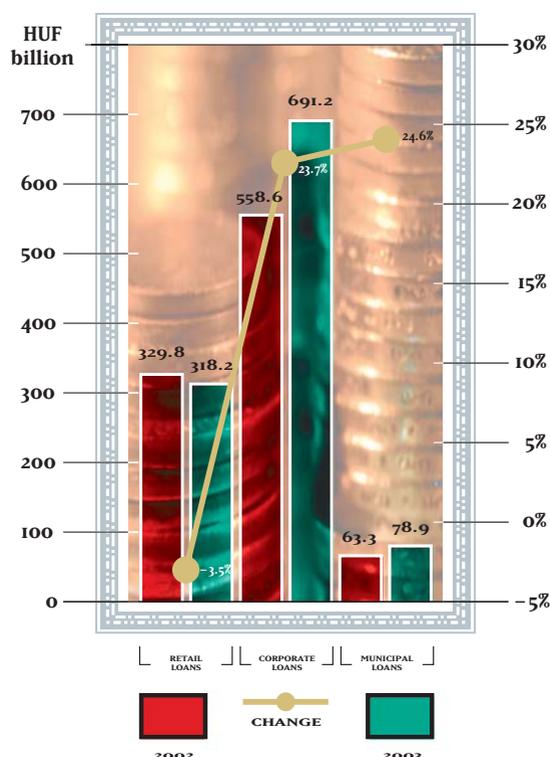
The year 2003 was the most successful year for OTP's customs services since their introduction in 1998. The

Bank realised HUF 379 billion in commission on the handling of customs payments and duties totalling HUF 176.5 billion. Compared to the previous year, total turnover increased by 11.9%, and commission revenue by 21.5%.

Customs Cards grew in popularity, attested to by the fact that their number was close to 2,900 at year-end 2003, and that 54.3% of total payment turnover was transacted using these cards.

Over the past year the Bank provided customs cashier services to nearly 63,000 customers, 23.1% of whom started using these services for the first time in 2003. A great many corporate customers were referred to OTP Bank by one of the customs agencies.

CUSTOMER LOANS



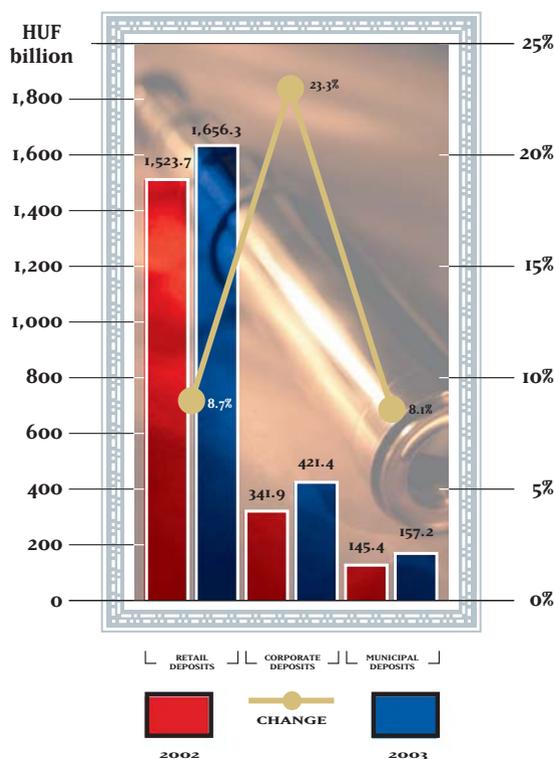
In 2003 this business area commenced preparations to expand its range of services in order to continue serving customers to the exacting standards that they have come to expect, even in the changing regulatory and economic environment resulting from EU accession and customs harmonisation.

## BUSINESS REVIEW

### INTERNATIONAL BANKING

In 2003, OTP Bank transacted a total of HUF 5,870.7 billion in international payments, an increase of more than 93.9% over the previous year. A significant part of the turnover continued to be attributable to international forint payments. In 2003, OTP Bank opened 7 new forint-based loro accounts for its foreign partner banks, thus increasing the number of such accounts to 41.

CUSTOMER DEPOSITS



In 2003, in conjunction with OTP Bank's foreign subsidiaries OTP Banka Slovensko and DSK Bank, this division introduced an express foreign currency transfer service, which allows transfers denominated in EUR, USD and HUF – as well as SKK in Slovakia – to be debited to the beneficiary account on the day of submission of the transfer order, similarly to intra-bank transfers.

Commission revenue on international payment transactions amounted to HUF 928.4 million, representing an increase of approximately 12% over the previous year.

### TREASURY

In 2003, the average balance of the investment portfolio managed by Treasury was HUF 761.3 billion, which represents an increase of 47.5% over the previous year. The average 2003 balance of the trading securities portfolio was HUF 41.3 billion, representing a significant increase of 59.0%.

The interest rate revenue from the investment portfolio were HUF 61 billion, while the corresponding figures for the trading portfolio were HUF 2.9 billion.

However, in terms of sales 2003 was a successful year, with the number of customers over 400. Volume also increased by almost 9%, due to turnover of almost HUF 1,000 billion from FX futures and securities trading transactions concluded for its customers in 2003. Within this the sales turnover of government securities was 21.2% higher in 2003 than in 2002, which means that OTP handled the highest volume of OTC transactions in the Hungarian market for government securities.

The Bank's position in the foreign exchange trading market remained practically unchanged in 2003. It remains the third largest participant in this market after Deutsche Bank and ING.

Based on voting by the investors and distributors OTP has been awarded third place on the contest for the BEST in government papers trading, organized by the Government Debt Management Agency Ltd. (AKK Rt.).

### STRUCTURED FINANCE

The Bank retained its leading position in the Hungarian syndicated lending market. It participated in 15 syndicated loan transactions, heading the consortium in five of these transactions. Major recipients of syndicated loans in 2003 included companies such as AKA Rt., MOL Rt., SPAR, STRABAG and Zagrebacka Banka.

The Bank also launched its advisory services in 2003, advising an Austrian customer concerning the privatisation of energy suppliers in Bulgaria.

The volume of mortgage bonds issued for OTP Mortgage Bank was HUF 531 billion in 2003. Most of these mortgage bonds were subscribed by OTP Bank, in a value of HUF 488 billion. From among OTP Bank's subsidiaries,

## BUSINESS REVIEW

Fund Management Ltd. subscribed mortgage bonds in a value of HUF 27 billion, and Garancia Insurance subscribed bonds in a value of HUF 2 billion in 2003.

In 2003, to meet the long-term funding requirements of the Bank and the Group the structured finance division developed tailored refinancing credit facilities for Merkantil Bank and the application for a subordinated loan from EBRD to finance bank acquisition.

### PROJECT FINANCE

The year 2003 saw a major shift in the focus of project financing, towards power stations. This was attested to by the fact that 21% of outstanding loans, with a volume of over HUF 35 billion, were provided to this sector, representing an increase of 47.3% compared to the previous year.

On December 31, 2003 this division's portfolio totalled HUF 160.5 billion. Major project financing deals included the refinancing of DIPOL – Trigránit Group, financing the buy-out of Lasselsberger Construction Company and the provision of a loan to Pannongreen – Pécs Power Station.

### EQUITY INVESTMENTS

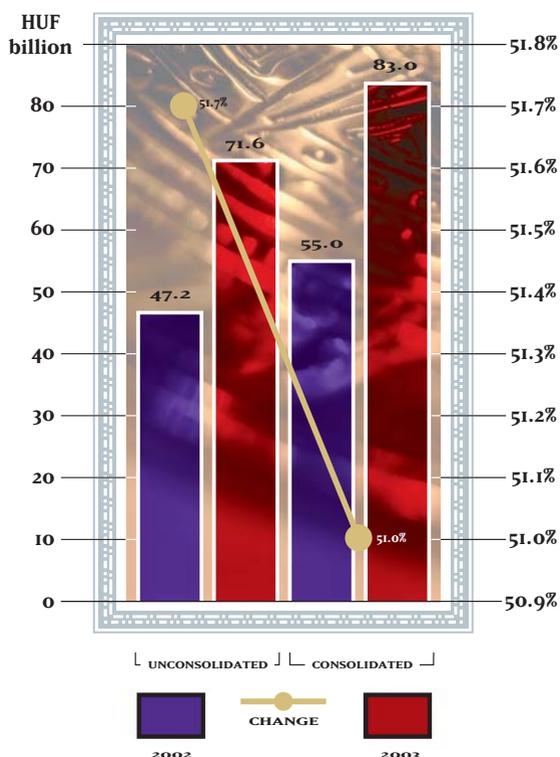
In 2003 the gross book value of the Bank's investments in various companies grew from HUF 49.4 billion to HUF 106.8 billion. As of 31 December 2003, OTP group investments, which constitute the bulk of the Bank's strategic investments, totalled HUF 105.5 billion.

OTP Bank's medium-term strategy places particular emphasis on international expansion, increasing shareholder value, maintaining the Bank's medium-term profitability and improving its regional position. As the second step in implementing its acquisition strategy, OTP Bank purchased the Bulgarian DSK Bank in 2003. After restructuring, the new subsidiary was incorporated into the OTP group. OTP Bank plans to acquire other banks in the region over the coming period.

### THE OTP BANK GROUP

The operations of the subsidiaries in 2003 essentially met the targets and other requirements set by the Bank

PROFIT AFTER TAXATION



and its owners. The aggregate balance sheet totals of the fully consolidated subsidiaries of the OTP Group amounted to HUF 1,550 billion and their combined consolidated pre-tax profits were HUF 25.2 billion in 2003. (From this, the balance sheet total and pre-tax profits of DSK Group, purchased in 2003, were HUF 323.7 billion and HUF 1,573 million<sup>1</sup> respectively at year-end 2003.)

### MERKANTIL BANK LTD.

Competition in the car financing loans market continued to intensify in 2003, and Merkantil Bank's inability to provide CHF-based financing until September 2003 led to the loss of its market-leading position.

The number of cars financed by Merkantil Group accounted for 10% of new car sales in Hungary, including cash sales. Based on the assumption that 50–60% of total car sales in Hungary are financed, the Group held

<sup>1</sup> Q4 profits, since the Bank purchased DSK Group on 1 October 2003.

## BUSINESS REVIEW

an estimated 20% share of the market, thus maintaining its position as a major participant in the car financing market.

In the course of 2002 Merkantil Group concluded 54,630 car financing contracts, representing a year-on-year increase of 11.3%. The volume of loans provided was HUF 74.5 billion, which exceeded the 2002 volume by HUF 7 billion. The average loan per car amounted to HUF 1.3 million, which is approximately the same as in 2002.

### *MERKANTIL CAR LTD.*

Trends in vehicle financing reflected a high demand for foreign currency loans in 2003. Accordingly, the bulk of the increase in the number of new contracts concluded in 2003 were recorded on the books of Merkantil Car. In 2003 Merkantil Car financed the purchase of a total of 30,568 vehicles. More than 97% of these loans were foreign currency-based.

In accordance with the decision of OTP Bank, the production tools leasing business of Merkantil Car finances the Bank's purchases of ATMs within the framework of an open-ended financial leasing agreement. The total value of contracts signed in this respect in 2003 was HUF 2,262.

### *OTP BUILDING SOCIETY LTD.*

OTP Building Society Ltd. closed 2003 with a total assets of HUF 52.6 billion and pre-tax profits of HUF 360 million (in 2002: HUF 1,604 million). Its return on average assets (ROAA) was 0.58% and its return on average equity (ROAE) was 11.1%.

Exceeding its target, OTP Building Society concluded close to 98,000 contracts, in a combined value of HUF 117.4

billion. As the net result of contractual deposit taking and disbursements, the Society's deposit portfolio grew by 9.4% to HUF 46.6 billion, while – due to a lower-than-expected demand for credit resulting from the more attractive terms offered on state-subsidised loans – its loan portfolio increased by only HUF 683 million, to HUF 8.7 billion.

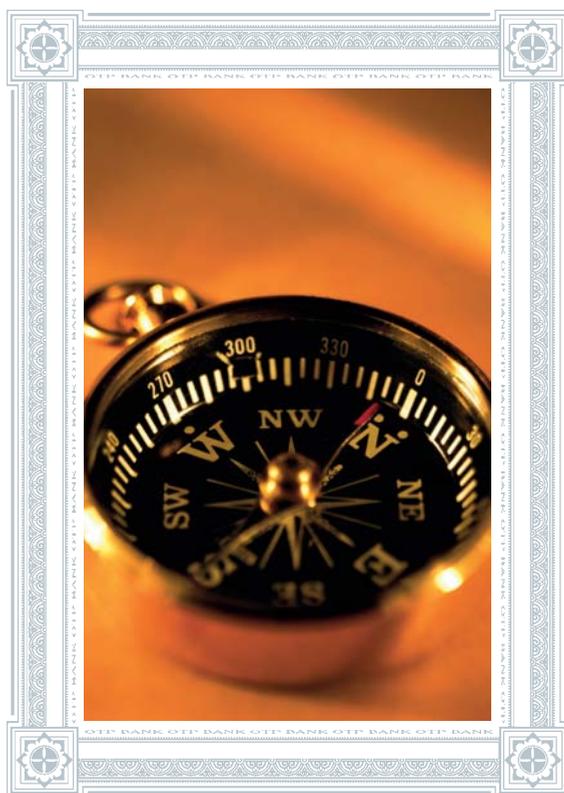
OTP Building Society's share of the building society savings market, which has come to be dominated by two main players, was 45% in terms of the number of contracts, 42% in terms of their volume, and 44% in terms of its deposit portfolio.

### *OTP MORTGAGE BANK LTD.*

The regulatory environment underwent a number of changes in 2003, which had a significant impact on the mortgage lending market. The government decree on subsidised housing loans was amended on two occasions over the year, resulting in a severe tightening of the subsidy system. Changes were made to the maximum APR, the extent of the subsidy, the size of the loans, conditions for eligibility, etc.

Despite the stricter regulations, the volume of subsidised housing loans provided through OTP Bank's network increased dynamically, and by year-end 2003 receivables from customers exceeded HUF 605 billion (in 2002: HUF 187 billion). The Company's liabilities from mortgage bonds issued had increased by a similarly impressive HUF 422 billion, to HUF 599 billion. The Company's market share in terms of loans and mortgage

bonds was 65%, which continues to secure it a leading position among the three mortgage lending institutions (OTP, FHB and HVB). Market share of OTP Mortgage Bank in total housing loans of the banking system was almost 41%.



## BUSINESS REVIEW

### *DSK BANK EAD*

The purchase of Bulgaria's DSK Bank Group in 2003 was an important step towards the successful implementation of OTP Bank's acquisition strategy. DSK Bank and its subsidiaries, came under the ownership of OTP Bank in early October 2003.

A transformation project aimed at restructuring DSK, improving its competitiveness and integrating it into the OTP Bank Group was launched as early as the summer of 2003. The project identified the most important tasks to be implemented following the acquisition.

In line with the objectives of the project, organisational restructuring was carried out in the interest of improving efficiency, an IT development programme was launched, the network of branch offices was streamlined and a number of new products (e.g. the MasterCard credit card, FX-based debit cards, long-term savings products and corporate customer terminals) were introduced in the various business areas. In conjunction with OTP Bank, marketing campaigns aimed at promoting new products and reinforcing the Bank's corporate image are being conducted on an ongoing basis, and on an unprecedented scale. On February 1, 2004, DSK Bank unveiled its new image, which reflects its status as a member of the OTP Bank Group.

### *OTP BANKA SLOVENSKO, A. S.*

OTP Banka Slovensko achieved impressive results in its first full financial year as a member of OTP Group. The Bank's performance shows the positive impact of the new initiatives, projects and programmes initiated by its parent bank, which have enabled it to grow its customer base – mainly in the retail division – as well as its share of the key markets.

The volume of its customer deposits grew from HUF 69.2 billion in 2002 to HUF 112.2 billion at year-end 2003. Within this, the volume of retail deposits rose to

HUF 61.6 billion and corporate deposits to HUF 39.2 billion. The volume of municipality deposits increased sharply, reaching HUF 11.4 billion and accounting for 10.2% of total customer liabilities at year-end 2003.

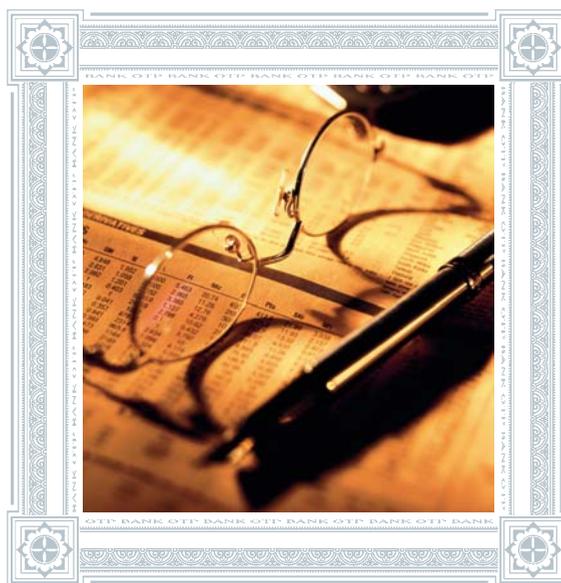
The volume of the Slovakian Bank's customer placements increased by HUF 28.8 billion, or 34.8%, to reach HUF 111.6 billion. On this basis the Bank's market share was 4.4%. Within customer placements, both the retail and the corporate loan portfolio grew dynamically. The retail loan portfolio increased more than fourteen-fold, reaching a volume of HUF 13.4 billion at year-end 2003. The volume of corporate loans increased by 19.8%, reaching HUF 97.4 billion, while municipality loans increased by HUF 214 million to HUF 746 million.

In the course of 2003, the number of customers increased by over 43,000 to 147,000 persons, of which 131,000 were retail customers.

OBS issued over 86,500 bankcards in 2003, more than double the figure for the previous year. The number of ATMs operated by the Bank rose from 78 in 2002 to 90. The number of ATM transactions in 2003 was 1.4 million, with a transaction turnover of SKK 2,910 million, respectively 14.6% and 23.7% up on the previous year. The number of the Bank's POS terminals was 171 at year-end 2003, which is 21 more than the year before.

### *OTP-GARANCIA INSURANCE LTD.*

In 2003, OTP-Garancia Insurance Ltd. achieved premium revenue of HUF 61.1 billion, 13.3% up on the previous year's figure. Since the rate of this increase was matched by the rate of market growth, the Company's share total insurance premiums paid remained unchanged (10.9%), making it the fifth largest participant in the insurance market in 2003. Premium revenue from life and bank insurance rose by 7.4% to HUF 29.0 billion, increasing the Company's share of the life insurance market to 12.9%. The premium income of unit-linked insurance



## BUSINESS REVIEW

products reached HUF 21.8 billion and was 7.4% higher than in 2002. Income from simple life insurances – in accordance with the strategy of the Company – increased by 43.8% compared to the previous year. Revenue from non-life insurance was HUF 32.1 billion, which is the result of an outstandingly high growth rate of 19.2%. The premium of home insurances, travel insurance Casco insurance and of agricultural insurance increased considerably. As a result, the Company increased its share of the non-life insurance market from 9.2% to 9.6% in 2003, making it the third largest player both in the life and non-life markets.

In 2003, gross claims totalled HUF 27.1 billion. Together with the change in reserves, claim payments amounted to 56.6% of premium revenues in the non-life business, and 84.9% in the life business. Reserves increased by HUF 15.6 billion, or 23%, compared to the previous year, to reach HUF 84.2 billion as at December 31, 2003.

In 2003, in the context of the cooperation between the Insurance Company and OTP Bank, the revenue from the premiums of bank insurance products exceeded HUF 21 billion within this almost HUF 20 billion was the life insurance premium. Thus nearly 35% of the premium income of the Insurance Company accrued from the sale in the OTP Bank's network. The Bank sold more than 471 thousand insurance product, from this 382 thousand was bank card related accident insurance. Home insurance products sold by the Bank exceeded 41 thousand due to the increasingly intensive home-financing activities. The number of the popular Generáció X insurance products sold in 2003 almost reached 27 thousand. At the same time, the Insurance Company concluded more than 10,000 private pension-fund and 5,000 voluntary pension-fund agreement.

### *OTP FUND MANAGEMENT LTD.*

2003 was the worst year to date in the history of the investment funds, and the first in which the market had

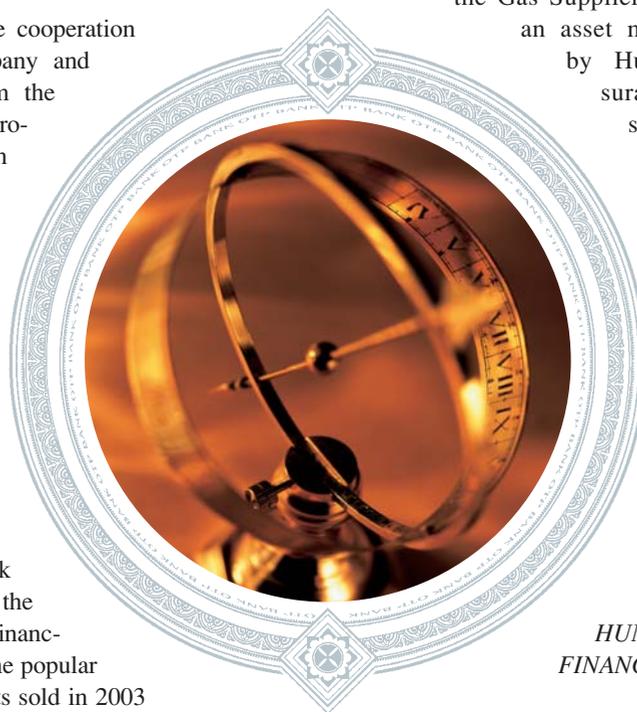
to sustain a portfolio loss. OTP Fund Management also suffered as a result of the unfavourable developments. Owing to withdrawals of capital in November and December, the total volume of managed assets was HUF 644 billion at year-end 2003, representing an increase of only 1.6% in the course of 2003.

The volume of assets managed in the investment funds decreased by 16.5%, or HUF 78.2 billion, while the market shrank by 4.1%. As a result, OTP Fund Management lost 4.3 percentage points of its market share in 2003. Thus, its market share at year-end 2003 was 47.6%.

In 2003 OTP Fund Management received a number of new commissions on the institutional asset management market, including contracts to provide services to OTP Health Fund, the Hungarian Business Development Fund, OTP Building Society Ltd. and the Gas Suppliers' Pension Fund. It also won an asset management tender organised by Hungarian Export Credit Insurance Ltd. (MEHIB), with work scheduled to begin in 2004. As a result, the number of institutional investors grew from 7 in 2002 to 12 at year-end 2003. This has resulted in a shift in OTP Fund Management's revenue structure, towards institutional asset management, though investment fund management remains a major contributor to revenues.

### *HUNGARIAN INTERNATIONAL FINANCE LTD.*

In 2003 HIF's geographic reach included 13 countries, with CEE markets continuing to constitute the core area of its business operations. Close to 80% of all asset and liability assumption deals and guarantees originated from this region. In addition to the above markets, the Middle East continued to be a priority, and the number of the deals concluded in South America (Brazil and a few other countries with stabilising economies) also increased.



## BUSINESS REVIEW

OTP Bank's expansion in Slovakia and Bulgaria provided an excellent opportunity for the Company to include these countries in its geographical scope of operation. The Company plans to continue making the best possible use of the synergy opportunities arising from the local presence of the Bank group.

### *OTP REAL ESTATE LTD.*

The Company's net sales revenue was HUF 15,732 million. The largest share of the net sales revenue originated from real estate investments and sales (55.7%) and real estate appraisal activities (16.6%).

In 2003, OTP Real Estate underwent restructuring in order to comply with business policy targets, and established an Evaluation Directorate, which contributed to the Company's excellent performance. The Company further developed its ISO quality assurance system and initiated the introduction of an environment-centred management system. The Company received a further two professional awards in 2003, one for its Contribution to the Economy of Budapest, and the title of "Real Estate Investor of the Year, granted by the Hungarian Real Estate Association. The company's CEO János Szabó was awarded the title of "Real Estate Executive of the Year".

### *OTP FACTORING ASSET MANAGEMENT LTD.*

During 2002, significant changes were made to the processes involved in the purchasing by OTP Factoring of receivables from OTP Bank, and their subsequent recovery. Therefore matured and recalled loans with less than HUF 10 million amount are automatically transferred to the Factoring Ltd. from the branches of OTP Bank.

In 2003, the Company bought 43.5 thousand qualified receivables from the Bank, in a gross value of HUF 14.5 billion.

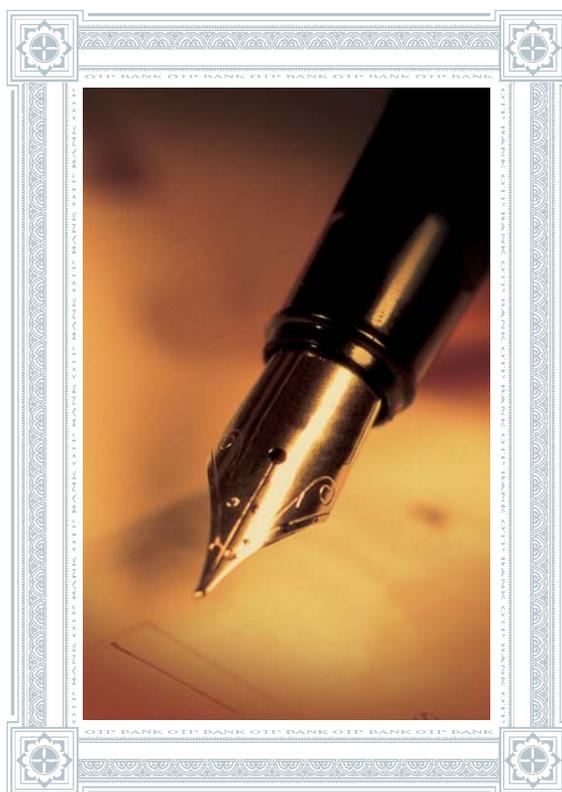
The gross value of the 15,000 receivables purchased from third parties, and that of 3,600 not-yet-overdue receivables from municipalities exceeded HUF 1.5 billion and HUF 1 billion respectively.

Due to the rapid purchase of cancelled loans and early commencement of their recovery, the Company's net income exceeded its target figures for 2003 by 43%.

### *OTP FUND SERVICES LTD.*

In 2003 OTP Fund Services retained its dominant market position in terms of the number of individual accounts and the value of the assets in the funds it managed. The total fund assets managed by the Company had grown by 36.3% to HUF 193.9 billion by year-end 2003, with the number of its members increasing 7.2% to 836,000. In 2003, OTP Fund Services focused on the further expansion of pension funds in order to improve efficiency.

In 2003 the assets of the OTP Voluntary Private Pension Fund grew 26.9%, from HUF 38.8 billion to HUF 49 billion, with the number of its members reaching 174,000, which represents a 7.4% increase compared to the previous year. At the end of 2003, the Company's market share in terms of membership reached 14.2%, while its market share in terms of assets was 11.2%. In 2003, the assets under the management of OTP Private Pension Fund increased extremely dynamically by 41.0%, reaching HUF 142.2 billion, while its membership grew from 606,000 to 646,000. At year-end 2003, the Company's market share was 28% in terms of membership, and 24.9% in terms of



## BUSINESS REVIEW

its managed assets. The assets of the Health Care Fund was HUF 732 million, while its membership increased by 48.8% to more than 11,500.

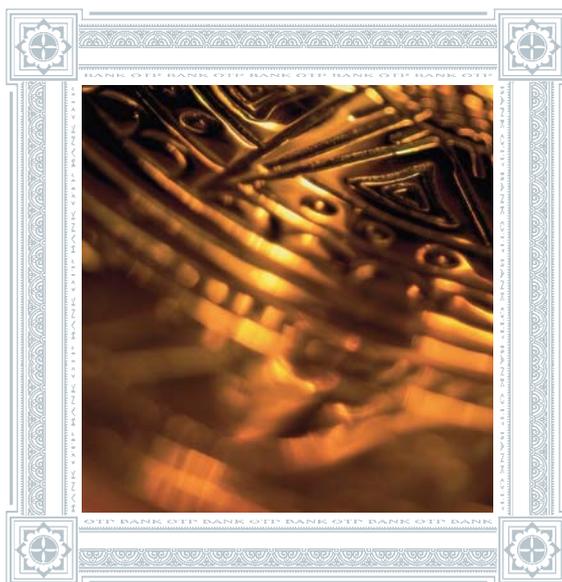
### *OTP TRAVEL LTD.*

Events such as the war in Iraq and the SARS epidemic continued to have an adverse effect on the tourism industry in 2003, resulting in a downturn in almost every branch of the industry.

Despite the unfavourable environment, OTP Travel experienced a significant increase in the number of its customers, to almost 50,000 over the course of the year.

Air ticket sales were the worst affected by the Iraq war and the SARS epidemic. Nevertheless, the Company's turnover increased 7% to HUF 3.8 billion in 2003, despite stagnation in the industry at national level. In 2003, the Company's market share of this business was 6.9%, representing an increase of 0.2 percentage points relative to 2002.

OTP Travel steadily expanded its range of foreign destinations, thus strengthening its market position in 2003, and achieving revenues of HUF 2.3 billion from foreign travel. Based on data from the Licensing and Public Administration Office of the Ministry of the Economy, in 2003 OTP Travel was ranked fourth among travel agencies in Hungary that offer destinations abroad.





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 2003. Shareholders' equity increased from HUF 205.8 billion on December 31, 2002 to HUF 261.8 billion at the end of 2003, an increase of 27.2%, which represents a substantially higher rate of growth than that of the balance sheet total. As a consequence, the ratio of shareholders' equity to total assets rose from 8.61% at the end of 2002 to 9.49% by year-end 2003.

#### SHAREHOLDERS' EQUITY

	Dec. 31, 2002		Dec. 31, 2003		Change	
	HUF mn	proportion	HUF mn	proportion	HUF mn	%
Subscribed capital	28,000	13.6%	28,000	10.7%	0	0.0%
Capital reserve	52	0.0%	52	0.0%	0	0.0%
Profit reserve	84,261	40.9%	130,465	49.8%	46,204	54.8%
Tied-down reserve	16,883	8.2%	14,328	5.5%	- 2,555	- 15.1%
General reserve	34,169	16.6%	41,325	15.8%	7,156	20.9%
Balance sheet profit	42,478	20.7%	47,606	18.2%	5,128	12.1%
<b>SHAREHOLDERS' EQUITY</b>	<b>205,843</b>	<b>100.0%</b>	<b>261,776</b>	<b>100.0%</b>	<b>55,933</b>	<b>27.2%</b>

Of the various components of shareholders' equity, the amount of subscribed capital remained unchanged in 2003. 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 55.9 billion growth in shareholders' equity, HUF 47.6 billion originates from the Bank's balance sheet profit, and HUF 7.2 billion from the increase in the general reserve. Since 1994 the Bank has consistently remained in full compliance with its statutory reserve obligations, and it set aside the full amount of reserves stipulated under Hungarian accounting regulations also in 2003. Equity per share (each with a nominal value of HUF 100) was HUF 934.9 as of December 31, 2003.

Due to the acquisition made in 2003, the bank's capital adequacy ratio fell from 13.43% by 2002 to 10.54% on December 31, 2003, but still remained well above the 8% minimum stipulated in the Act on Credit Institutions.

The main reason for the fall in the capital adequacy ratio was a drop in the Bank's guarantee capital, but the significant increase in lending activity was also an important factor. This is reflected by the 20.1% expansion in risk-weighted total assets, which occurred under circumstances of a 5.7% reduction in guarantee capital.

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

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

### CALCULATION OF THE CAPITAL ADEQUACY RATIO\*

	Dec. 31, 2002 HUF mn	Dec. 31, 2003 HUF mn	Change	
			HUF mn	%
I. Primary capital elements	200,648	261,435	60,787	30.3%
A) subscribed capital	28,000	28,000	0	0.0%
B) capital reserve	52	52	0	0.0%
C) general reserve	34,169	41,325	7,156	20.9%
D) general risk reserve	11,688	13,987	2,299	19.7%
E) profit reserve	84,261	130,465	46,204	54.8%
F) balance sheet profit	42,478	47,606	5,128	12.1%
II. Deductible components of primary capital	13,793	43,961	30,168	218.7%
A) capital subscribed not yet paid	–	–	–	–
B) intangible assets	13,793	43,961	30,168	218.7%
III. Primary capital (I-II.)	186,855	217,474	30,619	16.4%
IV. Secondary capital	9,204	15,413	6,209	67.5%
V. Guarantee capital before deductions (III+IV.)	196,059	232,887	36,828	18.8%
VI. Book value of financial institutions, insurance companies and investment services companies and subordinated loans issued to them	31,250	84,884	53,634	171.6%
VII. Guarantee capital according to the rules of prudence (V-VI.)	164,809	148,003	– 16,806	– 10.2%
VIII. Capital requirement of limit breaches and sovereign risk	8,730	4,186	– 4,544	– 52.1%
IX. Capital for the trading book and foreign currency exchange rate	3,523	–	–	–
X. Guarantee capital for calculating the capital adequacy ratio	152,556	143,817	– 8,739	– 5.7%
XI. Risk-weighted total asset	1,136,200	1,364,573	228,373	20.1%
<b>XII. Capital adequacy ratio</b>	<b>13.43%</b>	<b>10.54%</b>		

\*In a format comparable based on 2003 regulations

Among the factors taken into consideration when calculating the numerator of the capital adequacy ratio, the total of positive components of the primary capital increased by 30.3% in course of 2003, while the total of its negative components increased to more than three times that of the previous year. As a result, the Bank's primary capital increased by 16.4% by HUF 30.6 billion in 2003. The amount of the secondary capital that could be taken into account when calculating guarantee capital increased by 67.5%, due to the fact that the maturity of the subordinated loan provided by the EBRD was extended – through a contract amendment – until 2008, and therefore, pursuant to the regulations, 100% of such capital is now recognized as secondary capital. (When calculating the guarantee capital in 2002, it had only been possible to classify 40% of the value of the subordinated loan, which was originally to mature in 2006 and had a repayment option in 2004, as secondary capital.) As of year-end 2003, the guarantee capital before deductions was HUF 232.9 billion, which represents an increase of 18.8% over the previous year. Of the various elements to be deducted, investments in financial institutions, insurance companies and investment companies grew – as a result of the Bank's acquisition activities – by HUF 53.6 billion, or 171.6%, while the value of limit breaches requiring capital to be set aside pursuant to the Act on Credit Institutions decreased by HUF 4.5 billion, or 52.1%, over the course of the year. As a result, the amount of adjusted guarantee capital that could be taken into account when calculating the capital adequacy ratio was HUF 143.8 billion as at year-end (representing a fall of 5.7%).

From the increase of the risk-weighted assets, 85.8% is attributable to the change in the balance sheet items, and 14.2% to the change of the off-balance sheet items.

By year-end, the risk-weighted total assets had increased by 20.3%, by HUF 196.0 billion to HUF 1,160.5 billion – alongside a 15.4% increase in the total assets over the same period – due to the fact that owing to an increase in the share of customer placements, there had been a slight shift towards placements with a higher risk weighting. The risk-weighted value of off-balance-sheet items and the contingent and future liabilities taken into account when calculating the risk-weighted total assets increased by HUF 32.4 billion, or 18.9%, compared to the previous year. This change is attributable to the increase in contingent liabilities (primarily the unused amounts of credit lines, as well as bank guarantees).

## MANAGEMENT'S ANALYSIS

### INCOME STRUCTURE, PROFITABILITY

The Bank's profit before tax increased by 51.6%, from HUF 58.1 billion in the previous year to HUF 86.7 billion. Total revenue reached HUF 203.8 billion in 2003, which represents a 22.6% increase over 2002. This was accompanied by a 15.1% rise in net interest income and a 34.7% increase in non-interest income. The 15.4% rise in non-interest expenses was significantly lower than the increase in total revenue, and this led to a 32.3% growth in operating income. As a combined result of a HUF 22.8 billion increase in operating profit, a HUF 0.3 billion reduction in the total of provision making, allowance and credit loss, a HUF 7.4 billion increase in received dividend, and HUF 1.3 billion in losses resulting from goodwill amortization, pre-tax profit rose by HUF 28.6 billion, or 49.3%, compared to the previous year.

The table below contains a detailed breakdown of total income:

#### INCOME\*

	2002		2003		Change	
	HUF mn	proportion	HUF mn	proportion	HUF mn	%
<b>Net interest income</b>	<b>102,715</b>	<b>61.8%</b>	<b>118,182</b>	<b>58.0%</b>	<b>15,467</b>	<b>15.1%</b>
Total interest income	188,780		205,634		16,854	8.9%
Total interest expense	86,065		87,452		1,387	1.6%
<b>Non-interest income</b>	<b>63,543</b>	<b>38.2%</b>	<b>85,580</b>	<b>42.0%</b>	<b>22,037</b>	<b>34.7%</b>
Net fees and commissions	56,846	34.2%	85,137	41.8%	28,291	49.8%
Net income from securities trading	- 617	- 0.4%	- 938	- 0.5%	- 321	-
Net income from foreign currency trading	3,552	2.1%	- 1,402	- 0.7%	- 4,954	- 139.5%
Net income from real estate transactions	22	0.0%	- 129	- 0.1%	- 151	-
Other non-interest income	3,740	2.2%	2,912	1.4%	- 828	- 22.1%
<b>Total income</b>	<b>166,258</b>	<b>100.0%</b>	<b>203,762</b>	<b>100.0%</b>	<b>37,504</b>	<b>22.6%</b>
<b>Non-interest expense</b>	<b>95,557</b>	<b>57.5%</b>	<b>110,234</b>	<b>54.1%</b>	<b>14,677</b>	<b>15.4%</b>
<b>Operating income</b>	<b>70,701</b>	<b>42.5%</b>	<b>93,528</b>	<b>45.9%</b>	<b>22,827</b>	<b>32.3%</b>
Dividend received	332	0.2%	7,691	3.8%	7,359	2216.6%
Diminution in value, provisions and loan losses	13,523	8.1%	13,261	6.5%	- 262	- 1.9%
Accounting for acquisition goodwill	572	0.3%	- 1,257	- 0.6%	- 1,829	- 319.8%
<b>Profit before taxation</b>	<b>58,082</b>	<b>34.9%</b>	<b>86,701</b>	<b>42.6%</b>	<b>28,619</b>	<b>49.3%</b>
Taxes	10,885	6.5%	15,139	7.4%	4,254	39.1%
<b>Profit after taxation</b>	<b>47,197</b>	<b>28.4%</b>	<b>71,562</b>	<b>35.1%</b>	<b>24,365</b>	<b>51.6%</b>

\*In a break down slightly different from HAR.

In 2003, the Bank's profit after tax – under conditions of a lower, 17.5%, effective tax liability than in the previous year – grew by 51.6%, from HUF 47.2 billion to HUF 71.6 billion.

Within the increase in total revenue, the various elements of income developed differently. The ratio of net interest income to total income fell from 61.8% to 58.0%, while the proportion of non-interest income – due to a dynamic increase in this type of revenue – increased from 38.2% to 42.0%.

The Bank's net interest income was HUF 118.2 billion in 2003. The HUF 15.5 billion growth in net interest income was the result of HUF 205.6 billion in interest income (increase of 8.9%) and HUF 87.5 billion in interest expense (increase of 1.6%).

## MANAGEMENT'S ANALYSIS

### THE SOURCES AND STRUCTURE OF INTEREST INCOME AND EXPENSE

	2002		2003		Change	
	HUF mn	proportion	HUF mn	proportion	HUF mn	%
Interest income from						
interbank accounts	35,128	18.6%	29,347	14.3%	- 5,781	- 16.5%
retail accounts	51,898	27.5%	48,961	23.8%	- 2,937	- 5.7%
corporate accounts	47,865	25.4%	45,248	22.0%	- 2,617	- 5.5%
municipal accounts	6,152	3.3%	10,210	5.0%	4,058	66.0%
securities	42,879	22.7%	63,919	31.0%	21,040	49.1%
statutory reserves	4,858	2.6%	7,949	3.9%	3,091	63.6%
<b>Total interest income</b>	<b>188,780</b>	<b>100.0%</b>	<b>205,634</b>	<b>100.0%</b>	<b>16,854</b>	<b>8.9%</b>
Interest expenses on						
interbank accounts	4,087	4.7%	11,253	12.8%	7,166	175.3%
retail accounts	65,656	76.3%	54,799	62.7%	- 10,857	- 16.5%
corporate accounts	9,168	10.7%	14,522	16.6%	5,354	58.4%
municipal accounts	5,476	6.4%	5,716	6.5%	240	4.4%
securities	714	0.8%	414	0.5%	- 300	- 42.0%
subordinated loan	964	1.1%	748	0.9%	- 216	- 22.4%
<b>Total interest expense</b>	<b>86,065</b>	<b>100.0%</b>	<b>87,452</b>	<b>100.0%</b>	<b>1,387</b>	<b>1.6%</b>
<b>Net interest income</b>	<b>102,715</b>		<b>118,182</b>		<b>15,467</b>	<b>15.1%</b>

Interest income from interbank accounts fell by 16.5% – despite a HUF 2.1 billion increase in the income from swap deals – owing to a 27.9% fall in the average value of interbank placements and a 130-basis-point rise in the interbank interest rate. (Not including the income from swap transactions, the reduction in interest income from interbank accounts was 29.8%, and the interest rate reduction was 17 basis points.) As a consequence, the ratio of these interest income to total interest income fell to 14.3%. With no change to the average volume of retail deposits, and due to the significant (93 basis-point annual average) fall in the interest margin, the net interest income realised on retail accounts fell by 5.7% to 23.8% of total interest income. Accompanied by an increase of 12.2% in corporate lending – and owing to an interest margin reduction of 136 basis points – the net interest income realised on these placements fell by 5.5%, giving it a share of 22.0% within the total of interest income. Due to an increase of more than 89.2% in the average portfolio of municipal loans in 2003, and a 118-basis-point fall in the interest margin, the net interest income realised on these accounts grew by 66.0%, or HUF 4.1 billion. Compared to 2002, the interest earned from securities increased by 49.1%, or over HUF 21 billion, reflecting a steep rise (64.5%) in the average size of the portfolio. Interest on securities represented 31.1% of total interest income. In 2003, the average total yield on interest-bearing forint and foreign currency assets was 9.09%, or 60 basis points lower than in 2002.

**Interest expenses** decreased in all the account groups, with the exception of interbank and corporate accounts. Interest paid on corporate accounts increased by 58.4%, due to a significant, more than 34.8%, increase in the average total balance of these accounts and a rise in yields of 55 basis points. Interest paid on interbank accounts was HUF 7.2 billion, or 175.3%, higher than in the previous year, which was partly due to the increase in losses (HUF 6.0 billion) recorded here owing to a rise in the volume of swap deals. Excluding the losses from swap transactions, the total of interest paid on interbank accounts increased by 58.1%, while the average rate of interest paid on interbank liabilities decreased by 2.01 percentage points. The greatest decrease was in the interest paid on securities deposits and retail accounts (42.0% and 16.5% respectively). Interest paid on municipality deposits increased by 4.4%, while the average total balance of these accounts increased by 11.8%. The share of interest paid on retail accounts within the total of interest expense was 62.7%, which is in line with the Bank's funding structure. In 2003, the cost of funds calculated on average total interest-bearing forint and foreign currency liabilities amounted to 3.99%, or 55 basis points less than in 2002. The **interest spread** calculated on average total interest-bearing assets and liabilities was 5.10%, which is 5 basis points lower than in 2002, while the **interest margin** computed on the average balance sheet total was 4.63%, representing a fall of 7 basis points.

## MANAGEMENT'S ANALYSIS

### AVERAGE INTEREST RATES ON ASSETS AND LIABILITIES

	2002		2003	
	Average balance HUF mn	Rates	Average balance HUF mn	Rates
<i>Assets</i>				
Interbank placements	428,755	8.19%	309,305	9.49%
Retail placements	311,817	16.64%	311,520	15.72%
Corporate placements	554,470	8.63%	622,309	7.27%
Municipal placements	63,921	9.62%	120,923	8.44%
Securities	483,683	8.87%	795,796	8.03%
Statutory reserves	106,320	4.57%	102,411	7.76%
<i>Total interest-bearing assets</i>	<i>1,948,966</i>	<i>9.69%</i>	<i>2,262,264</i>	<i>9.09%</i>
Non-interest-bearing assets	238,094	–	287,703	–
<b>Total assets</b>	<b>2,187,060</b>	<b>8.63%</b>	<b>2,549,967</b>	<b>8.06%</b>
<i>Liabilities</i>				
Interbank liabilities	35,614	11.48%	86,194	13.06%
Retail liabilities	1,429,162	4.59%	1,564,455	3.50%
Corporate liabilities	293,715	3.12%	395,819	3.67%
Municipal liabilities	110,772	4.94%	123,807	4.62%
Securities	11,240	6.35%	7,682	5.39%
Subordinated loans	16,608	5.80%	15,767	4.74%
<i>Total interest-bearing liabilities</i>	<i>1,897,111</i>	<i>4.54%</i>	<i>2,193,724</i>	<i>3.99%</i>
Non-interest-bearing liabilities	289,949	–	356,243	–
<b>Total liabilities</b>	<b>2,187,060</b>	<b>3.94%</b>	<b>2,549,967</b>	<b>3.43%</b>
<b>Interest spread</b>		<b>5.15%</b>		<b>5.10%</b>
<b>Net interest margin</b>		<b>4.70%</b>		<b>4.63%</b>

The table below shows in detail the extent to which the change in the net interest income is attributable to changes in interest rates or 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
<b>Interest-bearing assets</b>			
Interbank placements	– 5,781	4,993	– 10,774
Retail placements	– 2,937	– 2,888	– 49
Corporate placements	– 2,617	– 8,070	5,453
Municipal placements	4,058	– 836	4,894
Securities	21,040	– 4,360	25,400
Statutory reserves	3,091	3,276	– 185
<b>Total interest-bearing assets</b>	<b>16,854</b>	<b>– 7,885</b>	<b>24,739</b>

## MANAGEMENT'S ANALYSIS

<i>(continued from page 31)</i>	<b>Total net change HUF mn</b>	<b>Effect of interest rate change HUF mn</b>	<b>Effect of volume change HUF mn</b>
<b>Interest-bearing liabilities</b>			
Interbank liabilities	7,166	633	6,533
Retail liabilities	– 10,857	– 16,652	5,795
Corporate liabilities	5,354	1,795	3,559
Municipal liabilities	240	– 377	617
Securities	– 300	– 97	– 203
Subordinated loans	– 216	– 169	– 47
<b>Total interest-bearing liabilities</b>	<b>1,387</b>	<b>– 14,867</b>	<b>16,254</b>
<b>Change in net interest income</b>	<b>15,467</b>	<b>6,982</b>	<b>8,485</b>

\*The effect of the change in the structure (HUF 5,748 million decrease of net interest income) is proportionately divided between the two components

The change in the interest rate boosted net interest income by HUF 7.0 billion. Although the interest rate changes led to a reduction both in interest income and interest expense, the fall in expense due to the change in interest levels was greater than the decrease in income. The change in volume substantially increased both income and expense, and overall it increased net interest income by HUF 8.5 billion. The growth in net interest income amounted to 61 basis points in terms of its share of the average total assets, of which some 31 basis points was attributable to the interest rate change, and 53 basis points to the volume increase. The change to the asset-liability structure accounted for a 23-basis-point reduction.

In 2003, the Bank's **non-interest income** showed an exceptionally dynamic increase of 34.7%, or HUF 22.0 billion, while its proportion within total income also increased significantly, by 3.8 percentage points. Growth in net commission revenues was the main contributing factor in the favourable development of non-interest income.

From the non-interest income, **net commission and fee income** increased by HUF 28.3 billion to HUF 85.1 billion. Owing to an almost 50% increase, the proportion of net fee and commission income within total revenue was 41.8%, in contrast to 34.2% in 2002. Compared to the previous year, commissions and fees received rose by 48.6%, while the increase in commissions and fees paid was 39.3%. Owing to the dynamic growth in lending activities, received commission on loans showed a particularly high increase (159.5%). The high rate of growth in corporate lending also led to a rise in commission revenues on forint and foreign currency loans, while in the retail division, the growth in 'Forrás' Loans – provided from the Bank's own funds or through a consortium, as well as in agency fees related to the handover of loans sold on behalf of OTP Mortgage Bank, fees related to repurchase obligations, – and other commission fees received from the Mortgage Bank, was also considerable. Of the Bank's commission revenues, mortgage lending-related revenues accounted for HUF 28.8 billion, of which HUF 25.1 billion was received from the Mortgage Bank (in 2002: HUF 5.5 billion). Within commission revenues, card fees increased significantly, by 17.7%, to exceed HUF 21.5 billion. The more than HUF 3 billion growth in bankcard-related fees primarily originated from ATM cash withdrawal transaction fees and – due to an increase in the number of purchases made using bankcards – from merchants' commission revenues. Commission revenues on retail current accounts increased by 7.8% in the course of the year. Commission revenues on deposits increased by 165.2% to HUF 5.4 billion, while commissions on current account transactions fell by 14.1%. Commission revenue from securities trading in 2003 was 27.4% up on the previous year's figure, which can be partially attributed to commissions on mortgage bond issues for OTP Mortgage Bank, as well as fees related to the OTP Funds.

The **net result from securities trading** was a loss of HUF 0.9 billion, compared with a loss of HUF 0.6 billion in 2002. In 2003, the Bank realised a loss of HUF 2.1 billion on Hungarian Government Bonds, of which HUF 1.6 billion originated from trading and HUF 0.5 billion was the realised and/or accrued premium on bonds purchased at above their nominal value. The gain on mortgage bonds was HUF 0.2 billion, besides which the Bank realised gains of HUF 0.3 billion on Discounted Treasury Bills and HUF 0.2 billion on other domestic bonds and investment fund units. The loss on Hungarian Government Bonds increased by HUF 1.0 billion compared to the previous year, while the gain realised on foreign government bonds deteriorated by HUF 0.4 billion. The gain on Discounted Treasury Bills rose by HUF 0.2 billion, while the gain on other domestic bonds and investment units increased by HUF 0.1 billion. The overall loss of HUF 0.9 billion on securities trading

## MANAGEMENT'S ANALYSIS

originates from the HUF 0.3 billion gain on shares and equity stakes held by the Bank, the HUF 1.0 billion loss on trading activities, as well as the HUF –0.2 billion realised premium and the HUF –0.1 billion accrued premium on the portfolio purchased at above nominal value.

The net loss on **FX trading** was HUF 1.4 billion in 2003, which is HUF 5.0 billion greater than in the previous year. The losses resulting from the revaluation of assets and liabilities were around HUF 3.8 billion greater than in 2002. The Bank had to account for substantial revaluation losses due to its EUR position resulting from the DSK acquisition, and in respect of non-hedged proprietary option deals. The HUF 1.0 billion margin on FX trading was HUF 3.8 billion less than in 2002. The net gain from foreign currency trading was increased by a currency marge of HUF 1.0 billion and a HUF 0.1 billion marge on cheques, while the Bank incurred a loss of HUF 0.2 billion on non-hedged forward transactions (foreign currency/forint), which is HUF 1.3 billion less than in the previous year. The gain on option deals was HUF 0.4 billion, while non-hedged forward transactions (cross deals and forward rate agreements) resulted a profit of HUF 0.5 billion. The aggregate gain on FX trading and swap deals was HUF 2.3 billion in 2003, which means that the swap deals had a favourable impact on the Bank's profitability. (The gain on swap deals was HUF 3.7 billion. However, this represented a HUF 2.2 billion reduction compared to the previous year.)

Real-estate trading generated a loss of HUF 129 million, compared to a profit of HUF 22 million in 2002. Other non-interest revenues decreased by HUF 828 million, to HUF 2.9 billion.

In 2003, non-interest income covered 77.6% of non-interest expenses, compared to 66.5% in 2002.

The Bank's **total income** amounted to HUF 203.8 billion in 2003, which represents an increase of HUF 37.5 billion or 22.6%, over the previous year. The change in net interest income contributed HUF 15.5 billion, and the change in non-interest income contributed HUF 22.0 billion, to the increase in total income.

The structure of **total income usage** improved further in 2003. Non-interest expenses grew at a rate of 15.4%, which was higher than the average annual inflation rate, but significantly lower than the rate of increase in total income. The ratio of non-interest expenses to total income (expense/income ratio) decreased by 3.4 percentage points, to 54.1%. The combined amount of provisions, allowance and credit loss fell by HUF 0.3 billion compared to the previous year, and their share of total income declined from 8.1% to 6.5%.

Due to the net effect of a rate of growth in non-interest expense which was lower than the rate of growth in total income, a reduction in the ratio of non-interest expense to total income, a decrease in the total of provisions, allowance and credit loss, and a HUF 1.8 billion deterioration in goodwill amortization, the ratio of profit before tax to total income increased by 7.7 percentage points, to 42.6% of total income in 2003.

The following table gives a detailed breakdown of the development and structure of the various types of income in terms of the average balance sheet total.

### INCOME ELEMENTS AS A PERCENTAGE OF AVERAGE TOTAL ASSETS\*

	2002		2003	
	HUF mn	%	HUF mn	%
Net interest income	102,715	4.70%	118,182	4.63%
Net fee and commission income	56,846	2.60%	85,137	3.33%
Total income	166,258	7.60%	203,762	7.99%
Non-interest expense	95,557	4.37%	110,234	4.32%
Provision, allowance and credit loss	13,523	0.62%	13,261	0.52%
Profit before taxation	58,082	2.66%	86,701	3.40%

\* Average balance sheet total in 2002: HUF 2,187.1 billion, in 2003: HUF 2,550.0 billion

In 2003, the ratio of net interest revenues to the average total assets (i.e. the net interest margin), was 4.63%, which is just 7 basis points lower than in the previous year. The ratio of net commission revenue continued to increase, from 2.60% in 2002 to 3.34% in 2003. The proportion of total income – in terms of the average total assets – rose by 39 basis points.

## MANAGEMENT'S ANALYSIS

The share of provisions, allowance and credit loss within the average total assets fell from 0.62% to 0.52%. The ratio of non-interest expenses to the average total assets decreased slightly, to 4.32%. These changes, as well as the increase in dividend and the accounting for goodwill, resulted in a significant increase in the ratio of profit before tax to the average total assets, from 2.66% to 3.40%.

The Bank's return on average assets (ROAA) was 2.78%, while the return on average equity (ROAE) was 30.6% (in 2002: 2.09% and 25.9% respectively). The inflation-adjusted ROAE<sup>1</sup> was 25.9%, compared to 20.6% in 2002. Undiluted earnings per share (EPS)<sup>2</sup> were HUF 269.2, while the diluted<sup>3</sup> figure was HUF 255.6, respectively 50.4% and 51.6% higher than in 2002.

### COST MANAGEMENT

In 2002, the Bank's non-interest expenses amounted to HUF 112.3 billion, a 17.5% increase on the previous year's figure. Due to a rise in costs resulting from consultants' fees, IT and branch network development projects, the rate of growth in expenses exceeded the rate of inflation, but still remained well below the rate of income growth.

#### NON-INTEREST EXPENSES

	2002		2003		Change	
	HUF mn	proportion	HUF mn	proportion	HUF mn	%
Personnel costs	37,571	39.3%	43,820	39.0%	6,249	16.6%
Depreciation	11,088	11.6%	11,913	10.6%	825	7.4%
Other administration expenses	31,636	33.1%	37,384	33.3%	5,748	18.2%
Other non-interest expenses	15,262	16.0%	19,137	17.1%	3,875	25.4%
<b>Total non-interest expenses</b>	<b>95,557</b>	<b>100.0%</b>	<b>112,254</b>	<b>100.0%</b>	<b>16,697</b>	<b>17.5%</b>

The largest item among non-interest expenses (with a share of 39.8%) was the personnel costs. In 2003 the Bank's personnel costs increased by 16.6%, and thus the share of these costs within the total of non-interest type expenses declined by 0.3 percentage points. Besides the average 6% increase in employees' wages in March and October, the October rise in management salaries, the personnel costs of headcount reduction, and the one-off incentive payments made in recognition of outstanding performance in relation to the various projects all contributed to this increase. In 2003, the Bank's personnel expenses absorbed 21.5% of its total income, compared to 22.6% in 2002.

#### STAFF LEVEL OF THE OTP BANK LTD. (PERSONS)

	Closing		Average		Change		Change	
	2002	2003	2002	2003	Closing persons	%	Average persons	%
Full-time employee	8,296	7,353	8,153	8,056	- 943	- 11.4%	- 97	- 1.2%
Part-time employee	474	627	411	439	153	32.3%	28	6.8%
<b>Total</b>	<b>8,770</b>	<b>7,980</b>	<b>8,564</b>	<b>8,495</b>	<b>- 790</b>	<b>- 9.0%</b>	<b>- 69</b>	<b>- 0.8%</b>

At the end of 2003, the Bank's total staff headcount was 7,980, which was 790, or 9.0%, less than in the previous year. The annual average headcount decreased by 97, or 1.2%, in 2003.

<sup>1</sup> Calculation method: ROAE – inflation (%)

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

<sup>3</sup> Calculation method: after-tax profit / total of ordinary shares

## MANAGEMENT'S ANALYSIS

### EMPLOYEE PRODUCTIVITY INDICATORS

	2002 HUF mn	2003 HUF mn	Change
Per capita			
Total assets as at December 31	272.5	345.7	26.9%
Average total assets	257.5	322.6	25.3%
Profit after tax	5.5	8.4	52.7%
Total income	19.5	24.0	23.1%
Personnel type expenses	4.4	5.2	18.2%

Staff efficiency continued to improve in 2003. The profit after-tax per capita increased by 52.7%, while the per capita average total assets increased by 25.3% and per capita income was 23.1% higher in 2003 than in the previous year. However, per capita personnel costs increased by 18.2%.

Among the constituents of the material costs, **depreciation** increased by HUF 0.8 billion, or 7.4%. Other administration expenses (material and material-type expenses) rose by 18.2% in 2003, while other non-interest expenses grew by 25.4%.

### ASSET-LIABILITY STRUCTURE

As at December 31, 2003, the total assets of OTP Bank Ltd. amounted to HUF 2,758.6 billion, which represents a 15.4%, or HUF 368.5 billion, increase compared to the HUF 2,390.1 billion figure as of December 31, 2002. Within the Hungarian banking sector, OTP Bank Ltd. had the largest total assets, and its market share was 20.4%.

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

### THE DISTRIBUTION OF ASSET-LIABILITY COMPONENTS\*

	Dec. 31, 2002		Dec. 31, 2003		Change	
	HUF mn	proportion	HUF mn	proportion	HUF mn	%
<b>Cash and Bank</b>	<b>346,963</b>	<b>14.5%</b>	<b>252,975</b>	<b>9.1%</b>	<b>- 93,988</b>	<b>- 27.1%</b>
NBH clearing account	94,113	3.9%	80,710	2.9%	- 13,403	- 14.2%
NBH short-term placements	205,000	8.6%	111,200	4.0%	- 93,800	- 45.8%
Other	47,850	2.0%	61,065	2.2%	13,215	27.6%
<b>Government securities</b>	<b>401,855</b>	<b>16.8%</b>	<b>402,543</b>	<b>14.6%</b>	<b>688</b>	<b>0.2%</b>
Trading securities	111,072	4.6%	135,011	4.9%	23,939	21.6%
Investment securities	290,783	12.2%	267,532	9.7%	- 23,251	- 8.0%
<b>Securities representing a lending relationship</b>	<b>153,188</b>	<b>6.4%</b>	<b>533,136</b>	<b>19.3%</b>	<b>379,948</b>	<b>248.0%</b>
Covered mortgage bonds issued by OTP Mortgage Bank	134,025	5.6%	508,862	18.4%	374,837	279.7%
<b>Interbank placements**</b>	<b>263,320</b>	<b>11.0%</b>	<b>165,390</b>	<b>6.0%</b>	<b>- 97,930</b>	<b>- 37.2%</b>
<b>Customer placements</b>	<b>951,746</b>	<b>39.9%</b>	<b>1,088,278</b>	<b>39.5%</b>	<b>136,532</b>	<b>14.3%</b>
Retail	329,829	13.8%	318,179	11.5%	- 11,650	- 3.5%
Corporate	558,590	23.5%	691,217	25.1%	132,627	23.7%
Municipal	63,327	2.6%	78,882	2.9%	15,555	24.6%

## MANAGEMENT'S ANALYSIS

(continued from page 35)	Dec. 31, 2002		Dec. 31, 2003		Change	
	HUF mn	proportion	HUF mn	proportion	HUF mn	%
<b>Governments</b>	<b>56,114</b>	<b>2.3%</b>	<b>5,444</b>	<b>0.2%</b>	<b>- 50,670</b>	<b>- 90.3%</b>
<b>Investments</b>	<b>49,361</b>	<b>2.1%</b>	<b>106,815</b>	<b>3.9%</b>	<b>57,454</b>	<b>116.4%</b>
<b>Other</b>	<b>69,279</b>	<b>2.9%</b>	<b>56,419</b>	<b>2.0%</b>	<b>- 12,860</b>	<b>- 18.6%</b>
<b>Intangible and tangible assets</b>	<b>63,679</b>	<b>2.7%</b>	<b>107,550</b>	<b>3.9%</b>	<b>43,871</b>	<b>68.9%</b>
<b>Accrued and deferred items</b>	<b>34,615</b>	<b>1.4%</b>	<b>40,056</b>	<b>1.5%</b>	<b>5,441</b>	<b>15.7%</b>
<b>TOTAL ASSETS</b>	<b>2,390,120</b>	<b>100.0%</b>	<b>2,758,606</b>	<b>100.0%</b>	<b>368,486</b>	<b>15.4%</b>
<b>Interbank liabilities</b>	<b>28,220</b>	<b>1.2%</b>	<b>91,080</b>	<b>3.3%</b>	<b>62,860</b>	<b>222.7%</b>
<b>Customer liabilities</b>	<b>2,011,042</b>	<b>84.1%</b>	<b>2,234,874</b>	<b>81.0%</b>	<b>223,832</b>	<b>11.1%</b>
Retail	1,523,725	63.8%	1,656,317	60.0%	132,592	8.7%
Corporate	341,902	14.3%	421,380	15.3%	79,478	23.2%
Municipal	145,415	6.0%	157,177	5.7%	11,762	8.1%
<b>Securities</b>	<b>9,419</b>	<b>0.4%</b>	<b>5,944</b>	<b>0.2%</b>	<b>- 3,475</b>	<b>- 36.9%</b>
<b>Provisions</b>	<b>20,974</b>	<b>0.9%</b>	<b>26,773</b>	<b>1.0%</b>	<b>5,799</b>	<b>27.6%</b>
<b>Accrued and deferred items</b>	<b>23,108</b>	<b>1.0%</b>	<b>27,268</b>	<b>1.0%</b>	<b>4,160</b>	<b>18.0%</b>
<b>Other</b>	<b>91,514</b>	<b>3.8%</b>	<b>110,891</b>	<b>4.0%</b>	<b>19,377</b>	<b>21.2%</b>
<b>Shareholders' equity</b>	<b>205,843</b>	<b>8.6%</b>	<b>261,776</b>	<b>9.5%</b>	<b>55,933</b>	<b>27.2%</b>
<b>TOTAL LIABILITIES</b>	<b>2,390,120</b>	<b>100.0%</b>	<b>2,758,606</b>	<b>100.0%</b>	<b>368,486</b>	<b>15.4%</b>

\* The asset-liability items are analysed in a structure slightly 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.* Partly in response to the change in the compulsory reserve, the volume of the Bank's cash and bank items decreased by HUF 94.0 billion compared to December 31, 2002, with the result that their share of total assets fell from 14.5% to 9.1%. Of the various cash and bank items, short-term placements at the National Bank decreased by more than HUF 94 billion, and thus their proportion within total assets fell from 8.6% to 4.0%. The balance on the MNB clearing account decreased by 14.2%, or HUF 13.4 billion, compared to the end of 2002. The volume of other cash and bank items increased slightly, from HUF 47.9 billion to HUF 61.1 billion.

*Government securities.* The weight of government securities within the Bank's portfolio decreased from 16.8% at the end of 2002 to 14.6% on December 31, 2003, due to an increase within the portfolio of the weight of customer placements and securities embodying a lending relationship. The volume increased by only 0.2%, from HUF 401.9 billion on December 31, 2002 to HUF 402.5 billion on December 31, 2003. Within total government securities, the volume of trading securities grew by 21.6%, to HUF 135.0 billion, while the total of investment securities fell 8.0%, to HUF 267.5 billion. Consequently, the share of trading securities within the total portfolio of government securities decreased slightly, from 72.4% in 2002 to 66.5% in 2003.

### STRUCTURE OF GOVERNMENT SECURITIES

	Dec. 31, 2002		Dec. 31, 2003		Change	
	HUF mn	proportion	HUF mn	proportion	HUF mn	%
<b>Trading securities</b>						
Discounted T-Bills	17,905	4.4%	23,814	5.9%	5,909	33.0%
Hungarian Government Bonds	82,358	20.5%	104,871	26.1%	22,513	27.3%
Interest-bearing T-bills	1,911	0.5%	470	0.1%	- 1,441	- 75.4%
Bonds issued by NBH	0	0.0%	1,828	0.4%	1,828	-
Foreign Government Bonds	2,963	0.7%	614	0.1%	- 2,349	- 79.3%
Foreign currency bonds issued by the Hungarian Republic	2,760	0.7%	0	0.0%	- 2,760	- 100.0%
Treasury Government Bonds	3,175	0.8%	3,175	0.8%	0	0.0%
Other Government securities	0	0.0%	239	0.1%	239	-
<b>Total</b>	<b>111,072</b>	<b>27.6%</b>	<b>135,011</b>	<b>33.5%</b>	<b>23,939</b>	<b>21.6%</b>

## MANAGEMENT'S ANALYSIS

<i>(continued from page 36)</i>	Dec. 31, 2002		Dec. 31, 2003		Change	
	HUF mn	proportion	HUF mn	proportion	HUF mn	%
<b>Investment securities</b>						
Home fund financing bond	474	0.1%	0	0.0%	-474	-100.0%
Hungarian Government Bonds, Social Security Bonds	216,226	53.8%	198,578	49.3%	-17,648	-8.2%
Loan Consolidation State Bonds	17,300	4.3%	17,300	4.3%	0	0.0%
NBH foreign currency bonds	1,783	0.4%	0	0.0%	-1,783	-100.0%
NBH interest-bearing bonds	9,816	2.5%	9,816	2.5%	0	0.0%
Foreign currency bonds issued by the Hungarian Republic	2,237	0.6%	2,066	0.5%	-171	-7.7%
Treasury Government Bonds	42,947	10.7%	39,772	9.9%	-3,175	-7.4%
<b>Total</b>	<b>290,783</b>	<b>72.4%</b>	<b>267,532</b>	<b>66.5%</b>	<b>-23,251</b>	<b>-8.0%</b>
<b>Total government securities</b>	<b>401,855</b>	<b>100.0%</b>	<b>402,543</b>	<b>100.0%</b>	<b>688</b>	<b>0.2%</b>

94% of the HUF 23.9 billion increase in the trading securities portfolio originated from growth in the volume of Hungarian Government Bonds. The volume of Discounted Treasury Bills also displayed considerable growth. The volume of all securities in the investment portfolio decreased, with the largest fall occurring in the volume of Hungarian Government Bonds and social security bonds (HUF 17.6 billion). Within the investment portfolio, the volume of Treasury Government Bonds decreased by HUF 3.2 billion, while the volume of foreign currency bonds issued by the NBH fell by HUF 1.8 billion – to zero.

As of December 31, 2003, more than three quarters (75.4%) of the total government securities portfolio consisted of Hungarian Government Bonds and social security bonds, which represents an increase of 1.1 percentage points compared to the end of the previous year. Some 10.7% of all government securities were Treasury Government Bonds, which reduced their share of the government securities portfolio by 0.8 percentage points. The share of Discounted Treasury Government Bonds within the government securities portfolio increased by 1.5 percentage points, to 5.9%. The weight of foreign currency bonds issued by the Republic of Hungary, as well as that of other government securities, decreased slightly within the portfolio.

*Other securities embodying a lending relationship.* As at year-end 2003, 19.3% of the Bank's total assets were other securities embodying a lending relationship, in contrast to the previous year's 6.4% figure. Of the various asset groups, this experienced the highest growth, of close to 350%. The bulk of this HUF 380.0 billion increase originated from the inclusion in the portfolio of mortgage notes, in a value of HUF 374.8 billion, issued by OTP Mortgage Bank. These securities assure the Bank of a more favourable yield than government securities, with an almost equally low level of risk.

*Interbank placements.* Interbank placements represented 6.0% of assets on December 31, 2003, a reduction of 5.0 percentage points compared to the previous year. Their volume decreased by 37.2%, to HUF 165.4 billion. The HUF 97.9 billion volume reduction was the result of a HUF 47.6 billion fall in foreign currency placements accompanied by a HUF 50.3 billion decrease in forint placements, which was attributable to the growth in foreign-currency loans to customers. At the end of 2003, the majority (93.6%) of placements had a maturity of less than one year, compared to 94.5% one year earlier. The reduction in the weight, within the interbank portfolio, of placements with a maturity of less than one year was accompanied by a volume decrease of 37.8%, or more than HUF 94 billion. The volume of interbank placements with a maturity of more than one year decreased by 27.1%, thus increasing their share of total interbank placements (to 6.4%). Within the total of interbank placements, the volume of forint placements fell by 36.4%, while their share of the total portfolio increased to 53.2% (in 2002: 52.5%), and the volume of foreign currency placements also decreased significantly, by 38.1%, giving them a 46.8% share of total interbank placements by the end of 2003. In 2003, the Bank remained a net lender on the interbank market, which can be attributed to its liquidity resulting from a traditionally high volume of retail deposits. The volume of interbank placements exceeded that of interbank liabilities by over HUF 74.3 billion.

*Customer loans.* Owing to the fact that the majority of retail housing mortgage loans were transferred to the Mortgage Bank, the rate of growth in the volume of customer placements was slightly lower than the rate of growth in the total assets. In 2003, customer placements increased by 14.3% by HUF 136.5 billion, thereby changing their share of total assets from 39.8% to 39.5%. Within customer placements, loans to municipalities and legal entities displayed significantly above-average growth, while the volume of retail loans decreased slightly. The volume of retail loans fell by HUF 11.7 billion,

## MANAGEMENT'S ANALYSIS

to HUF 318.2 billion at year-end 2003, which represents a 3.5% decrease against the previous year. This reduction was exclusively attributable to the fall in the volume of housing loans remaining in the Bank's portfolio. Loans to the corporate sector grew by 23.7%, to stand at HUF 691.2 billion on December 31, 2003. The volume of loans provided to municipalities increased by 24.6%. Within total customer placements, the share of corporate loans grew from 58.7% to 63.5%, while that of retail loans dropped from 34.7% to 29.2%. As at year-end 2003, municipality loans accounted for 7.3% of total customer placements.

Within corporate loans, which increased 23.7% to reach HUF 691.2 billion at year-end, the share of loans to financial and investment firms, insurance companies and specialist money and capital market institutions (PBBS) was HUF 93.2 billion, or almost one and a half times the figure for 2002. Loans to other business organisations increased in volume by 20.9%, to HUF 598.1 billion. Among the loans to business organisations with a legal personality, the volume of foreign currency loans increased by 46.3%, current-account overdrafts by 21.0%, investment loans by 5.1%, and other loans by 34.0%, while the volume of working capital loans decreased by 8.6%, compared to the end of the previous year. The volume of loans to small enterprises grew by 24.2% to reach HUF 20.7 billion at year-end, while loans to non-profit organisations also doubled in comparison to the end of the previous year. Within the corporate loan portfolio, the share of loans granted to non-financial enterprises with a legal personality was 79.8%, while the weight of small business loans was 3.0%, that of non-profit organisations 6.7% and that of PBBS loans 13.5%.

The volume of retail loans decreased by HUF 11.7 billion, amounting to HUF 318.2 billion at year-end 2003, which is 3.5% less than in the previous year. Within the retail loan portfolio, the volume of housing loans fell by 13.6% to HUF 183.5 billion, due to the sale to the Mortgage Bank of previously disbursed loans. The rate of growth in consumer loans was 14.6%. By the end of the year the combined balance of consumer and mortgage loans reached HUF 134.6 billion, within which – in line with the Bank's strategy – overdrafts on retail current accounts showed a substantial increase of 30.4%, with a volume of more than HUF 90 billion. Among the various forms of current-account lending, the rate of growth in "C-Loan" overdrafts exceeded 55%, while the volume of "A-Loan" overdrafts increased by 43.2%. The volume of mortgage loans was HUF 31.3 billion as at year-end, with the slight reduction of 31.2% attributable to crowding out by state-subsidised housing loans.

The volume of municipality loans increased by HUF 15.6 billion, or 24.6%, compared to the previous year. The Bank thus retained its leading position in the municipality lending market.

An examination of the maturity structure of the customer loan portfolio shows that, due to an above-average volume growth of 15.2% in 2003, the share of receivables with a maturity of over one year within the total of receivables had reached 76.2% by the end of the year. Within the total of placements with a maturity of over one year, corporate placements displayed the most dynamic growth, at 32.3%. Placements with a maturity within one year increased by 11.7% compared to the previous year, and their share within the total of receivables dropped from 24.4% to 23.8%.

### CUSTOMER PLACEMENTS BY MATURITY (BASED ON GROSS LOAN RECEIVABLES)

	Dec. 31, 2002		Dec. 31, 2003		Change	
	HUF mn	proportion	HUF mn	proportion	HUF mn	%
<b>Within one year</b>						
retail	16,311	1.7%	22,872	2.1%	6,561	40.2%
corporate	200,055	21.0%	216,793	19.9%	16,738	8.4%
municipal	15,586	1.7%	19,519	1.8%	3,933	25.2%
<b>Total</b>	<b>231,952</b>	<b>24.4%</b>	<b>259,184</b>	<b>23.8%</b>	<b>27,232</b>	<b>11.7%</b>
<b>Over one year</b>						
retail	313,518	32.9%	295,307	27.1%	- 18,211	- 5.8%
corporate	358,535	37.7%	474,424	43.6%	115,889	32.3%
municipal	47,741	5.0%	59,363	5.5%	11,622	24.3%
<b>Total</b>	<b>719,794</b>	<b>75.6%</b>	<b>829,094</b>	<b>76.2%</b>	<b>109,300</b>	<b>15.2%</b>
<b>Total customer placements</b>	<b>951,746</b>	<b>100.0%</b>	<b>1,088,278</b>	<b>100.0%</b>	<b>136,532</b>	<b>14.3%</b>

## MANAGEMENT'S ANALYSIS

The HUF 27.2 billion increase in customer receivables with a maturity of less than one year was the result of a HUF 6.6 billion rise in retail placements, a HUF 16.7 billion increase in corporate placements and growth of HUF 3.9 billion in short term municipality loans. The volume of retail loans with a maturity of less than one year was 40.2% higher than at the end of the previous year, while its share of the short-term loan portfolio increased to 8.8%. Corporate placements accounted for 83.7% of the total of short-term loans, which displayed a moderate increase of 8.4%. Short-term municipality loans increased by 25.2%, and their share within the total of short-term placements was 7.5% on December 31, 2003.

Among customer placements with a maturity of over one year, corporate loans showed the highest growth rate, at 32.3%. Thus, their volume as at December 31, 2003 was HUF 115.9 billion higher than it had been a year earlier, and their share of loans with a maturity of over one year increased from 49.8% to 57.2%. Retail loans accounted for 35.6% of the total of loans with a maturity of over one year, which represents an 8.0-percentage-point decrease against the end of 2002, due to a below-average volume increase of 5.8%. At year-end 2003, the volume of municipality loans with a maturity of more than one year was 24.3% higher than at the end of the previous year, and the share of these loans within the long-term loan portfolio had increased to 7.2%.

*Investments.* At the end of 2003, the gross book value of the Bank's investments amounted to HUF 106.8 billion, representing a HUF 57.5 billion, or 116.4%, increase over the previous year. In 2003 the investment activity of OTP Bank was dominated by the OTP Group's strategy of expansion through foreign acquisitions, a key element in which was the purchase by OTP Bank of the Bulgarian DSK Bank. It was largely due to this acquisition that permanent financial investments grew by HUF 136.1 billion in 2003. Some HUF 134.8 billion of this increase was accounted for by an increase in investments made by the OTP Group. The Bank made no non-permanent or "forced" investments (debt-for-equity swaps) in the course of the year. Dividends on investments amounted to a record HUF 7.7 billion in 2003, representing a HUF 7.4 billion increase over the previous year.

### CHANGES IN INVESTMENTS\*

	Dec. 31, 2001 actual HUF mn	Dec. 31, 2002 actual HUF mn	Dec. 31, 2003 preliminary HUF mn	Dec. 31, 2004 plan HUF mn
Permanent financial investments	34,918	49,311	106,815	136,113
of this: OTP Group	33,394	45,702	105,508	134,811
Trading investments	5,537	50	0	0
Forced investments	0	0	0	0
<b>Total investments</b>	<b>40,455</b>	<b>49,361</b>	<b>106,815</b>	<b>136,113</b>

\*Gross book-value

### LIABILITIES

*Interbank liabilities.* Interbank liabilities – largely due to the syndicated EUR loan taken up by the Bank in order to ensure the appropriate level of foreign currency liquidity – increased dynamically, while their share of total liabilities increased from 1.2% to 3.3%. Interbank liabilities totalled HUF 91.1 billion as at December 31, 2003, which is HUF 62.9 billion more than at the end of the previous year. Although the Bank was a net lender on the interbank HUF market, it also remained constantly active as a borrower.

*Customer deposits.* On December 31, 2003, customer deposits accounted for 81.0% of the Bank's total liabilities, as opposed to 84.1% at the end of the previous year. In 2003, 87.5% of customer deposits were forint deposits, compared to 85.4% in the previous year. Since the Bank's primary business line is retail banking, the majority of customer deposits (74.1%) came from retail customers, which represents a dominant proportion (60.0% in 2003 and 63.8% in 2002), even within the total of liabilities.

In a continuation of the trend that began in previous years, retail deposits underwent a substantial restructuring in favour of forint deposits and deposits linked to current accounts, while there were considerable differences in the way the various types of deposit changed in volume over the year. Forint deposits grew at above the average rate, by 12.0%, or HUF 151.5 billion.

## MANAGEMENT'S ANALYSIS

This increased their share of total retail deposits from the previous year's 82.6% to 85.1%. In response to the fluctuations in the forint exchange rate and an improvement in the yields on forint savings, foreign currency deposits fell by 1.6% in forint terms, by HUF 18.9 billion, while their proportion within the total of retail deposits decreased to 14.9%. In a strengthening of the trend that began in previous years, the volume of traditional savings schemes (interest-bearing passbook deposits, savings notes, premium deposits) decreased by 1.8%, or HUF 6.8 billion, thus reducing their share of total forint deposits by 3.8 percentage points, to 27.2%. The volume of savings schemes based on deposits made at regular intervals decreased by 9.8%, due to the phasing out of these products. In line with the Bank's intentions, the volume of retail current account deposits showed outstanding growth of 19.4%, increasing from HUF 834.4 billion to HUF 996.2 billion, while its share of total retail deposits reached 70.6% by the end of 2003.

Corporate deposits rose by 23.2%, a significantly higher growth rate than that of total customer liabilities, while their share of total customer liabilities increased from 17.0% to 18.9%. Within corporate deposits, forint deposits increased at the dynamic rate of 25.1%, while the volume of foreign currency deposits decreased by 6.4%. At the end of the year, 95.4% of corporate deposits were forint deposits.

The volume of municipality deposits grew by 8.1%, and their proportion within total customer liabilities reached 7.0% by the end of 2003. At year-end, 91.2% of municipality deposits were forint deposits.

### CUSTOMER LIABILITIES BY MATURITY

	Dec. 31, 2002		Dec. 31, 2003		Change	
	HUF mn	proportion	HUF mn	proportion	HUF mn	%
<b>Shorter than one year</b>						
retail	1,431,901	71.2%	1,573,359	70.4%	141,458	9.9%
corporate	341,660	17.0%	421,137	18.9%	79,477	23.3%
municipal	144,748	7.2%	157,176	7.0%	12,428	8.6%
<b>Total</b>	<b>1,918,309</b>	<b>95.4%</b>	<b>2,151,672</b>	<b>96.3%</b>	<b>233,363</b>	<b>12.2%</b>
<b>Over one year</b>						
retail	91,824	4.6%	82,958	3.7%	- 8,866	- 9.7%
corporate	242	0.0%	243	0.0%	1	0.4%
municipal	667	0.0%	1	0.0%	- 666	- 99.9%
<b>Total</b>	<b>92,733</b>	<b>4.6%</b>	<b>83,202</b>	<b>3.7%</b>	<b>- 9,531</b>	<b>- 10.3%</b>
<b>Total customer liabilities</b>	<b>2,011,042</b>	<b>100.0%</b>	<b>2,234,874</b>	<b>100.0%</b>	<b>223,832</b>	<b>11.1%</b>

The volume of customer deposits with a maturity of less than one year rose by 12.2%, while deposits with a maturity of more than one year decreased by 10.3%, thereby further increasing the share of short-term liabilities within the total of customer liabilities to 96.3% by year-end. The almost HUF 224 billion rise in the total of customer liabilities was the result of a more than HUF 233 billion increase in short-term liabilities and a reduction of over HUF 10 billion in long-term liabilities. Over 63% of the increase in short-term liabilities resulted from a rise in the volume of short-term retail deposits, while nearly all of the reduction in long-term customer liabilities resulted from a decrease in retail deposits with a maturity of over one year.

*Securities and deposit certificates.* The volume of securities and deposit certificates issued by the Bank amounted to HUF 5.9 billion as at December 31, 2003, which – in line with the Bank's business objectives – is 36.9% lower than in 2002. Their proportion within the total of liabilities fell from 0.4% to 0.2%.

*Equity.* OTP Bank Ltd.'s equity amounted to HUF 261.8 billion on December 31, 2003, and the share of equity within the total of liabilities had increased from 8.6% in 2002 to 9.5%. Of the HUF 55.9 billion increase in equity, HUF 47.6 billion can be attributed to the Bank's balance sheet profit, and HUF 7.2 billion to the increase in general reserves. Equity per share (each with a nominal value of HUF 100) was HUF 934.9, which is 27.2% higher than at the end of the previous year.

*Provisions.* Within the Bank's liabilities, the volume of provisions increased from the previous year's HUF 21.0 billion to HUF 26.8 billion.

## MANAGEMENT'S ANALYSIS

### CHANGES IN PROVISIONS

	Dec. 31, 2002 HUF mn	Dec. 31, 2003 HUF mn	Change HUF mn	%
Provisions for early retirement and severance payments	1,000	1,546	546	54.6%
Provisions for contingent and future liabilities	3,732	7,294	3,562	95.4%
General risk provision	14,254	17,057	2,803	19.7%
Other provisions	1,988	876	- 1,112	- 55.9%
<b>Total provisions</b>	<b>20,974</b>	<b>26,773</b>	<b>5,799</b>	<b>27.6%</b>

By December 31, 2003, the Bank had completed the generation of general risk reserves stipulated by the Act on Credit Institutions, representing 1.25% of the risk-weighted total assets (the amount generated in 2003 was HUF 2.8 billion). Consequently, the volume of general risk reserves increased to HUF 17.1 billion by the end of the year. The volume of reserves set aside for contingent and future liabilities increased by HUF 3.6 billion, reaching HUF 7.3 billion. The Bank set aside HUF 546 million in provisions for employees' early retirement and severance pay. Other provisions amounted to HUF 0.9 billion as at December 31, 2003.

### OFF-BALANCE SHEET LIABILITIES

The year-end volume of off-balance sheet liabilities decreased from HUF 787.6 billion to HUF 777.0 billion. This change was attributable to a HUF 48.4 billion, or 8.8%, reduction in contingent liabilities, accompanied by a HUF 37.8 billion, or 16.0%, increase in future liabilities. Due to this, the share of contingent liabilities within the total of off-balance sheet liabilities decreased slightly, from 70.1% to 64.8%. The most significant item among the contingent liabilities – amounting to over 50% of the Bank's total off-balance sheet liabilities – was the volume of commitments originating from loan facility contracts, which increased by HUF 78.2 billion, or 24.9%. The most significant change was the HUF 146.5 billion, or 89.0%, reduction in commitments arising from options. The value of guarantees assumed in the course of banking activities also increased considerably, by 37.1%, reaching HUF 65.0 billion. Of other contingent liabilities, some HUF 24.4 billion consisted of contingent liabilities resulting from conditional undertakings by the Bank towards the Mortgage Bank with respect to the repurchase of housing loans.

### OFF-BALANCE SHEET LIABILITIES

	Dec. 31, 2002		Dec. 31, 2003		Change	
	HUF mn	proportion	HUF mn	proportion	HUF mn	%
<b>Contingent liabilities</b>						
Guarantees from bank activities	47,401	6.0%	65,010	8.4%	17,609	37.1%
Confirmed L/C	787	0.1%	956	0.1%	169	21.5%
Non-used part of credit line	314,127	39.9%	392,308	50.5%	78,181	24.9%
Options	164,658	20.9%	18,184	2.3%	- 146,474	- 89.0%
Liabilities expected from pending lawsuits	4,846	0.6%	2,469	0.3%	- 2,377	- 49.1%
Other contingent liabilities	20,051	2.6%	24,502	3.2%	4,451	22.2%
of which contingent liabilities due to conditional obligation to OTP Mortgage Bank to repurchase nonperforming loans	0	0.0%	24,440	3.1%	24,440	-
<b>Total</b>	<b>551,870</b>	<b>70.1%</b>	<b>503,429</b>	<b>64.8%</b>	<b>- 48,441</b>	<b>- 8.8%</b>
<b>Absolutely certain (future) liabilities</b>						
Forward foreign currency purchase	235,369	29.9%	273,530	35.2%	38,161	16.2%
Other future liabilities	374	0.0%	11	0.0%	- 363	- 97.1%
<b>Total</b>	<b>235,743</b>	<b>29.9%</b>	<b>273,541</b>	<b>35.2%</b>	<b>37,798</b>	<b>16.0%</b>
<b>Total off-balance sheet liabilities</b>	<b>787,613</b>	<b>100.0%</b>	<b>776,970</b>	<b>100.0%</b>	<b>- 10,643</b>	<b>- 1.4%</b>

The increase in future liabilities originated entirely from the growth in the volume of forward foreign exchange purchases. At year-end, the volume of commitments due to forward foreign exchange purchases was HUF 273.5 billion, corresponding to 35.2% of the total of off-balance sheet commitments

## MANAGEMENT'S ANALYSIS

### LOAN PORTFOLIO QUALITY, PROVISIONING

As at December 31, 2003, OTP Bank Ltd.'s total portfolio of loans to be qualified was HUF 2,733.4 billion, representing an increase of HUF 494 billion, or 22.0%, over 2002. The ratio of qualified loans to the total loan portfolio rose from 3.5% in 2002, to 4.5% in 2003.

#### OTP BANK LTD.'S QUALIFIED LOAN PORTFOLIO

	Dec. 31, 2002		Dec. 31, 2003		Change	
	HUF mn	proportion	HUF mn	proportion	HUF mn	%
<b>Securities (excluding Hungarian government securities)</b>						
Problem-free	161,596	99.6%	541,174	99.9%	379,578	234.9%
Qualified	599	0.4%	273	0.1%	- 326	- 54.4%
of this: NPL	599	0.4%	273	0.1%	- 326	- 54.4%
<b>Total</b>	<b>162,195</b>	<b>100.0%</b>	<b>541,447</b>	<b>100.0%</b>	<b>379,252</b>	<b>233.8%</b>
<b>Loans and interbank transactions (receivables)</b>						
Problem-free	1,183,374	95.8%	1,216,685	95.6%	33,311	2.8%
Qualified	51,398	4.2%	55,757	4.4%	4,359	8.5%
of this: NPL	33,459	2.7%	41,742	3.3%	8,283	24.8%
<b>Total</b>	<b>1,234,772</b>	<b>100.0%</b>	<b>1,272,442</b>	<b>100.0%</b>	<b>37,670</b>	<b>3.1%</b>
<b>Ownership stakes</b>						
Problem-free	30,360	62.3%	79,210	74.4%	48,850	160.9%
Qualified	18,400	37.7%	27,267	25.6%	8,867	48.2%
of this: NPL	18,400	37.7%	25,717	24.2%	7,317	39.8%
<b>Total</b>	<b>48,760</b>	<b>100.0%</b>	<b>106,477</b>	<b>100.0%</b>	<b>57,717</b>	<b>118.4%</b>
<b>Other</b>						
Problem-free	29,830	99.2%	35,782	99.2%	5,952	20.0%
Qualified	236	0.8%	284	0.8%	48	20.1%
of this: NPL	232	0.8%	226	0.6%	- 6	- 2.8%
<b>Total</b>	<b>30,066</b>	<b>100.0%</b>	<b>36,066</b>	<b>100.0%</b>	<b>6,000</b>	<b>20.0%</b>
<b>Off-balance sheet items</b>						
Problem-free	755,891	98.9%	737,828	95.0%	- 18,063	- 2.4%
Qualified	8,135	1.1%	39,098	5.0%	30,963	380.6%
of this: NPL	4,694	0.6%	7,886	1.0%	3,192	68.0%
<b>Total</b>	<b>764,026</b>	<b>100.0%</b>	<b>776,926</b>	<b>100.0%</b>	<b>12,899</b>	<b>1.7%</b>
<b>Grand total</b>						
Problem-free	2,161,051	96.5%	2,610,679	95.5%	449,628	20.8%
Qualified	78,769	3.5%	122,679	4.5%	43,910	55.7%
of this: NPL	57,384	2.6%	75,844	2.8%	18,460	32.2%
<b>Total</b>	<b>2,239,820</b>	<b>100.0%</b>	<b>2,733,358</b>	<b>100.0%</b>	<b>493,538</b>	<b>22.0%</b>

Of the Bank's total portfolio to be qualified, 46.6% consisted of loans and interbank transactions as at year-end 2003 (on December 31, 2002: 55.1%), while 45.4% of the total qualified portfolio comprised qualified claims related to the loans and interbank transactions. Some 60.6% of the combined volume of provisions and value losses were related to these qualified claims.

In 2003 the portfolio of loans and interbank transactions increased by 3.1% to reach HUF 1,272.4 billion at year-end. The quality of the receivables portfolio deteriorated slightly, with the proportion of "problem-free" receivables changing from 95.8% at the end of 2002 to 95.6% in 2003. The deterioration in quality is attributable to changes in the structure of the loan portfolio. The share of interbank loans, within which the percentage of qualified loans is low, fell significantly within the total portfolio, from

## MANAGEMENT'S ANALYSIS

21.0% to 12.9%, while – despite an improvement – the share of customer loans, within which the percentage of qualified loans is higher, increased within the total portfolio. The share of the "to be monitored" category within the total of qualified loans and interbank transactions was 1.1% of the total loan portfolio as at year-end 2003, compared with 1.5% at the end of 2002, while the share of the "problematic" category increased from 2.7% to 3.3%.

The share of customer receivables within the portfolio of loans and interbank transactions increased by HUF 134 billion, or 13.7%, reaching HUF 1,108.6 billion by the end of 2003, within which the share of the qualified portfolio dropped from 5.3% in the previous year to 5.0%. Portfolio quality improved in the corporate and municipality businesses and deteriorated in the retail business.

*In the retail division*, a 3.5% reduction in the volume of receivables was accompanied by a 4.5% increase in the qualified portfolio. The share of the qualified portfolio within the total of retail customer receivables increased from 3.3% in the previous year to 3.6%. Growth in the volume of "doubtful" receivables was considerable (HUF 0.6 billion, 23.8%).

*In the corporate division* the dynamic, 23.2% increase in receivables was accompanied by only a 14.6% rise in the qualified volume, with the result that the share of qualified receivables within the total of corporate receivables fell from 6.9% in 2002 to 6.4% by the end of 2003. Within the qualified portfolio, the volume of the "to be monitored" category decreased by 15.2%, or HUF 2.1 billion, and its weight within the total of corporate loans fell from 2.5% to 1.7%. Due to a HUF 7.7 billion increase in the volume of problematic loans, their share within the total portfolio of corporate loans increased from 4.4% to 4.7%.

*In the municipality division*, an 18.7% increase in the volume of receivables was accompanied by a 94% reduction in the qualified portfolio. This business area had the lowest ratio of qualified receivables to customer receivables, at 0.1% (at the end of the previous year: 2.2%).

*Receivables from banks* decreased by 36.9%, or HUF 96.0 billion, in 2003, while the qualified portfolio increased by 11.0%, and its weight remained the same as in the previous year, at 0.1%.

### QUALIFIED LOANS BY BUSINESS LINES

	Dec. 31, 2002		Dec. 31, 2003		Change	
	HUF mn	proportion	HUF mn	proportion	HUF mn	%
<b>Retail banking</b>						
Problem-free	321,891	96.7%	309,774	96.4%	- 12,117	- 3.8%
Qualified	11,008	3.3%	11,500	3.6%	492	4.5%
To be monitored	2,566	0.8%	2,337	0.7%	- 229	- 8.9%
NPL	8,442	2.5%	9,163	2.9%	721	8.5%
<b>Total</b>	<b>332,899</b>	<b>100.0%</b>	<b>321,274</b>	<b>100.0%</b>	<b>- 11,625</b>	<b>- 3.5%</b>
<b>Corporate banking</b>						
Problem-free	518,198	93.1%	641,876	93.6%	123,678	23.9%
Qualified	38,359	6.9%	43,963	6.4%	5,604	14.6%
To be monitored	13,770	2.5%	11,678	1.7%	- 2,092	- 15.2%
NPL	24,589	4.4%	32,285	4.7%	7,696	31.3%
<b>Total</b>	<b>556,557</b>	<b>100.0%</b>	<b>685,839</b>	<b>100.0%</b>	<b>129,282</b>	<b>23.2%</b>
<b>Municipal banking</b>						
Problem-free	83,574	97.8%	101,324	99.9%	17,750	21.2%
Qualified	1,868	2.2%	113	0.1%	- 1,755	- 94.0%
To be monitored	1,603	1.9%	0	0.0%	- 1,603	- 100.0%
NPL	265	0.3%	113	0.1%	- 152	- 57.4%
<b>Total</b>	<b>85,442</b>	<b>100.0%</b>	<b>101,437</b>	<b>100.0%</b>	<b>15,995</b>	<b>18.7%</b>
<b>Financial institutions</b>						
Problem-free	259,711	99.9%	163,711	99.9%	- 96,000	- 37.0%
Qualified	163	0.1%	181	0.1%	18	11.0%
To be monitored	0	0.0%	0	0.0%	0	
NPL	163	0.1%	181	0.1%	18	11.0%
<b>Total</b>	<b>259,874</b>	<b>100.0%</b>	<b>163,892</b>	<b>100.0%</b>	<b>- 95,982</b>	<b>- 36.9%</b>

## MANAGEMENT'S ANALYSIS

	Dec. 31, 2002		Dec. 31, 2003		Change	
	HUF mn	proportion	HUF mn	proportion	HUF mn	%
<b>Total</b>						
Problem-free	1,183,374	95.8%	1,216,685	95.6%	33,311	2.8%
Qualified	51,398	4.2%	55,757	4.4%	4,359	8.5%
To be monitored	17,939	1.5%	14,015	1.1%	- 3,924	- 21.9%
NPL	33,459	2.7%	41,742	3.3%	8,283	24.8%
<b>Total</b>	<b>1,234,772</b>	<b>100.0%</b>	<b>1,272,442</b>	<b>100.0%</b>	<b>37,670</b>	<b>3.1%</b>

The distribution of qualified loans by their categories of qualification underwent a major transformation during the year. There was a substantial increase in the "below average" category, which grew almost three-fold in the course of the year, while its share of the overall qualified portfolio rose from 12.6% to 34.6%. This change was entirely attributable to growth in the volume of qualified receivables in the corporate division, where the volume of the "below average" category increased by HUF 12.8 billion. However, the share of "to be monitored", "doubtful" and "bad" loans decreased significantly. Due to a volume reduction of 21.9%, the share, within the qualified portfolio, of loans in the "to be monitored" category was 25.1% at year-end, compared to 34.9% at the end of 2002. Loans in the "doubtful" category accounted for 26.7% of the qualified portfolio, and their volume decreased by 17.5% in 2003. The ratio of "bad" loans to the total of qualified receivables fell from 17.4% in 2002 to 13.6% in 2003.

In 2003 – due to the introduction of a new, partially automated transference procedure approved in 2002 – the Bank sold 43,500 written-off and/or problematic receivables, with a gross value of HUF 14.5 billion, to OTP Factoring Management Ltd. This amount is substantially lower than in the previous year (when 113,000 receivables were transferred in a total value of HUF 20.7 billion).

### THE STRUCTURE OF QUALIFIED LOANS

	Dec. 31, 2002		Dec. 31, 2003		Change		Percentage point change in proportion
	HUF mn	proportion	HUF mn	proportion	HUF mn	%	
To be monitored	17,939	34.9%	14,015	25.1%	- 3,924	- 21.9%	- 9.8%
Below average	6,489	12.6%	19,267	34.6%	12,778	196.9%	21.9%
Doubtful	18,037	35.1%	14,885	26.7%	- 3,152	- 17.5%	- 8.4%
Bad	8,933	17.4%	7,591	13.6%	- 1,342	- 15.0%	- 3.8%
<b>Total qualified</b>	<b>51,398</b>	<b>100.0%</b>	<b>55,758</b>	<b>100.0%</b>	<b>4,360</b>	<b>8.5%</b>	<b>-</b>

While the portfolio of qualified receivables grew by 8.5%, the volume of value loss and risk provisions – due to a favourable change to the structure of the qualified portfolio – remained unchanged from the previous year at HUF 20.6 billion, and thus the provision coverage ratio dropped from 40.1% to 36.9%.

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

	Dec. 31, 2002	Dec. 31, 2003	Change	
	HUF mn	HUF mn	HUF mn	%
<b>Receivables from financial institutions and from customers</b>	<b>1,234,772</b>	<b>1,272,442</b>	<b>37,670</b>	<b>3.1%</b>
Problem-free receivables	1,183,374	1,216,685	33,311	2.8%
Qualified volume	51,398	55,758	4,360	8.5%
<b>Value loss, provisions</b>	<b>20,606</b>	<b>20,593</b>	<b>- 13</b>	<b>- 0.1%</b>
Coverage ratio	40.1%	36.9%		

## MANAGEMENT'S ANALYSIS

The table below shows the distribution of value loss and risk provision by business area.

### VALUE LOSS AND RISK PROVISIONS BY BUSINESS LINE

	Dec. 31, 2002		Dec. 31, 2003		Change	
	HUF mn	proportion	HUF mn	proportion	HUF mn	%
Retail	6,406	31.1%	6,659	32.3%	253	3.9%
Corporate	13,850	67.2%	13,697	66.5%	- 153	- 1.1%
Municipal	187	0.9%	57	0.3%	- 130	- 69.5%
Interbank	163	0.8%	181	0.9%	18	11.0%
<b>Total</b>	<b>20,606</b>	<b>100.0%</b>	<b>20,594</b>	<b>100.0%</b>	<b>- 13</b>	<b>- 0.1%</b>

In line with the changes in the structure of the qualified portfolio, the volume of value loss and risk provisions increased by HUF 0.3 billion in the retail division, while it fell by HUF 0.2 billion in the corporate division and HUF 0.1 billion in the municipality division, and remained at a low level in the banks division. Consequently, the share of the retail business within the total combined amount of recorded value losses and provisions on receivables increased to 32.3%, while the share of the corporate division decreased to 66.5%.

Within the total of trading and investment securities (excluding Hungarian government securities), the share of the qualified portfolio was just 0.1%, or HUF 273 million, and its provision coverage ratio was 65.8%. Within the total portfolio of assets to be qualified, equity stakes had the highest ratio of qualified volume. Some HUF 27.3 billion, or 25.6% of the HUF 106.5 billion year-end portfolio, was not problem-free. However, this figure is considerably lower than in the previous year (2002: 37.7%). On the qualified portfolio of HUF 27.3 billion, the Bank accounted for a value loss of HUF 5.7 billion, which represents a coverage ratio of 20.9%. Within the HUF 36.1 billion year-end portfolio of other assets (other receivables and assets besides equity stakes), the share of the qualified portfolio was HUF 0.3 billion (0.8%).

The share of the qualified volume within off-balance sheet items, which account for almost one third of the total portfolio to be qualified, was 5.0%. On the HUF 39.1 billion portfolio of qualified receivables, the Bank set aside a loan risk provision of HUF 7.3 billion, which represents a coverage ratio of 18.7%.

## CONSOLIDATED FINANCIAL STATEMENTS

### CONSOLIDATED BALANCE SHEET

As of December 31, 2003, the consolidated balance sheet total of the concern was HUF 3,502.7 billion, which is 28.1%, or HUF 769 billion, higher than that of the previous year, and 27.0% higher than the Bank's non-consolidated balance sheet total for 2003.

On the liabilities side, the major contributing factors to the 2003 increase in the consolidated balance sheet total were the HUF 672 billion increase in liabilities, and within this a HUF 557 billion increase in liabilities to customers, a HUF 68 billion increase in equity and a HUF 20 billion increase in provisions. Compared to the previous year, liabilities increased by 28.3%, within which long-term liabilities saw the most dynamic increase, at 77.9% year-on-year volume growth. Consequently, although the share of short-term liabilities within total liabilities decreased slightly in 2003, it nevertheless remained close to 91%. Liabilities to customers accounted for over 88.6% of total liabilities, with a volume of HUF 2,698 billion at year-end 2003. Funds from credit institutions more than doubled in comparison to the previous year, to HUF 126 billion, although their weight within total liabilities was only 3.6%. Of the consolidated balance sheet liabilities, the volume of provisions increased by HUF 20 billion to HUF 116 billion. In the course of 2003, shareholders' equity increased by HUF 68 billion, or 28.5%, and – similarly to the previous year – represented 8.7% of total liabilities at year-end.

The most significant change to the asset side of the consolidated balance sheet was the 53.2%, or HUF 703 billion, increase in receivables from customers, with the result that their share within the total assets rose from 48.4% in 2002 to 57.8% in 2003. Some 58.1% of customer loans were retail loans, the volume of which reached HUF 1,208 billion. Corporate loans accounted

## MANAGEMENT'S ANALYSIS

for 38.0% of the portfolio, with a volume of HUF 791 billion, while municipality loans amounted to HUF 80 billion, giving them a 3.9% share of the portfolio. This was accompanied by a decrease in the volume of receivables from credit institutions, government securities and liquid assets. The total of liquid assets decreased by 21.9%, from HUF 354 billion at the end of 2002 to HUF 277 billion. Receivables from credit institutions decreased less sharply, by HUF 29 billion or 10.3%, and their year-end volume was HUF 252 billion. Owing to a volume increase of 18.6%, government securities accounted for 18.0% of total assets at year-end 2003, while their volume amounted to HUF 631 billion. Almost 61% of government securities were investment securities.

### CONSOLIDATED PROFIT

The Bank's consolidated pre-tax profit was HUF 102.8 billion in 2003, which is 50.7% higher than in the previous year and 18.5% higher than the pre-tax profit of parent company OTP Bank in the period under review. The pre-tax profit was the result of HUF 117.5 billion in operating profit, HUF 668 million in dividend income, a combined provision, value loss and lending loss of HUF 13.3 billion and a HUF 2.0 billion loss on goodwill write-offs. Compared to the base period, operating profit increased by 45.8%, while provision and value loss were 4.2% up on the previous year's figure.

### INCOME\*

	2002		2003		Change	
	HUF mn	proportion	HUF mn	proportion	HUF mn	%
<b>Net interest income</b>	<b>123,413</b>	<b>49.4%</b>	<b>177,062</b>	<b>57.2%</b>	<b>53,649</b>	<b>43.5%</b>
Total interest income	220,987		279,087		58,100	26.3%
Total interest expense	97,574		102,025		4,451	4.6%
<b>Non-interest income</b>	<b>126,237</b>	<b>50.6%</b>	<b>132,352</b>	<b>42.8%</b>	<b>6,115</b>	<b>4.8%</b>
Net fees and commissions	50,638	20.3%	62,095	20.1%	11,457	22.6%
Net income from securities trading	561	0.2%	- 1,878	- 0.6%	- 2,439	- 434.8%
Net income from foreign currency trading	4,342	1.7%	- 2,106	- 0.7%	- 6,448	- 148.5%
Net income from real estate transactions	590	0.2%	1,382	0.4%	792	134.2%
Insurance fee income	53,058	21.3%	60,171	19.4%	7,113	13.4%
Other non-interest income	17,048	6.8%	12,688	4.1%	- 4,360	- 25.6%
<b>Total income</b>	<b>249,650</b>	<b>100.0%</b>	<b>309,414</b>	<b>100.0%</b>	<b>59,764</b>	<b>23.9%</b>
Personnel costs	50,501	20.2%	61,530	19.9%	11,029	21.8%
Depreciation	16,102	6.4%	15,734	5.1%	- 368	- 2.3%
Insurance costs	41,140	16.5%	42,810	13.8%	1,670	4.1%
Other non-interest expense	61,319	24.6%	71,825	23.2%	10,506	17.1%
<b>Non-interest expense</b>	<b>169,062</b>	<b>67.7%</b>	<b>191,899</b>	<b>62.0%</b>	<b>22,837</b>	<b>13.5%</b>
<b>Operating profit</b>	<b>80,588</b>	<b>32.3%</b>	<b>117,515</b>	<b>38.0%</b>	<b>36,927</b>	<b>45.8%</b>
Dividend received	458	0.2%	668	0.2%	210	45.9%
Diminution in value, provisions and loan losses	12,871	5.2%	13,412	4.3%	541	4.2%
Accounting for acquisition goodwill	-	-	- 2,020	- 0.6%	- 2,020	-
<b>Profit before taxation</b>	<b>68,175</b>	<b>27.3%</b>	<b>102,751</b>	<b>33.2%</b>	<b>34,576</b>	<b>50.7%</b>
Taxes	13,599	5.4%	19,956	6.4%	6,357	46.7%
Taxes due to consolidation	- 409	- 0.2%	- 227	- 0.1%	182	- 44.5%
<b>Profit after taxation</b>	<b>54,985</b>	<b>22.0%</b>	<b>83,022</b>	<b>26.8%</b>	<b>28,037</b>	<b>51.0%</b>

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

In 2003, the group's net interest income was HUF 177.1 billion, which represents a 43.5% increase compared to the previous year. The increase in net interest income was the result of HUF 279.1 billion in interest revenue (up 26.3%) and HUF 102.0 billion in interest expenses (up 4.6%). Non-interest revenues grew dynamically, by 4.8%, to reach HUF 132.4 billion.

## MANAGEMENT'S ANALYSIS

The most important items within non-interest revenues were the increases in net fees and commissions, real estate sales and insurance premium revenues. Thus the group's total revenue increased by 23.9% from HUF 249.7 to HUF 309.4 billion. Within total income, the share of non-interest income was 42.8% in 2003. The Group's non-interest expenses increased by 13.5%, lagging behind income growth, thus improving the Group's expense/income ratio considerably, from 67.7% to 62.0%.

Under the circumstance of a slight reduction in the effective tax rate (from 19.3% to 19.2%), consolidated after-tax profit was HUF 83.0 billion, representing a HUF 28.0 billion, or 51.0%, increase.

Consolidated undiluted earnings per share (EPS)<sup>4</sup> were HUF 321.9 in 2003, while the diluted figure<sup>5</sup> was HUF 296.5, respectively 50.0% and 51.0% higher than in the previous year.

In 2003, the Bank's consolidated return on average assets (ROAA) was 2.66%, while its return on average equity (ROAE) was 30.6% (in 2002: 2.18% and 26.2% respectively). The inflation-adjusted ROAE<sup>6</sup> was 25.9%, compared to 20.9% in 2002.

### RESULTS OF THE MOST IMPORTANT SUBSIDIARIES

In 2003 the activities of OTP Bank's subsidiaries were in line with the Bank's targets and the owners' expectations. The combined balance sheet totals of the fully consolidated subsidiaries of the OTP Group amounted to HUF 1,550 billion, which is more than double the figure for the previous year. Their preliminary consolidated pre-tax profits were HUF 25.2 billion in 2003, which is two and a half times the figure for the previous year. (Of this, the balance sheet total and pre-tax profits of DSK Group, purchased in 2003, were HUF 323.7 billion and HUF 1,573 million<sup>7</sup> respectively at year-end 2003.)

**Merkantil Bank Ltd.** continued to expand its activities primarily through its subsidiaries in 2003. Thus its balance sheet total increased by a moderate 7.5%, from HUF 60.9 billion to HUF 65.5 billion. The volume of the company's customer placements amounted to HUF 61.6 billion, or 94% of total assets at year-end. The Bank's customer liabilities increased by 5.3% over the year, reaching HUF 47.0 billion as at December 31, 2003. The Bank closed the year with a pre-tax profit of HUF 2,646 million, which is HUF 271 million more than in the previous year. The Bank's profitability ratios were extremely favourable, with a return on average assets (ROAA) of 3.73% and return on average equity (ROAE) of 25.0%. The Bank's equity increased by 15.2%, from HUF 8.8 billion to HUF 10.1 billion, thereby increasing its share of total assets from 14.4% to 15.4%.

#### KEY FINANCIAL DATA OF MERKANTIL BANK LTD.

	Dec. 31, 2002 HUF mn	Dec. 31, 2003 HUF mn	Change HUF mn	%
Total assets	60,904	65,483	4,579	7.5%
Loans	57,229	61,569	4,340	7.6%
Deposits	44,656	47,012	2,356	5.3%
Shareholders' equity	8,758	10,092	1,334	15.2%
Subscribed capital	2,000	2,000	0	0.0%
Profit before taxation	2,375	2,646	271	11.4%
Profit after taxation	1,816	2,359	543	29.9%
ROAA	3.10%	3.73%		
ROAE	23.1%	25.0%		
Cost/income ratio	55.7%	48.1%		

<sup>4</sup> The method for calculating undiluted earnings per share: profit after tax (ordinary shares – own shares).

<sup>5</sup> Calculation method: after-tax profit/ordinary shares.

<sup>6</sup> Calculation method: ROAE – inflation (%).

<sup>7</sup> Q4 profits, since the Bank purchased DSK Group on October 1, 2003.

## MANAGEMENT'S ANALYSIS

**Merkantil Car Ltd.**'s balance sheet total increased by HUF 28.6 billion, or almost 150%. The volume of customer loans grew by 44.5%, a rate which exceeded that of total assets growth. The company's profit before tax increased by over 130%, reaching HUF 1,452 million in 2003.

### KEY FINANCIAL DATA OF MERKANTIL CAR LTD.

	Dec. 31, 2002 HUF mn	Dec. 31, 2003 HUF mn	Change HUF mn	%
Total assets	62,172	90,767	28,595	46.0%
Loans	62,720	90,610	27,890	44.5%
Deposits	1,149	1,429	280	24.4%
Subscribed capital	50	50	0	0.0%
Profit before taxation	629	1,452	823	130.9%
Profit after taxation	407	706	299	73.5%
ROAA	0.85%	0.92%		
ROAE	43.5%	54.7%		
Cost/income ratio	28.2%	36.5%		

**Merkantil Leasing Ltd.** is responsible for the administration of leasing transactions within the Merkantil Group. At the end of 2003, Merkantil Leasing had total assets of HUF 4.1 billion, and it made a profit before tax of HUF 159 million.

**OTP Building Society Ltd.** In 2003, OTP Building Society concluded 98,000 new contracts, in a volume of HUF 117.4 billion. As a result, the volume of its customer deposits increased to HUF 46.6 billion, while the loan portfolio volume rose to HUF 8.7 billion. Its balance sheet total was HUF 52.6 billion as at December 31, 2003, which represents an increase of 5.6% compared to the previous year. In 2003 OTP Building Society had shareholders' equity of HUF 2.5 billion, representing 4.7% of total assets. The company realised profit before tax of HUF 360 million in 2003, which is lower than in the previous year. OTP Building Society's return on average assets (ROAA) was 0.58%, its return on average equity (ROAE) was 11.1% in 2003.

### KEY FINANCIAL DATA OF OTP BUILDING SOCIETY LTD.

	Dec. 31, 2002 HUF mn	Dec. 31, 2003 HUF mn	Change HUF mn	%
Total assets	49,835	52,623	2,788	5.6%
Loans	8,014	8,703	689	8.6%
Deposits	42,569	46,586	4,017	9.4%
Shareholders' equity	2,816	2,491	- 325	- 11.5%
Subscribed capital	2,000	2,000	0	0.0%
Profit before taxation	1,604	360	- 1,244	- 77.6%
Profit after taxation	1,315	295	- 1,020	- 77.6%
ROAA	2.53%	0.58%		
ROAE	43.0%	11.1%		
Cost/income ratio	29.4%	81.9%		

## MANAGEMENT'S ANALYSIS

**OTP Mortgage Bank Ltd.** achieved outstanding results in 2003, in a rapidly growing market for mortgage-based lending products. The portfolio of housing loans taken over from OTP Bank increased by HUF 418 billion, to HUF 604.7 billion, while the volume of issued mortgage notes increased to HUF 599 billion. The balance sheet total of OTP Mortgage Bank was HUF 674.2 billion on December 31, 2003, and pre-tax profits increased by HUF 7.9 billion to reach HUF 8.5 billion. The company's profitability ratios were also favourable, with significant increases in both the return on average assets and the return on equity.

### KEY FINANCIAL DATA OF OTP MORTGAGE BANK LTD.

	Dec. 31, 2002 HUF mn	Dec. 31, 2003 HUF mn	Change HUF mn	%
Total assets	213,368	674,221	460,853	216.0%
Loans	186,666	604,672	418,006	223.9%
Issued mortgage bonds	177,100	599,000	421,900	238.2%
Shareholders' equity	5,554	24,717	19,163	345.0%
Subscribed capital	4,900	17,000	12,100	246.9%
Profit before taxation	651	8,548	7,897	1,213.0%
Profit after taxation	534	7,063	6,529	1,222.7%
ROAA	0.50%	1.59%		
ROAE	12.3%	46.7%		
Cost/income ratio	88.2%	27.6%		

**DSK Bank EAD** and its subsidiaries came under the ownership of OTP Bank at the beginning of October 2003, after which a transformation project was commenced, with the objective of restructuring the bank, improving its competitiveness and efficiency and integrating it into the OTP Group.

The DSK Group closed 2003 with a balance sheet total of HUF 323.7 billion and profit after tax of HUF 5,931 million (Q4 profits were HUF 1.2 billion).

Under International Financial Reporting Standards (IFRS), the consolidated balance sheet total of DSK was Bulgarian Leva (BGN) 2,386 million, profit after tax was BGN 45.5 million, ROAA was 2.07% and ROAE was 16.3%, or 14.0% in real terms.

**OTP Banka Slovensko (OBS)** achieved impressive results in its first full financial year as a member of OTP Group.

The volume of OBS customer deposits grew from HUF 69.2 billion in 2002 to HUF 112.2 billion at year-end 2003. Within this figure, the volume of retail deposits increased to HUF 61.6 billion, while corporate deposits rose to HUF 39.2 billion. Municipality deposits increased at an exceptionally dynamic rate, to HUF 11.4 billion.

The volume of customer placements increased by HUF 28.8 billion, or 34.8%, to HUF 111.6 billion. Within customer placements, both the retail and the corporate loan portfolio grew dynamically. The retail loan portfolio increased more than fourteen-fold, reaching a volume of HUF 13.4 billion at year-end. The volume of corporate loans increased by 19.8%, reaching HUF 97.4 billion, while municipality loans increased by HUF 214 million to HUF 746 million.

## MANAGEMENT'S ANALYSIS

### KEY FINANCIAL DATA OF OTP BANKA SLOVENSKO, A. S

	Dec. 31, 2002 HUF mn	Dec. 31, 2003 HUF mn	Change HUF mn	%
Total assets	110,131	159,924	49,793	45.2%
Loans	82,764	111,594	28,830	34.8%
Deposits	69,207	112,195	42,988	62.1%
Shareholders' equity	6,668	13,961	7,293	109.4%
Subscribed capital	5,930	13,150	7,220	121.8%
Profit before taxation	- 3,504	- 207	3,297	
Profit after taxation	- 3,504	- 207	3,297	

OBS balance sheet total was HUF 159.9 billion as at December 31, 2003, which is 45.2% higher than at the end of the previous year. The bank closed the year with a loss of HUF 207 million, which represents an improvement of almost HUF 3.3 billion in comparison to the previous year..

**OTP-Garancia Insurance Ltd.** achieved insurance premium revenues of HUF 61.1 billion in 2003, a 13.3% increase over the previous year's figure. Of the total premium revenue, revenue from the life and bank insurance businesses increased by 7.4% to reach HUF 29.0 billion. Revenue from the non-life insurance business was HUF 32.1 billion, 19.2% up on the previous year. The value of gross damages was HUF 27.1 billion in 2003. Accounting for the change in reserves, damage payments amounted to 56.6% of premium revenues in the non-life business, and 84.9% in the life business. Reserves increased by HUF 15.6 billion, or 22.8%, compared to the previous year. Thus, technical reserves amounted to HUF 84.2 billion on December 31, 2003.

### KEY FINANCIAL DATA OF OTP-GARANCIA INSURANCE LTD.

	Dec. 31, 2002 HUF mn	Dec. 31, 2003 HUF mn	Change HUF mn	%
Insurance technical reserves	68,584	84,226	15,642	22.8%
Shareholders' equity	8,491	10,650	2,159	25.4%
Subscribed capital	7,351	7,351	0	0.0%
Total assets	80,408	99,053	18,645	23.2%
Insurance fee income	53,946	61,136	7,190	13.3%
Life-insurance fee income	27,017	29,026	2,009	7.4%
of this: life-insurance with single fee payment	19,444	18,054	- 1,390	- 7.2%
Profit before taxation	1,602	2,605	1,003	62.6%
Profit after taxation	1,358	2,159	801	59.0%
ROAA	1.91%	2.41%		
ROAE	19.2%	22.6%		
Cost/income ratio	97.1%	95.7%		

The company's balance sheet total increased by 23.2%, to HUF 99.1 billion, while its equity rose from HUF 8.5 billion to HUF 10.7 billion. Retained earnings contributed to a HUF 2.2 billion increase in equity. The company's profit before tax increased by 62.6% to HUF 2,605 million in 2003, while the return on average assets (ROAA) rose from 1.91% to 2.41% and return on average equity (ROAE) was up from 19.2% to 22.6%.

## MANAGEMENT'S ANALYSIS

**OTP Fund Management Ltd.** increased its profit before tax by 23.9%, to HUF 4,338 million, despite the fact that 2003 was the worst ever year in the history of investment funds in Hungary, and the first in which the market sustained a portfolio loss. This is reflected in the development of the net asset value of the investment funds managed by the company. The volume of assets managed in the investment funds fell by HUF 78.2 billion, or 16.5%, giving the company a 47.6% share of the investment fund market as at year-end. However, the pension fund assets and other assets under the company's management increased dynamically (by 55.2%), to reach HUF 247.8 billion on December 31, 2003, putting the total of managed assets at more than HUF 644 billion. In 2003, the company's return on average assets (ROAA) exceeded 30.0%, and the return on average equity (ROAE) was 55.1%.

### KEY FINANCIAL DATA OF OTP FUND MANAGEMENT LTD.

	Dec. 31, 2002 HUF mn	Dec. 31, 2003 HUF mn	Change HUF mn	%
Total assets under management	634,100	644,000	9,900	1.6%
<i>Assets of investment funds</i>	474,399	396,179	- 78,220	- 16.5%
<i>Assets of pension funds</i>	144,756	196,400	51,644	35.7%
Total assets	11,070	11,744	674	6.1%
Shareholders' equity	7,378	5,378	- 2,000	- 27.1%
Subscribed capital	900	900	0	0.0%
Profit before taxation	3,501	4,338	837	23.9%
Profit after taxation	2,894	3,516	622	21.5%
ROAA	30.3%	30.8%		
ROAE	39.2%	55.1%		
Cost/income ratio	13.3%	16.8%		

**OTP Fund Services Ltd.** retained its dominant market position in terms of both the number of individual pension fund accounts and the value of the assets in the funds under its management. At year-end 2003, the company was managing 836,000 individual accounts, while the total of fund assets under its management had increased by almost 36% to HUF 193.9 billion. The company closed the year with a profit before tax of HUF 225 million and a balance sheet total of HUF 1,793 million. The company's profitability and efficiency indicators improved considerably in the course of 2003. The expense/income ratio fell from 98.4% in the previous year to 85.8%, return on average assets (ROAA) increased more than ten-fold, while the return on average equity (ROAE) also rose to more than six times the figure for the previous year.

### KEY FINANCIAL DATA OF OTP FUND SERVICES LTD.

	Dec. 31, 2002 HUF mn	Dec. 31, 2003 HUF mn	Change HUF mn	%
Total assets of pension funds administered	142,224	193,900	51,676	36.3%
Total assets	1,506	1,793	287	19.1%
Shareholders' equity	1,330	1,563	233	17.5%
Subscribed capital	1,275	1,330	55	4.3%
Profit before taxation	19	225	206	1,084.2%
Profit after taxation	19	225	206	1,084.2%
ROAA	1.3%	13.6%		
ROAE	2.3%	15.6%		
Cost/income ratio	98.4%	85.8%		

## MANAGEMENT'S ANALYSIS

**OTP Real Estate Ltd.** achieved a profit before tax of HUF 1,347 million, which represents an increase of HUF 271 million, or 25.2%, compared to 2002. The company's net sales revenue reached HUF 15.7 billion, which is HUF 5.1 billion, or 48.1%, higher than in the previous year. Some 56% of net sales revenue originated from real estate development and sales, 16.6% from property valuation activity, while the remaining revenue arose from the fulfilment of contracts concluded with other members of the OTP Group. In the course of the year the company's balance sheet total increased by 6.1% to HUF 17.5 billion. The company's equity increased by 22.8%, to HUF 6.1 billion. The return on average assets (ROAA) was 6.63%, while the return on average equity (ROAE) was 20.5%.

### KEY FINANCIAL DATA OF OTP REAL ESTATE LTD.

	Dec. 31, 2002 HUF mn	Dec. 31, 2003 HUF mn	Change HUF mn	%
Total assets	16,529	17,543	1,014	6.1%
Current assets	14,825	14,608	- 217	- 1.5%
Liabilities	10,938	10,826	- 112	- 1.0%
Shareholders' equity	4,950	6,080	1,130	22.8%
Subscribed capital	1,670	1,670	0	0.0%
Net sales revenue	10,619	15,732	5,113	48.1%
Profit before taxation	1,076	1,347	271	25.2%
Profit after taxation	869	1,130	261	30.0%
ROAA	6.20%	6.63%		
ROAE	19.2%	20.5%		
Cost/income ratio	65.6%	70.7%		

## ASSET-LIABILITY MANAGEMENT

### LIQUIDITY AND MARKET RISK MANAGEMENT

The supreme forum for asset-liability management and market risk management within OTP Bank Ltd. is the Asset-Liability Committee (ALCO). Each year the Committee reviews, at both OTP Group and Bank level, the applied evaluation methods and predetermined limits, which are defined on the basis of maximum acceptable losses. A report on the Bank's and Bank Group's liquidity, interest rate risk and market risk exposure is received by ALCO on a quarterly basis, and by the Bank's senior management every month. The Group-level market risk management regulations are approved by the Bank's Board of Directors. In 2004 the Bank plans to further automate its procedures for evaluating exposure to market risk, at both OTP Bank and Group level.

In 2003, growth in mortgage lending activity exceeded expectations, which had an impact on liquidity and interest rate risk exposure at Bank level and at Group level. Owing to changes in the system of state housing subsidies, 2004 is likely to see a considerable reduction in mortgage lending activity, and the start of foreign-currency lending on the housing loans market.

### TRENDS IN THE LIQUIDITY POSITION OF OTP BANK LTD.

OTP Bank Ltd.'s liquidity policy: With a view to maintaining profitability, the objective of the Bank's liquidity policy is to meet all payment obligations as and when they fall due, and to carry out the necessary transactions. For the purposes of calculating its liquidity exposure, the Bank analyses the balance of the compulsory reserve account and Treasury's portfolio on a daily basis and prepares a cash flow analysis for eight days ahead. It prepares a maturity balance sheet each month, and determines Treasury's fund placement opportunities or its funding requirement on the basis of plans. The competent organisational units and managers receive reports on risk exposure and the degree to which limits have been utilised.

## MANAGEMENT'S ANALYSIS

The positive gap in the short-term category of the Bank's forint maturity balance sheet, which gives a breakdown of deposits by their potential maturity dates, was once again substantial in 2003, despite certain changes to the structure of the maturity balance sheet owing to the commencement of mortgage-based lending. Mortgage notes issued by Group member OTP Mortgage Bank accounted for a substantial proportion of the Treasury portfolio, and therefore less funds remained for interbank investments. In summary, the overall maturity of the asset side of the balance sheet increased, while the liability-side maturity only changed marginally. The total of assets was also higher than the value of liabilities in maturity categories of less than three months in the foreign currency maturity balance sheet. The value of customers' foreign currency deposits decreased by almost 15% in EUR terms, and by 5% in HUF terms. Some 90% of foreign currency deposits continued to be denominated in EUR and USD. The increase in the proportion of EUR deposits continued in 2003, with their share of total deposits growing from 55% to 60%.

In 2003 the portfolio of foreign currency loans increased by almost 150% compared to 2002, and its weight within the portfolio of foreign currency assets rose 10 percentage points compared to the end of the previous year, to reach 68%. In addition to the lending activities of OTP Bank, the Group members also contributed to the growth in foreign currency loans. A high proportion of the loans provided by the Bank were provided to its subsidiaries, mainly for the financing of vehicle leasing. Over the year the ratio of foreign currency customer deposits to foreign currency loans fell from 131% to 86%, and from 104% to 66% in the case of EUR loans. As a result of the purchase of the Bulgarian DSK Bank, more than half of equity stakes are foreign-currency denominated, compared to only a quarter in the previous year. The Bank raised EUR and CHF funds through loans and swap transactions, for the financing of its lending activities.

The Bank's rules for determining what it regards as large deposits are stricter than those required by law. While the statutory provisions define a large deposit as being higher than 15% of the Bank's adjusted capital, the Bank considers all deposits in excess of HUF 2 billion to be large deposits. The combined volume of the Bank's cash, securities accepted by the MNB, and its short-term MNB and interbank placements, is over 4.2 times higher than the combined balance of all large deposits. The combined value of the Bank's cash, trading securities and deposits with the MNB or other, commercial banks accounted for 20% of the balance sheet total in 2003, compared to 25% at the end of 2002.

### OTP BANK LTD.'S INTEREST RATE RISK EXPOSURE

The Bank aims to keep potential losses from unfavourable interest rate trends, and from decreases in interest income and the market value of the portfolio, within predetermined limits. To this end, the Bank continuously measures its interest rate risk exposure and informs management of any breaches of the limit. OTP Bank's level of exposure to interest risk is essentially determined by the fact that the greater part of the forint deposit portfolio can be re-priced within 3 months, partly because the majority of deposits have a short maturity, and partly because their interest is not fixed-rate or pegged to money-market instruments, but is repricable at the Bank's discretion on the basis of market trends.

In 2003 the trend in forint interest rates ran contrary to general expectations, which had both positive and negative implications. In 2003, as in 2002, the gap with respect to maturities of less than one year within the Bank's and the trading book's forint re-pricing balance sheet (i.e. the value of receivables minus the value of liabilities in the given maturity span) remains short, i.e. it shows a sizeable surplus of liabilities over receivables. The main reason for this is that the volume of liabilities that can be re-priced within one year is higher than that of assets that can be re-priced within one year. The Bank's interest rate risk exposure, which arises from mortgage-based loans with a fixed-interest rate over five years, and from the fixed-interest securities portfolio (government securities and mortgage notes issued by OTP Mortgage Bank), increased in 2003 due to the changes in the structure of mortgage-based lending.

### OTP BANK LTD.'S INTEREST RATE RISK EXPOSURE

In 2003 the statutory limitation of the potential maximum (gross) open position to 30% of adjusted capital, in the interest of preventing potential losses due to unfavourable exchange rate movements, was lifted. This did not result in any significant changes from the Bank's point of view, since it already possesses detailed internal regulations on exchange rate risk

## MANAGEMENT'S ANALYSIS

management, which are reviewed on an annual basis. The level of exposure is restricted by the limit set by the Asset-Liability Committee (ALCO) for the total open position, which is defined in the Trading Book Decree as the aggregate net foreign currency position, as well as other position (overnight and intraday) stop-loss limits set by ALCO. Individual position limits have also been determined for each currency.

The Bank participates both in the domestic and FX spot and derivative markets. The average size of OTP Bank's gross foreign currency position was HUF 33.6 billion, while its aggregate net position was HUF 23.8 billion. On average, the net open position amounted to HUF 17.8 billion, which mostly originated from foreign equity stakes. Disregarding these equity stakes, the average position was HUF 1 billion. The year 2003 was characterised by unexpected and substantial market fluctuations in exchange rates, which was the main factor determining the profits achieved by the business line.

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

Pursuant to Government Decree 244/2000, since the second quarter of 2001, the Bank has been reporting on a daily basis to the State Financial Supervisory Authority the capital requirement of the interest, counterparty and bank foreign exchange risk (calculated using what is known as the standard method) of its trading book positions. In 2003, on average, this capital requirement was HUF 1,989 million higher than in 2002, and reached HUF 4,651 million, from which a value equivalent to HUF 2,624 was necessary to cover position risk, HUF 385 million to cover counterparty risk, and HUF 1,643 million to cover foreign exchange risk. The growth in the capital requirement was basically attributable to an increase in open foreign currency positions. The Bank also determines the capital requirement internally on a daily basis, using the Value at Risk (VaR) calculation model. In 2003 the average (total) capital requirement calculated using the VaR model was HUF 7,756 million. The relatively high value was due to the considerable fluctuations in the forint exchange rate.

### THE MARKET RISK EXPOSURE OF THE OTP GROUP

In 2003 the Bank launched a project to further develop the IT system responsible for performing, among other functions, Value at Risk calculations. Upon completion of the project it will be possible to determine the market positions and the related value at risk for the key members of the group from the point of view market risk management (OTP Bank, OTP-Garancia Insurance, OTP Mortgage Bank, OTP Building Society, Merkantil Bank, OTP Banka Slovensko, DSK) on a daily basis. Full-scale introduction of the system at the OTP Group members will take place in 2004.

The interest exposure of the OTP Group is essentially determined by the positions of OTP Mortgage Bank Ltd. and OTP Bank Ltd. Even in terms of the OTP Group, the volume of liabilities that can be re-priced within one year exceeds the volume of assets that can be re-priced within one year. Given a drop in market interest rates, this position may be advantageous for the OTP Group. Pursuant to Government Decree 244/2000, the capital requirement of the interest, counterparty and foreign exchange risk of the trading book positions must be consolidated in the case of OTP Mortgage Bank Ltd., OTP Building Society Ltd., Merkantil Bank Ltd. and OTP Banka Slovensko. However, with the exception of OTP Bank Ltd., all the group members were exempted from keeping a trading book. From 2003 the capital requirement of the foreign currency positions of Merkantil Bank and OTP Banka Slovensko are consolidated with the positions of OTP Bank on a daily basis.

# FINANCIAL SUMMARY\*

## BALANCE SHEET

As at December 31	1999	2000	2001	2002	(HUF bn) 2003
Cash and bank	557.4	482.4	372.6	347.0	253.0
Government securities	300.9	440.2	481.1	401.9	402.5
Interbank deposits**	277.7	233.9	329.9	263.3	165.4
Loans and advances to customers	478.4	614.1	769.8	951.7	1,088.3
Retail	150.8	180.2	258.3	329.8	318.2
Corporate	291.4	393.2	464.8	558.6	691.2
Municipal	36.2	40.7	46.7	63.3	78.9
Intangible and fixed assets	52.1	52.7	54.3	63.7	107.6
Other	101.0	108.0	119.5	362.5	741.8
<b>TOTAL ASSETS</b>	<b>1,767.5</b>	<b>1,931.3</b>	<b>2,127.2</b>	<b>2,390.1</b>	<b>2,758.6</b>
Interbank liabilities	42.2	44.4	25.1	28.2	91.1
Deposits from customers	1,507.6	1,633.0	1,811.2	2,011.0	2,234.9
Retail	1,214.0	1,308.1	1,405.7	1,523.7	1,656.3
Corporate	189.9	210.9	253.5	341.9	421.4
Municipal	103.7	114.0	152.0	145.4	157.2
Securities issued	22.9	19.6	14.9	9.4	5.9
Provisions	11.1	11.3	14.6	21.0	26.8
Other	83.0	95.5	102.9	114.7	138.1
Shareholders' equity	100.7	127.5	158.5	205.8	261.8
<b>TOTAL LIABILITIES</b>	<b>1,767.5</b>	<b>1,931.3</b>	<b>2,127.2</b>	<b>2,390.1</b>	<b>2,758.6</b>
Net assets per share (NAV) *** (HUF, fully diluted)	359.5	455.4	566.1	735.2	934.9

## PROFIT AND LOSS ACCOUNT

For the year ended December 31	1999	2000	2001	2002	(HUF bn) 2003
Net interest income	84.0	86.9	98.3	102.7	118.2
Non-interest income	30.1	38.8	42.7	63.6	85.6
of which: Net fee and commission income	24.0	32.0	40.0	56.8	85.1
Total income	114.1	125.6	141.0	166.3	203.8
Non-interest expenses	74.6	77.7	85.2	95.6	110.3
Operating income/profit	39.5	47.9	55.8	70.7	93.5
Dividend received	0.2	0.2	0.1	0.3	7.7
Provisions	10.2	7.9	8.5	13.5	13.3
Accounting for acquisition goodwill	–	–	–	0.6	–1.2
<b>Profit before taxation</b>	<b>33.3</b>	<b>40.2</b>	<b>47.4</b>	<b>58.1</b>	<b>86.7</b>
<b>Profit after taxation</b>	<b>28.3</b>	<b>32.5</b>	<b>38.4</b>	<b>47.2</b>	<b>71.6</b>
Earnings per share (EPS) *** (HUF, undiluted)***	107.13	124.13	145.77	178.98	269.21

KEY RATIOS	1999	2000	2001	2002	2003
Loan to deposit ratio %	31.7	38.6	42.5	47.3	48.7
Cost/income ratio %	65.3	61.7	60.4	57.5	54.1
Capital adequacy ratio %	15.23	15.45	14.11	13.43	10.54
Return on average assets (ROAA) %	1.67	1.76	1.89	2.09	2.78
Return on average equity (ROAE) %	31.6	28.5	26.9	25.9	30.6
Dividend per share (HUF)					
Dividend per common share (HUF) ****	180	200	275	–	60
Dividend per voting preference share (HUF)	180	200	275	–	600

\* Unconsolidated, based on HAR

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

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

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

**DIFFERENCES BETWEEN THE PROFIT AND LOSS  
ACCOUNT OF OTP BANK LTD. PREPARED ACCORDING  
TO HUNGARIAN, AND ACCORDING TO INTERNATIONAL,  
ACCOUNTING PRINCIPLES FOR THE YEAR  
ENDING DECEMBER 31, 2003**

Below we provide a summary of the differences between the profit established on the basis of Hungarian Accounting Rules (HAR) on the one hand, and International Financial Reporting Standards (IFRS) on the other.

	HAR	IFRS adjustments	(Figures in HUF million) IFRS
Profit before tax	86.701	– 2.173	84.528
Tax (deferred tax in IFRS)	– 15.139	752	– 14.387
Profit after tax	71.562	– 1.421	70.141

Profit after tax according to IFRS were HUF 1,421 million lower in 2003 than they were according to HAR.

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

**CREATION OF GENERAL RISK PROVISIONS**

In 2003, based on the value of risk-weighted (adjusted) total assets, **general risk provisions of HUF 2,803 million were generated** in the HAR profit and loss account.

The above provisions are not recognised by IFRS, and thus the provision generated in HAR was ignored, resulting in a profit-increasing item of **HUF 2,803 million** in the IFRS report.

**AMORTISATION OF THE PREMIUMS AND DISCOUNTS ON INVESTMENT SECURITIES**

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

Adjustments implemented under IFRS are as follows:

	HUF
– reversal of last year's IFRS accrual:	+ 48 million
– reversal of the HAR accrual as at December 31, 2003:	+ 41 million
– IFRS accrual as at December 31, 2003:	<u>– 389 million</u>
	– 300 million

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

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

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

With respect to other securities, once again in 2003 the difference between the HAR and IFRS figures was not substantial, the reason for this being that the Bank acquired the bulk of non-amortisable securities classified under IFRS as held-for-sale at nominal value.

The above items reduced the IFRS profit by **HUF 300 million**.

## MANAGEMENT'S ANALYSIS

### RELEASE OF PROVISIONS FOR CONTINGENT AND FUTURE LIABILITIES

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

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

In 1999, HUF 700 million was released from the provisions generated in the previous years, followed by HUF 350 million in 2000, HUF 153 million in 2001, HUF 69 million in 2002 and **HUF 152 million** in 2003. This latter amount is identical with the expense paid by the Bank.

### ACCOUNTING OF FINANCIAL LEASING

#### Contracts related to tangible assets

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

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

As a combined impact of the above items, the different accounting treatment of the various leasing transactions reduced the IFRS profit by a total of **HUF 117 million**.

#### Contracts related to intangible assets

In order to satisfy in a more economical manner certain capital adequacy requirements set for the Bank, on June 30, 2003 software products were sold to SPLC Ltd. Concurrently with the conclusion of the sales contract, the sub-licensing agreement provides a right for the Bank to use the software products on a continuous basis, in accordance with the conditions prevailing before the sale. Pursuant to the original contract, the sub-licence term is 60 months, which is virtually identical with the period over which the Bank would have depreciated the software. Under the sub-licence agreement, the Bank does not acquire ownership or full end-user rights. During the sub-licensing term, the Bank pays a quarterly fixed licence fee to the company.

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

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

The sale took place on June 30, and therefore the sale was reversed in the international report prepared for June 30.

The IFRS report prepared on December 31, 2003 already incorporates the effects of contract amendments made in the fourth quarter. These contract amendments related in part to the repurchase of two software products, and also to the fact that, with respect to several software items, the amounts of the leasing fees and the term of the lease had been recalculated, and that with regard to the capital investment loan for the software, the credit line provided for in the contract had been increased.

As a result of these factors, the following IFRS adjustment items were accounted for on December 31, 2003:

Leasing fees accounted for the period from July 1, 2003 to December 31, 2003 and the interest revenue on disbursed loans were cancelled in the IFRS report, and amortisation was also accounted for on intangible assets. As a combined result of these items, the IFRS profit was reduced by HUF 22 million.

## MANAGEMENT'S ANALYSIS

Together with the reversal of approximately HUF 11 million in profit accounted for on sales, the different accounting procedure applied to the leasing transaction involving intangible assets reduced the IFRS profit by a total of HUF 11 million.

The IFRS modifications related to the two contract packages indicated above reduced the IFRS profit by a total of **HUF 128 million**.

### VALUATION OF FINANCIAL INSTRUMENTS ACCORDING TO IAS 39

The application by the Bank of IAS 39 resulted in adjustments in the case of securities and off-balance sheet financial instruments.

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

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

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

The combined impact of the marked-to-market revaluation of securities:

- As a result of the write-back of the market-value difference of HUF 3,481 million relating to the previous period, to December 31, 2002, and
- the accounting of HUF 4,973 million in negative fair value adjustment relating to December 31, 2003, the profit of the reporting year, i.e. 2003, **was reduced by HUF 8,454 million**.

Of this, HUF 7,205 million was related to the changes in the market value of mortgage bonds issued by OTP Mortgage Bank and the remaining HUF 1,249 million was related to the change in the market value of Hungarian government bonds.

#### DIFFERENCES IN ACCOUNTING FOR OFF-BALANCE SHEET FINANCIAL ASSETS

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

- provisions set aside for non-hedged forward transactions
- the accrual of the revaluation result of the spot leg of swap deals
- the interest revenue and interest expense accrued in connection with swap deals.

#### 1. Adjustments under HAR:

	<b>HUF</b>
1. Reversal of last year's accruals (on swap transactions):	+ 8,004 million
2. Write-back of last year's provisions on forward transactions:	– 1,460 million
3. Write-back of provisions under HAR for non-hedged forward transactions reported at the end of the reporting year	+ 751 million
3.a) on forwards	+ 685 million
3.b) on futures	+ 66 million
3.c) on options	–
4. Reversal of the revaluation loss accounted for on the spot leg of swap transactions, and reversal of the accrued exchange rate gains on futures transactions	+ 765 million
5. Reversal of the accrued interest revenue and interest expense on swap deals	– 1,228 million
<b>Total</b>	<b>+ 6,832 million</b>

#### 2. Impact on the profit of the reporting period resulting from fair market valuation according to IFRS:

– 2,889 million

#### 3. Impact on the profit of the different treatment of off-balance sheet financial instruments under Hungarian and under international standards:

+ 3,943 million

The aggregate effect of modifications based on IAS 39 is a decrease in profit of HUF 4,511 million.

## MANAGEMENT'S ANALYSIS

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

The price loss on the sale of repurchased own shares, and the exchange value difference paid to the Bank due to the transformation of shares, were accounted for in the annual profit under HAR, and served to increase the profit by HUF 5 million. These items must be accounted for among reserves under IFRS, and therefore the necessary adjustment reduces the IFRS profit by **HUF 5 million**.

### NEGATIVE GOODWILL

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

- The updated total value of negative goodwill as at December 31, 2002 was HUF 3,815 million. (The goodwill is the – in this case negative – difference between the cost price paid by the buyer and the estimated market value of the acquired stake.)
- Another, related, provision of HAR is that negative goodwill must be credited to the profit account over a period of 5 years (60 months). Consequently, HUF 572 million was credited to the profit account in 2002, while in 2003 the profit account was credited with HUF 763 million (i.e. a pro rata value for 2003 of 12/60 of the total amount).

In the 2003 report prepared **under Hungarian accounting rules, positive goodwill** was accounted for with respect to the Bulgarian DSK Bank, acquired by OTP Bank Ltd. on October 1, 2003, as follows: the total amount of goodwill is the HUF 40,076 million difference between the EUR 311 million (HUF 79,162 million) purchase price and the HUF 39,086 million in equity that represents the cost price of the stake. This amount must be reported among intangible assets under HAR and, in accordance with a decision of the Bank, is to be amortised against profit over a period of five years (approximately 60 months). The amortised amount per month is approximately HUF 668 million. Thus, in the fourth quarter of 2003 a total of HUF 2,020 million was charged to profit.

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

The required IFRS adjustment increases the profit for 2003 by **HUF 1,257 million**.

### ADJUSTMENT TO COST PRICE OF EQUITY STAKES RECORDED IN FOREIGN CURRENCY

**Under HAR**, equity interests recorded in foreign currency must be revalued on the last day of every month, based on the month-end exchange rate quoted by the National Bank of Hungary. Due to the revaluation of foreign investments (HIF Ltd., TVM S.A, OBS, DSK) that are included among equity interests, the Bank gained HUF 2,405 million in 2003.

**Under IFRS**, interests recorded in foreign currency must be disclosed at the original cost price and at the exchange rate as at the transaction date. The IFRS profit must be adjusted by the revaluation difference recorded under HAR, and for the Bank this had the effect of decreasing the IFRS profit by **HUF 2,405 million**. Of this amount, HUF 1,450 million is explained by the revaluation of the stake in OBS, which represents SKK 2,076 million in net value in the international report. Due to the increase of some HUF 3.08 in the price of DSK shares between the acquisition date and December 31, the Bank recorded a revaluation gain of approximately HUF 923 million on its stake of nominal value BGN 299,763,000 in DSK.

## MANAGEMENT'S ANALYSIS

### ADJUSTMENT IN COMPANY VALUE DUE TO TRANSFORMATION

If business entities are transformed, under HAR the book value of the entity being terminated must be accounted for among extraordinary items (as an expense of HUF 1,255 million in this case) and the equity of the shareholder in the new entity (HUF 1,550 million) must also be recorded among extraordinary items. The latest mentioned item has resulted in an increase in revenues. As a result of the transaction between the Health Care Fund and Fund Services Ltd., the Bank accounted approximately HUF 295 million in additional revenue in the HAR report.

According to IFRS, however, based on the realisation principle, any profit between an investor and the enterprise receiving the investment can only be realised by the enterprise when realisation takes the form of sale to a third party. Accordingly, under IFRS the adjustment accounted for in relation to the transformation must be reversed. The necessary adjustment reduces the IFRS result by **HUF 295 million**.

### ADJUSTMENT DUE TO DELIVERY REPO TRANSACTIONS (IAS 39)

Delivery repo transactions are treated differently under IFRS and HAR.

Due to the settlement rules related to repo transactions, the IFRS profit increased by a total of **HUF 89 million**.

### ITEMS CHARGED DIRECTLY TO RESERVES – SELF-AUDIT

Under HAR, corrections due to self-audit are posted against profit reserves. Under IFRS, the self-audit items carried out by the Bank are not considered material errors, and thus they are posted to the profit of the reporting year. The necessary IFRS adjustment increases profits by **HUF 1,170 million**.

### DEFERRED TAX

Unlike HAR, international reporting standards recognise and apply the principle of deferred taxation, which treats corporate taxation in the same manner as any other expense and thus renders it subject to the principle of accrual and matching. In the Bank's case, deferred taxation affects profit-modifying items of the IFRS report that will almost certainly also be reflected in the Hungarian financial statements in the future, i.e. they will be accounted for as a cost, or posted to income. As a result of accounting for these items, tax payables may either increase or decrease.

The Bank began applying deferred taxation in its IFRS reports in 1994. In 2003, due to the profit-adjusting items that must be taken into account when calculating the deferred tax, the deferred tax (calculated at the corporate tax rate of 16% valid from 2004) amounts to **HUF 752 million**, which is a profit-increasing item.

	<b>HUF</b>
Premium discount:	– 300 million
Release of provisions due to home warranty:	152 million
Financial leasing:	– 128 million
Valuation of financial instruments under IAS 39:	– 4,511 million
Adjustments due to delivery repo:	89 million
IFRS tax base adjustment	– 4,698 million



**MATERIAL DIFFERENCES BETWEEN OTP BANK LTD.'S  
AUDITED AND CONSOLIDATED FINANCIAL STATEMENTS AS  
AT DECEMBER 31, 2003 PREPARED ACCORDING TO  
INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS)  
AND ACCORDING TO HUNGARIAN ACCOUNTING RULES (HAR)**

**Reconciliation of consolidated profit before tax**

	HAR	IFRS	Data in HUF million Change
<b>OTP Bank Ltd.</b>	<b>86,701</b>	<b>84,528</b>	<b>- 2,173</b>
Merkantil Group	4,219	4,340	121
HIF Ltd.	259	259	0
OTP-Garancia Insurance Ltd.	2,605	2,846	241
Concordia-Info Ltd.	168	168	0
OTP Real Estate Ltd.	1,347	1,347	0
OTP Mérleg Ltd.	195	148	- 47
OTP Factoring Asset Management Ltd.	64	64	0
OTP Factoring Ltd.	1,321	1,321	0
OTP LTP Ltd.	360	317	- 43
Bank Center No I. Ltd.	81	81	0
Inga Companies Ltd.	104	104	0
OTP Fund Services Ltd.	225	225	0
OTP Mortgage Bank Ltd.	8,548	8,548	0
OTP Fund Management Ltd.	4,338	4,338	0
OTP Banka Slovensko, a. s.	- 207	76	283
DSK Group	1,573	1,678	105
<b>I. Consolidated profit before tax</b>	<b>111,901</b>	<b>110,388</b>	<b>- 1,513</b>
<i>Change compared with the Bank</i>	<i>25,200</i>	<i>25,860</i>	
Equity method	- 282	- 268	14
Capital consolidation	- 9,032	- 9,705	- 673
Elimination of intra-group double reporting	164	- 39	- 203
<b>II. Total consolidation effect</b>	<b>- 9,150</b>	<b>- 10,012</b>	<b>- 862</b>
<b>III. Effect of other differences (IAS 39)</b>	<b>-</b>	<b>2,285</b>	<b>2,285</b>
<b>Consolidated profit before tax</b>	<b>102,751</b>	<b>102,661</b>	<b>- 90</b>
<i>Compared with the Bank</i>	<i>16,050</i>	<i>18,133</i>	<i>2,083</i>

As can be seen in the table, part of the difference between the HAR and IFRS consolidated financial statements of December 31, 2003 is attributable to the decrease in OTP Bank Ltd.'s figures, which is offset by the individual figures of the subsidiaries and by the impact of the valuation of the financial instruments of the subsidiaries (IAS 39), although this has been reduced through the effect of the consolidation procedures.

## MANAGEMENT'S ANALYSIS

### I. DIFFERENCES ARISING UPON CONSOLIDATION OF THE REPORTS

#### OTP Bank Ltd.

During the reconciliation of the 2003 reports prepared according to Hungarian rules and those prepared according to international accounting standards, the following items had an impact on the profit of OTP Bank:

	(in HUF)
Reversal of general risk provisions	+2,803 million
Amortisation of the premium and discount of bonds	– 300 million
Provisions for contingent and future liabilities (home warranty)	+152 million
Adjustments in the book value of equity stakes held in subsidiaries	– 295 million
Accounting for financial leasing	– 128 million
Adjustment of securities held for trading and for sale and of equity stakes to fair market value (IAS 39)	-8,454 million
Adjustment of off-balance sheet financial instruments (derivatives) to fair market value (IAS 39)	+3,943 million
Price losses on repurchased own shares	– 5 million
Adjustments due to goodwill and negative goodwill	+1,257 million
Adjustment of equity stakes recorded in foreign currencies to cost price	– 2,405 million
Adjustments due to delivery repo	+89 million
Reclassification of items directly charged to reserves (self-revision)	+1,170 million
<b>Total adjustments in profit before tax</b>	<b>– 2,173 million</b>

#### Merkantil Group

A basic difference between the HAR and IFRS reports is that in the IFRS report Merkantil Group's operative leasing transactions must be treated as financial leasing and must be disclosed under receivables, and therefore in 2003 the reclassification of such transactions has the effect of decreasing profit before tax.

The IFRS profit is reduced by HUF 24 million due to the above.

#### OTP Banka Slovensko, a. s. and DSK Group

In the international consolidated report, when the profit and loss account of OTP Banka Slovensko, a.s. (OBS) and that of DSK Group are converted from foreign currency into HUF, the exchange rate difference must be posted to equity, while according to the Hungarian rules, the revaluation difference arising from the translation must be posted to other revenues (expenses). The difference between the exchange rate figures applied in the two reports is not material, with its total effect on profit before tax being just HUF 10 million.

OTP Banka Slovensko, a. s.	HUF – 5 million
DSK Group	HUF – 5 million

The IFRS profit is reduced by HUF 10 million due to the above.

## MANAGEMENT'S ANALYSIS

### **OTP Banka Slovensko, a. s., DSK Group, Merkantil Group and OTP LTP Ltd.**

The general risk provisions calculated pursuant to the relevant government decree and disclosed in the HAR report are not interpreted in IFRS, and therefore the profit disclosed in the IFRS report is increased by this amount.

OTP Banka Slovensko, a. s.	HUF	+288 million
DSK Group	HUF	+168 million
Merkantil Group	HUF	+145 million
OTP LTP Ltd.	HUF	- 43 million

The IFRS result increased by HUF 558 million due to the above.

### **DSK Group**

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

The IFRS profit is reduced by HUF 58 million due to the above.

### **OTP-Garancia Insurance Ltd.**

Compared with the HAR figures, in the IFRS report the deletion of the reporting year's amortisation of the capitalised value of restructuring related to new products (Nyitány, Compulsory third-party liability insurance) is a factor increasing pre-tax profits (HUF +34 million). The capitalised value of restructuring in previous years was accounted for in the IFRS reports of the previous years as a profit-reducing item, and thus the amortisation of expenses is now eliminated as a profit-increasing item.

In the IFRS reports of the previous years, OTP-Garancia Insurance's receivables from re-insurance (stop-loss transactions) arising from compulsory vehicle insurance was written off, as IFRS did not recognise revenues from the charge of compensation payments to other parties (recovered damages). Due to the decrease in receivables in the reporting year, in the IFRS report the write-off of receivables had to be adjusted by a HUF +207 million profit-increasing item.

The IFRS profit is increased by HUF 241 million due to the above.

### **OTP Mérleg Ltd.**

The restatement of items directly charged to reserves (self-revision) reduces the profit in the IFRS report.

The IFRS profit is reduced by HUF 47 million due to the above.

As a combined effect of the consolidation of the above companies, the IFRS profit is reduced by HUF 1,513 million.

## II. DIFFERENCES IN THE EFFECTS OF CONSOLIDATION

### Effect of the equity method

The basic difference between the equity method used in the HAR and in the IFRS reports is in the Hungarian report both the law and the Bank's accounting policy on consolidation specify which companies must be consolidated under this method. (These are subsidiaries that are exempt from full consolidation, as well as associate companies in which the Bank holds a significant interest that is equal to a nominal value of at least HUF 50 million of the share capital based on the ownership stake and that, at the minimum, represents a 10% ownership stake. There are a total of 22 such companies.)

In the international report, the equity method must be used on based on a case-by-case judgement, and only with respect to investments in which the stake of the parent company is significant.

The companies included in the consolidated HAR report brought, in total, a lower loss in 2003 than did Nagybanki Piac Ltd. and GIRO Clearing Centre Ltd., consolidated under the equity method in the IFRS report. Due to this difference, the HAR and the IFRS reports also differ from one another in the profit and loss changes charged to the equity held by the parent company.

The IFRS profit is increased by HUF 14 million as a result of the equity method.

### Effect of capital consolidation

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

Under HAR, the active capital consolidation difference from the Inga Ltd. companies, i.e. the difference between the cost price and the equity of these companies as at the purchase date, must be amortised on a straight-line basis over five years, while under IFRS the entire amount of the difference was written off in 1998 as it did not represent a significant amount. For this reason, in the HAR report profits are decreased by the straight-line amortisation expense of HUF 7 million, while in the IFRS reports after 1998 there is no such profit-decreasing item.

The IFRS profit is increased by HUF 7 million as a result of the above.

In the consolidated HAR report, the elimination (HUF -763 million) of the revenue originating from the goodwill that was accounted for on OBS in OTP's books decreases profits. In contrast to this, in the individual IFRS report, OBS is disclosed at cost price, and the goodwill and related amortisation are not accounted for, and therefore there is no elimination in capital consolidation. However, in the IFRS consolidated report, the goodwill is disclosed, of which HUF 24 million (accounted for as revenue and recorded as the incurred expense of capital consolidation) and HUF 125 million (accounted for as revenue and recorded as the amortisation of the average useful life /25 years/ of non-financial assets) are profit-increasing items. The difference between the two is HUF +912 million in the IFRS report.

The IFRS profit is increased by HUF 912 million as a result of the above.

During the capital consolidation according to HAR, there is no effect on profit from recording DSK goodwill, because the goodwill depreciation, accounted for in the individual report is eliminated, and an identical amount of active capital consolidation difference amortisation is also accounted for. In the individual report according to IFRS, the equity stake is disclosed at the cost price, therefore no goodwill is established. It is taken into account and amortised in the consolidated report in capital consolidation. The effect of amortisation is HUF 1,919 million.

The IFRS profit is reduced by HUF 1,919 million as a result of the above.

The Hungarian individual report discloses revenue realised from the transformation of OTP Fund Services Ltd. and the value of this interest has increased in the individual HAR report. The eliminated interest is reported as an extraordinary expense, while the value of the new interest is accounted for as extraordinary revenue, with a combined impact of HUF +300 million on profits.

## MANAGEMENT'S ANALYSIS

This revenue was eliminated in the course of capital consolidation. As interest was disclosed at the cost price in the IFRS reports, no revenue was recorded in the individual report, and no elimination took place in consolidation either. The IFRS profit is increased by HUF 300 million as a result of the above.

In the IFRS report, DSK's equity stakes were adjusted to market value at the time of consolidation, and therefore no capital consolidation difference occurred during the capital consolidation of DSK subsidiaries. In contrast to this, in the report prepared according to HAR, the amortisation of active capital consolidation difference reduced the profit. The IFRS profit is increased by HUF 27 million as a result of the above.

The total capital consolidation difference reduces the IFRS profit by HUF 673 million.

### Effect of avoiding intra-group double reporting

In the consolidation steps used during the preparation of reports according to HAR and IFRS, the elimination of the exchange rate adjustment of the value-loss on OBS represented a difference. In the IFRS report on OTP Bank, OBS is disclosed at the cost price, and the calculated value-loss is not adjusted either, and consequently there is also no exchange rate adjustment. In the report prepared according to HAR, the elimination of exchange rate loss increases the profit by HUF 203 million, while there is no such elimination in the IFRS report.

The IFRS report is reduced by HUF 203 million as a result of the elimination of intra-group relations.

Differences originating from the effects of consolidation reduce the IFRS profit by a total of HUF 862 million.

## III. IMPACT OF OTHER DIFFERENCES – REVALUATION ACCORDING TO IAS 39

In the balance sheet prepared according to IFRS, securities held for trading and for sale as well as interests that qualify as saleable financial assets must be disclosed at their market value. The cancellation of the fair market valuation, increasing the previous year's profit, of securities held for trading and for sale has reduced the profit by HUF 496 million in total, while the marked-to-market valuation of the reporting period has reduced the profit by a total of HUF 4,424 million.

The marked-to-market valuation as at December 31, 2003 modified the profit most notably in the case of OTP-Garancia Insurance Ltd. (HUF – 723 million), OTP Mortgage Bank Ltd. (HUF – 3,407 million), OTP LTP Ltd. (HUF – 536 million), OTP Fund Management Ltd. (HUF +82 million), DSK (HUF +187 million) and OBS (HUF – 27 million).

The IFRS profit is reduced by HUF 4,920 million as a result of the above.

The fair market valuation of mortgage bonds issued by OTP Mortgage Bank Ltd. and recorded in the Bank's books reduced the profit in the individual IFRS reports. As a result of the elimination of intra-group transactions, the devaluation was also cancelled in the consolidated report. The cancellation of the impact of elimination, which had reduced the previous year's profit, increased the profit by HUF 2,928 million in the reporting year, while the elimination of the valuation increased the profit by HUF 4,277 million.

The IFRS profit is increased by HUF 7,205 million due to the above.

As a result of other differences – revaluation according to IAS 39 – the IFRS profit is increased by HUF 2,285 million.



# FINANCIAL *Report*



## FINANCIAL REPORT

# Deloitte.

Deloitte  
Auditing and Consulting Ltd.  
Nádor u. 21.  
H-1051 Budapest,  
Hungary  
P.O.Box 503  
H-1397 Budapest  
Hungary

Tel: +36 (1) 428-6800  
Fax: +36 (1) 428-6801  
[www.deloitte.com/Hungary](http://www.deloitte.com/Hungary)

### *INDEPENDENT AUDITORS' REPORT*

To the Shareholders of National Savings and Commercial Bank Ltd.

We have audited, in accordance with the Hungarian National Standards on Auditing, the unconsolidated financial statements of National Savings and Commercial Bank Ltd. (the "Bank") for the year ended December 31, 2003, 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 69 to 71 of this Annual Report, were derived. In our independent auditors' report dated March 19, 2004, we expressed an unqualified opinion on the unconsolidated financial statements, prepared in accordance with the 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, 2003 and the unconsolidated results of its operations for the year then ended, prepared in accordance with the 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.

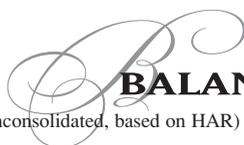
Budapest, May 17, 2004

Deloitte

Audit.Tax.Consulting.Financial Advisory

Registered by the Budapest Court of Registration  
Company Reg. No.: 01-09-071057

A member firm of  
Deloitte Touche Tohmatsu



## BALANCE SHEET

(unconsolidated, based on HAR) as at December 31, 2003 in HUF mn

ASSETS	2002	2003
1. CASH IN HAND, BALANCES WITH CENTRAL BANKS	346,963	252,975
2. TREASURY BILLS	401,855	402,543
a) held for trade	111,072	135,011
b) held as financial fixed assets (for long term investment)	290,783	267,532
3. LOANS AND ADVANCES TO CREDIT INSTITUTIONS	263,157	165,209
a) repayable on demand	5,317	4,700
b) other receivables from financial services	257,840	160,509
4. LOANS AND ADVANCES TO CUSTOMERS	1,010,197	1,089,158
a) receivables from financial services	1,007,900	1,088,064
aa) maturity not more than one year	376,659	399,920
ab) maturity more than one year	631,241	688,144
b) receivables from investment services	2,297	1,094
5. DEBT SECURITIES INCLUDING FIXED-INCOME SECURITIES	153,188	533,136
a) securities issued by local self-governing bodies and by other public body (not include the treasury bills issued by Hungarian State and securities issued by Hungarian National Bank)		1,300
b) securities issued by other bodies	153,188	531,836
6. SHARES AND OTHER VARIABLE-YIELD SECURITIES	5,682	7,628
7. SHARES AND PARTICIPATING INTEREST AS FINANCIAL FIXED ASSETS	622	754
8. SHARES AND PARTICIPATING INTEREST IN AFFILIATED UNDERTAKINGS	42,908	100,199
9. INTANGIBLE ASSETS	13,793	43,961
10. TANGIBLE ASSETS	49,886	63,589
a) tangible assets for financial and investment services	47,027	60,450
b) tangible assets not for directly financial and investment services	2,859	3,139
c) revaluation surplus on tangible assets	0	0
11. OWN SHARES	16,883	14,328
12. OTHER ASSETS	50,371	45,070
13. PREPAYMENTS AND ACCRUED INCOME	34,615	40,056
<b>TOTAL ASSETS</b>	<b>2,390,120</b>	<b>2,758,606</b>
From this:		
– CURRENT ASSETS	1,154,361	1,128,176
– FIXED ASSETS	1,201,144	1,590,374



## FINANCIAL REPORT

LIABILITIES	2002	2003
1. LIABILITIES TO CREDIT INSTITUTIONS	28,220	91,080
a) repayable on demand	1,701	5,430
b) liabilities from financial services with maturity dates or periods of notice	26,519	85,650
2. LIABILITIES TO CUSTOMERS	1,992,081	2,228,287
a) saving deposits	353,303	345,772
b) other liabilities from financial services	1,638,276	1,881,637
c) liabilities from investment services	502	878
3. LIABILITIES FROM ISSUED DEBT SECURITIES	62,689	58,130
a) issued bond	2,015	2,101
b) issued other debt securities	338	238
c) issued debt securities according to act on accounting, but the act on securities not qualifies that certificates as securities	60,336	55,791
4. OTHER LIABILITIES	41,694	49,879
a) maturity not more than one year	41,694	49,879
b) maturity more than one year	0	0
5. ACCRUALS AND DEFERRED INCOME	23,108	27,268
a) accrued liabilities	1,340	338
b) accrued costs and expenses	18,525	24,450
c) deferred income	3,243	2,480
6. PROVISIONS	20,974	26,773
a) provisions for pensions and similar obligations	1,000	1,546
b) risk provision for off-balance sheet items (for pending and future liabilities)	3,732	7,294
c) general risk provision	14,254	17,057
d) other provision	1,988	876
7. SUBORDINATED LIABILITIES	15,511	15,413
a) subordinated loan capital	15,511	15,413
8. SUBSCRIBED CAPITAL	28,000	28,000
From this: repurchased own shares at face value	1,543	1,324
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	34,169	41,325
12. RETAINED EARNINGS (ACCUMULATED PROFIT RESERVE) (+/-)	84,261	130,465
13. LEGAL RESERVES	16,883	14,328
14. REVALUATION RESERVE	0	0
15. PROFIT OR LOSS FOR THE FINANCIAL YEAR ACCORDING TO THE BALANCE SHEET (+/-)	42,478	47,606
<b>TOTAL LIABILITIES</b>	<b>2,390,120</b>	<b>2,758,606</b>
From this:		
- SHORT-TERM LIABILITIES	2,104,797	2,326,249
- LONG-TERM LIABILITIES	35,398	116,540
- EQUITY (CAPITAL AND RESERVES)	205,843	261,776
<b>OFF-BALANCE SHEET COMMITMENTS</b>	<b>787,613</b>	<b>776,970</b>
1. CONTINGENT LIABILITIES	551,870	503,429
2. FUTURE LIABILITIES	235,743	273,541
<b>OFF-BALANCE SHEET ASSETS</b>	<b>442,268</b>	<b>311,513</b>



## PROFIT AND LOSS ACCOUNT

(unconsolidated, based on HAR) for the year ended December 31, 2003 in HUF mn

	2002	2003
1. Interest received and interest-type income	188,780	205,634
a) interest received on securities with fixed-interest signifying a creditor relationship	42,879	63,919
b) other interest received and interest-type income	145,901	141,715
2. Interest paid and interest-type expenses	86,065	87,452
<b>INTEREST DIFFERENCE</b>	<b>102,715</b>	<b>118,182</b>
3. Incomes from securities	332	7,691
4. Fees and commission received	63,545	94,680
5. Fees and commission paid	7,780	10,872
6. Profit or loss from financial transactions [6.a)–6.b)+6.c)–6.d)]	1,748	– 5,194
a) revenues from other financial services	34,592	14,393
b) expenses on other financial services	31,304	19,315
c) revenues from investment services (revenues from trading activities)	6,328	11,961
d) expenses on investment services (expenses on trading activities)	7,868	12,233
7. Other incomes from business	211,587	479,693
8. General administration expenses	67,824	81,204
a) personnel expenses	36,188	43,820
b) other administration expenses	31,636	37,384
9. Depreciation and amortization	11,088	11,913
10. Other expenses from business	231,335	501,337
11. Write-off of loans and provision for contingent and future liabilities	15,134	17,114
a) write-off of loans	12,737	11,152
b) provision for contingent and future liabilities	2,397	5,962
12. Reversal of write-off of loans and credit for contingent and future liabilities	13,306	13,895
a) reversal of write-off of loans	12,672	11,394
b) credit for contingent and future liabilities	634	2,501
13. Write-off of securities for investing purposes, signifying a creditor relationship, equity investments in associated or other company	1,992	97
14. Reversal of write-off of securities for investing purposes, signifying a creditor relationship, and equity investments in associated or other company	1,349	322
<b>15. Result of ordinary business activities</b>	<b>59,429</b>	<b>86,732</b>
Including:		
– RESULT OF FINANCIAL AND INVESTMENT SERVICES	57,904	85,392
– RESULT OF NON-FINANCIAL AND INVESTMENT SERVICES	1,525	1,340
16. Extraordinary revenues	39	1,735
17. Extraordinary expenses	1,386	1,766
18. Extraordinary profit or loss (16–17)	– 1,347	– 31
<b>19. Profit or loss before tax (±15±18)</b>	<b>58,082</b>	<b>86,701</b>
20. Tax liabilities	10,885	15,139
<b>21. After-tax profit or loss (±19–20)</b>	<b>47,197</b>	<b>71,562</b>
22. Formation and utilization of general reserves (+/–)	– 4,719	– 7,156
23. Use of accumulated profit reserve for dividends and profit-sharing	0	0
24. Dividends and profit-sharing paid (approved)	0	16,800
<b>25. Balance-sheet profit or loss figure (±21±22+23–24)</b>	<b>42,478</b>	<b>47,606</b>



## FINANCIAL REPORT

# Deloitte.

Deloitte  
Auditing and Consulting Ltd.  
Nádor u. 21.  
H-1051 Budapest,  
Hungary  
P.O.Box 503  
H-1397 Budapest  
Hungary

Tel: +36 (1) 428-6800  
Fax: +36 (1) 428-6801  
[www.deloitte.com/Hungary](http://www.deloitte.com/Hungary)

### *INDEPENDENT AUDITORS' REPORT*

To the Shareholders of National Savings and Commercial Bank Ltd.

We have audited, in accordance with the Hungarian National Standards on Auditing, the consolidated financial statements of National Savings and Commercial Bank Ltd. (the "Bank") for the year ended December 31, 2003, 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 73 to 80 of this Annual Report, were derived. In our independent auditors' report dated March 23, 2004, we expressed an unqualified opinion on the consolidated financial statements, prepared in accordance with the 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, 2003 and the consolidated results of its operations for the year then ended, prepared in accordance with the 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 independent auditors' report thereon.

Budapest, May 17, 2004

Deloitte

Audit.Tax.Consulting.Financial Advisory

Registered by the Budapest Court of Registration  
Company Reg. No.: 01-09-071057

A member firm of  
Deloitte Touche Tohmatsu

*B*  
**BALANCE SHEET**  
(consolidated, based on HAR) as at December 31, 2003 in HUF mn

<b>ASSETS</b>	<b>2002</b>	<b>2003</b>
1. CASH IN HAND, BALANCES WITH CENTRAL BANKS	353,980	276,501
2. TREASURY BILLS	531,896	630,642
a) held for trade	177,986	246,870
b) held as financial fixed assets (for long term investment)	353,910	383,772
3. LOANS AND ADVANCES TO CREDIT INSTITUTIONS	281,400	252,314
a) repayable on demand	5,319	9,915
b) other receivables from financial services	276,081	242,399
ba) maturity not more than one year	261,925	232,088
From this: – by affiliated undertaking	28	1
– by undertaking with which the credit institution is linked by virtue of participating	48,300	13,025
– by Hungarian National Bank	12,847	13,070
bb) maturity more than one year	14,156	10,311
From this: – by Hungarian National Bank	434	0
4. LOANS AND ADVANCES TO CUSTOMERS	1,322,587	2,025,694
a) receivables from financial services	1,320,264	2,024,574
aa) maturity not more than one year	377,148	505,539
From this: – by affiliated undertaking	1,520	836
– by undertaking with which the credit institution is linked by virtue of participating		40
ab) maturity more than one year	943,116	1,519,035
From this: – by affiliated undertaking	14,121	20,805
– by undertaking with which the credit institution is linked by virtue of participating	474	284
b) receivables from investment services	2,323	1,120
From this: – by affiliated undertaking	843	– 1
bc) receivables from clients for investment service activities	2,323	1,120
5. DEBT SECURITIES INCLUDING FIXED-INCOME SECURITIES	21,108	32,590
a) securities issued by local self-governing bodies and by other public body (not include the treasury bills issued by Hungarian state and securities issued by Hungarian National Bank)	0	1,559
aa) held for trade	0	600
ab) held as financial fixed assets (for long term investment)	0	959
b) securities issued by other bodies	21,108	31,031
ba) held for trade	1,368	7,362
From this: – own-debt securities (own issued and repurchased)	0	299
bb) held as financial fixed assets (for long term investment)	19,740	23,669
From this: – by affiliated undertaking	182	62

## FINANCIAL REPORT

ASSETS	2002	2003
6. SHARES AND OTHER VARIABLE-YIELD SECURITIES	11,578	12,762
a) shares and participations for trade	101	94
From this: – by undertaking with which the credit institution is linked by virtue of participating	1	1
b) other variable-yield securities	11,477	12,668
ba) held for trade	5,387	4,502
bb) held as financial fixed assets (for long term investment)	6,090	8,166
7. SHARES AND PARTICIPATING INTEREST AS FINANCIAL FIXED ASSETS	5,681	6,396
a) shares and participating interest as financial fixed assets	5,681	6,396
From this: – shares and participating interest in credit institutions	1	345
8. SHARES AND PARTICIPATING INTEREST IN AFFILIATED UNDERTAKINGS	5,260	43,663
a) shares and participating interest in affiliated undertakings	5,194	4,926
c) capital consolidation difference	66	38,737
– from subsidiaries and joint managed companies	66	38,737
9. INTANGIBLE ASSETS	16,248	9,569
10. TANGIBLE ASSETS	74,861	108,698
a) tangible assets for financial and investment services	61,141	93,544
aa) land and buildings	42,154	67,897
ab) technical equipment, fittings and vehicles	11,990	19,719
ac) investment	6,986	5,910
ad) advance payments on investment	11	18
b) tangible assets not for directly financial and investment services	13,720	15,037
ba) land and buildings	6,580	8,880
bb) technical equipment, fittings and vehicles	6,906	5,680
bc) investment	192	476
bd) advance payments on investment	42	1
c) revaluation surplus on tangible assets	0	117
11. OWN SHARES	27,800	25,420
12. OTHER ASSETS	42,474	39,241
a) stocks (inventories)	11,340	12,763
b) other receivables (not from financial and investment securities)	31,134	26,478
From this: – by affiliated undertaking	715	1,100
– by undertaking with which the credit institution is linked by virtue of participating	15	2
b.1.) receivables of consolidated financial and investment service companies	26,484	20,884
b.2.) receivables of consolidated insurance companies	2,617	2,367
b.3.) receivables of consolidated other companies	2,033	3,227
13. PREPAYMENTS AND ACCRUED INCOME	39,209	39,173
a) accrued income	36,595	32,965
b) prepayments	2,614	6,208
<b>TOTAL ASSETS</b>	<b>2,734,082</b>	<b>3,502,663</b>
From this:		
– CURRENT ASSETS	1,255,811	1,349,252
– FIXED ASSETS	1,439,062	2,114,238

## FINANCIAL REPORT

LIABILITIES	2002	2003
1. LIABILITIES TO CREDIT INSTITUTIONS	60,832	126,353
a) repayable on demand	1,610	2,829
b) liabilities from financial services with maturity dates or periods of notice	59,222	123,524
ba) not more than one year	37,307	54,896
From this: – by affiliated undertaking	1	–
– by undertaking with which the credit institution is linked by virtue of participating	2,800	–
– by Hungarian National Bank	1,208	166
bb) more than one year	21,915	68,628
From this: – by Hungarian National Bank	3,158	1,212
2. LIABILITIES TO CUSTOMERS	2,140,397	2,697,843
a) saving deposits	358,926	442,155
aa) repayable on demand	45,301	137,023
ab) maturity not more than one year	313,327	304,890
ac) maturity more than one year	298	242
b) other liabilities from financial services	1,780,969	2,254,810
ba) repayable on demand	663,124	894,949
From this: – by affiliated undertaking	92	2,371
– by undertaking with which the credit institution is linked by virtue of participating	136	288
bb) maturity not more than one year	1,060,141	1,298,772
From this: – by affiliated undertaking	443	2,130
– by undertaking with which the credit institution is linked by virtue of participating	–	433
bc) maturity more than one year	57,704	61,089
c) liabilities from investment services	502	878
cc) liabilities from clients for investment service activities	502	878
3. LIABILITIES FROM ISSUED DEBT SECURITIES	102,689	136,661
a) issued bond	2,015	1,104
ab) maturity more than one year	2,015	1,104
From this: – by affiliated undertaking	0	3
b) issued other debt securities	40,338	79,766
ba) maturity not more than one year	338	10,885
From this: – by affiliated undertaking	0	10,000
bb) maturity more than one year	40,000	68,881
From this: – by affiliated undertaking	0	2,539
c) issued debt securities according to act on accounting, but the act on securities not qualifies that certificates as securities	60,336	55,791
ca) maturity not more than one year	56,185	18,444
cb) maturity more than one year	4,151	37,347

## FINANCIAL REPORT

LIABILITIES	2002	2003
4. OTHER LIABILITIES	48,988	63,645
a) maturity not more than one year	48,564	60,942
From this: – by affiliated undertaking	778	237
– by undertaking with which the credit institution is linked by virtue of participating	8	0
a.1.) receivables of consolidated financial and investment service companies	41,800	50,880
a.2.) receivables of consolidated insurance companies	2,701	3,320
a.3.) receivables of consolidated other companies	4,063	6,742
b) maturity more than one year	24	2,530
b.1.) receivables of consolidated financial and investment service companies	–	2,530
b.3.) receivables of consolidated other companies	24	0
c) calculated income tax difference due to consolidation	400	173
5. ACCRUALS AND DEFERRED INCOME	27,227	37,089
a) accrued liabilities	2,560	2,442
b) accrued costs and expenses	24,627	34,607
c) deferred income	40	40
6. PROVISIONS	96,634	116,232
a) provisions for pensions and similar obligations	1,000	1,546
b) risk provision for off-balance sheet items (for pending and future liabilities)	4,346	5,492
c) general risk provision	15,294	20,738
d) other provision	75,994	88,456
d.1.) receivables of consolidated financial and investment service companies	7,001	3,481
d.2.) receivables of consolidated insurance companies	68,531	84,188
d.3.) receivables of consolidated other companies	462	787
7. SUBORDINATED LIABILITIES	19,779	19,720
a) subordinated loan capital	15,511	15,413
aa) capital consolidation difference	4,268	4,307
– from subsidiaries and joint undertaking companies	4,268	4,307
8. SUBSCRIBED CAPITAL	28,000	28,000
From this: – repurchased own shares at face value	2,334	2,115
9. SUBSCRIBED BUT UNPAID CAPITAL (–)	0	0
10. CAPITAL RESERVES	52	52
11. GENERAL RESERVES	34,170	41,325
12. RETAINED EARNINGS (ACCUMULATED PROFIT RESERVE) (+/–)	86,232	132,733
a) retained earnings	84,508	130,699
b) changes in equity of equity consolidated subsidiaries	1,724	2,034
13. LEGAL RESERVES	16,883	14,328
14. REVALUATION RESERVE	–	–
15. PROFIT OR LOSS FOR THE FINANCIAL YEAR ACCORDING TO THE BALANCE SHEET (+/–)	49,899	58,101

## FINANCIAL REPORT

<b>LIABILITIES</b>	<b>2002</b>	<b>2003</b>
16. CHANGES IN EQUITY OF SUBSIDIARIES AND JOINT UNDERTAKING COMPANIES (+/-)	19,246	29,313
17. CHANGES DUE TO CONSOLIDATION (+/-)	2,770	851
– from debt consolidation	4,687	6,646
– from difference of intermediate results	– 1,917	– 5,795
18. SHARES OF OTHER OUTSIDE OWNERS	284	417
19. DIFFERENCE FROM EXCHANGE RATE		
<b>TOTAL LIABILITIES</b>	<b>2,734,082</b>	<b>3,502,663</b>
From this:		
– SHORT-TERM LIABILITIES	2,226,799	2,784,681
– LONG-TERM LIABILITIES	145,886	259,541
– EQUITY (CAPITAL AND RESERVES)	237,536	305,120
<b>OFF-BALANCE SHEET COMMITMENTS</b>	<b>881,708</b>	<b>781,830</b>
1. CONTINGENT LIABILITIES	641,127	505,365
2. FUTURE LIABILITIES	240,581	276,465
<b>OFF-BALANCE SHEET ASSETS</b>	<b>444,142</b>	<b>314,482</b>



## PROFIT AND LOSS ACCOUNT

(consolidated, based on HAR) for the year ended December 31, 2003 in HUF mn

	2002	2003
1. Interest received and interest-type income	220,987	279,087
a) interest received on securities with fixed-interest signifying a creditor relationship	48,775	79,965
– from related companies	0	32
b) other interest received and interest-type income	172,212	199,122
– from related companies	976	1,560
– from other participation companies	725	818
2. Interest paid and interest-type expenses	97,574	102,025
Including: – to related companies	243	350
– to other participation companies	180	169
<b>INTEREST DIFFERENCE (1–2)</b>	<b>123,413</b>	<b>177,062</b>
3. Incomes from securities	458	668
a) from trading securities and participations (dividend, profit participation)	279	0
b) from related companies (dividend, profit participation)	177	522
c) from other participation companies (dividend, profit participation)	2	146
4. Fees and commission received	55,921	73,825
a) revenues from other financial services	53,005	70,427
– from related companies	37	47
– from other participation companies	2	3
b) revenues from investment services (except incomes from trading activities)	2,916	3,398
– from related companies	14	65
5. Fees and commission paid	10,609	15,620
a) expenses on other financial services	10,275	15,279
Including: – to related companies	445	688
– to other participation companies	3	115
b) expenses on investment services (except expenses from trading activities)	334	341
Including: – to related companies	46	0
6. Profit or loss from financial transactions [(6.a) – 6.b) + 6.c) – 6.d)]	3,289	– 5,854
a) revenues from other financial services	34,226	20,872
– from related companies	155	– 1,139
– from other participation companies	1	67
b) expenses on other financial services	29,751	26,328
– from related companies	1,414	– 3,712
– from other participation companies	1	1,695
c) revenues from investment services (revenues from trading activities)	6,802	11,920
– from related companies	153	45
d) expenses on investment services (expenses from trading activities)	7,988	12,318
Including: – to related companies	180	116
– to other participation companies	10	43

## FINANCIAL REPORT

	2002	2003
7. Other incomes from business	112,271	124,496
a) incomes from non financial and investment services	94,770	99,505
– from related companies	722	851
– from other participation companies	3	5
a.1.) income of consolidated investment service providers	20,506	12,230
a.2.) income of consolidated insurance companies	55,160	61,662
a.3.) income of other consolidated companies	19,104	25,613
b) other revenues	15,327	24,830
– from related companies	1,039	965
– reversal of write-off of inventory	66	7
b.1.) income of consolidated investment service providers	13,666	23,914
b.2.) income of consolidated insurance companies	97	107
b.3.) income of other consolidated companies	1,564	809
ba) consolidation difference income due to debtor consolidation	10	0
bb) other income due to consolidation	2,164	161
8. General administration expenses	76,334	94,632
a) personnel expenses	41,254	51,707
aa) wage costs	26,670	30,849
ab) other payments to personnel	4,220	8,156
Including: – social security expenses	2,312	2,971
– pension related expenses	2,018	2,183
ac) contributions on wages and salaries	10,364	12,702
Including: – social security expenses	8,997	10,763
– pension related expenses	4,704	5,986
b) other administration expenses	35,080	42,925
9. Depreciation and amortization	12,045	11,613
10. Other expenses from business	122,972	140,745
a) expenses from non-financial and investment services	58,048	52,013
Including: – to related companies	697	52
– to other participation companies	24	0
a.1.) expense of consolidated investment service providers	18,353	9,803
a.2.) expense of consolidated insurance companies	39,670	42,184
a.3.) expense of other consolidated companies	25	26
b) other expenses	37,408	50,339
Including: – to related companies	319	35
– write-off of inventory	–	49
b.1.) expense of consolidated investment service providers	34,785	48,585
b.2.) expense of consolidated insurance companies	422	541
b.3.) expense of other consolidated companies	2,201	1,213
ba) consolidation difference expense due to debtor consolidation	–	11
bb) other expense due to consolidation	60	2,378
c) expense of consolidated investment service providers	27,456	36,004
c.1.) expense of consolidated insurance companies	12,730	15,668
c.2.) expense of other consolidated companies	14,726	20,336

## FINANCIAL REPORT

	2002	2003
11. Write-off of loans and provision for contingent and future liabilities	22,483	31,417
a) write-off of loans	19,123	27,314
b) provision for contingent and future liabilities	3,360	4,103
12. Reversal of write-off of loans and credit for contingent and future liabilities	19,042	27,012
a) reversal of write-off of loans	16,872	23,875
b) credit for contingent and future liabilities	2,170	3,137
13. Write-off of securities for investing purposes, signifying a creditor relationship, equity investments in associated or other company	320	183
14. Reversal of write-off of securities for investing purposes, signifying a creditor relationship, and equity investments in associated or other company	60	349
<b>15. Result of ordinary business activities</b>	<b>69,691</b>	<b>103,348</b>
Including:		
– RESULT OF FINANCIAL AND INVESTMENT SERVICES	61,387	92,698
– RESULT OF NON-FINANCIAL AND INVESTMENT SERVICES	8,304	10,650
16. Extraordinary revenues	53	141
17. Extraordinary expenses	1,569	738
18. Extraordinary profit or loss (16–17)	– 1,516	– 597
<b>19. Profit or loss before tax (±15±18)</b>	<b>68,175</b>	<b>102,751</b>
20. Tax liabilities	13,599	19,956
a) tax difference due to consolidation (+/–)	– 409	– 227
<b>21. After-tax profit or loss (±19–20±20a)</b>	<b>54,985</b>	<b>83,022</b>
22. Formation and utilization of general reserves (+/–)	– 5,086	– 8,128
23. Use of accumulated profit reserve for dividends and profit-sharing	0	0
24. Dividends and profit-sharing paid (approved)	0	16,793
<b>25. Balance-sheet profit or loss figure (±21±22+23–24)</b>	<b>49,899</b>	<b>58,101</b>

**Deloitte.**

Deloitte  
Auditing and Consulting Ltd.  
Nádor u. 21.  
H-1051 Budapest,  
Hungary  
P.O.Box 503  
H-1397 Budapest  
Hungary

Tel: +36 (1) 428-6800  
Fax: +36 (1) 428-6801  
www.deloitte.com/Hungary

**INDEPENDENT AUDITORS' OPINION**

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

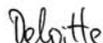
We have audited the accompanying unconsolidated balance sheets of National Savings and Commercial Bank Ltd. ("the Bank") as at December 31, 2003 and 2002, and the related unconsolidated statements of operations, cash flows and changes in shareholders' equity for the years then ended, included on pages 82 to 112 of this Annual 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 2.7 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, 2003 and 2002, and the unconsolidated results of its operations, cash flows and changes in shareholders' equity for the years then ended in accordance with International Financial Reporting Standards.

Budapest, March 19, 2004

  
Deloitte

Audit.Tax.Consulting.Financial Advisory

A member firm of  
Deloitte Touche Tohmatsu

Registered by the Budapest Court of Registration  
Company Reg. No.: 01-09-071057



## BALANCE SHEET

(unconsolidated, based on IFRS) as at December 31, 2003 in HUF mn

	2003	2002
Cash, due from banks and balances with the National Bank of Hungary	252,975	348,424
Placements with other banks, net of allowance for possible placement losses	165,209	277,627
Securities held-for-trading and available-for-sale	312,395	204,408
Loans, net of allowance for possible loan losses	1,070,425	994,994
Accrued interest receivable	31,792	23,407
Equity investments	138,808	48,888
Debt securities held-to-maturity	625,309	362,045
Premises, equipment and intangible assets, net	86,400	71,305
Other assets	48,315	58,908
<b>TOTAL ASSETS</b>	<b>2,731,628</b>	<b>2,390,006</b>
Due to banks and deposits from the National Bank of Hungary and other banks	91,081	46,401
Deposits from customers	2,264,528	2,045,653
Liabilities from issued securities	2,039	2,054
Accrued interest payable	7,895	7,479
Other liabilities	74,496	69,433
Subordinated bonds and loans	15,413	15,511
<b>TOTAL LIABILITIES</b>	<b>2,455,452</b>	<b>2,186,531</b>
Share capital	28,000	28,000
Retained earnings and reserves	262,504	192,358
Treasury shares	- 14,328	- 16,883
<b>TOTAL SHAREHOLDERS' EQUITY</b>	<b>276,176</b>	<b>203,475</b>
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>	<b>2,731,628</b>	<b>2,390,006</b>

The accompanying notes to unconsolidated financial statements on pages 86 to 112 form an integral part of these unconsolidated financial statements.



## PROFIT AND LOSS ACCOUNT

(unconsolidated, based on IFRS) for the year ended December 31, 2003 in HUF mn

	2003	2002
<b>INTEREST INCOME</b>		
Loans	103,415	106,555
Placements with other banks	20,350	26,473
Due from banks and balances with the National Bank of Hungary	17,148	18,488
Securities held-for-trading and available-for-sale	19,553	11,075
Debt securities held-to-maturity	43,779	32,540
<i>TOTAL INTEREST INCOME</i>	<i>204,245</i>	<i>195,131</i>
<b>INTEREST EXPENSE</b>		
Due to banks and deposits from the National Bank of Hungary and other banks	16,508	4,189
Deposits from customers	75,311	80,988
Liabilities from issued securities	169	74
Subordinated bonds and loans	748	963
<i>TOTAL INTEREST EXPENSE</i>	<i>92,736</i>	<i>86,214</i>
<b>NET INTEREST INCOME</b>	<b>111,509</b>	<b>108,917</b>
Provision for possible loan and placement losses	7,053	6,214
<b>NET INTEREST INCOME AFTER PROVISION FOR POSSIBLE LOAN AND PLACEMENT LOSSES</b>	<b>104,456</b>	<b>102,703</b>
<b>NON-INTEREST INCOME</b>		
Fees and commissions	95,850	64,741
Foreign exchange gains and losses, net	5,903	– 3,400
Gains and losses on securities, net	– 8,909	2,600
Gains and losses on real estate transactions, net	– 35	– 14
Dividend income	7,691	332
Other	3,266	3,989
<i>TOTAL NON-INTEREST INCOME</i>	<i>103,766</i>	<i>68,248</i>
<b>NON-INTEREST EXPENSES</b>		
Fees and commissions	11,067	7,854
Personnel expenses	43,555	37,571
Depreciation and amortization	12,745	13,085
Other	56,327	49,440
<i>TOTAL NON-INTEREST EXPENSE</i>	<i>123,694</i>	<i>107,950</i>
<b>INCOME BEFORE INCOME TAXES</b>	<b>84,528</b>	<b>63,001</b>
Income taxes	14,387	11,100
<b>NET INCOME AFTER INCOME TAXES</b>	<b>70,141</b>	<b>51,901</b>
<b>Earnings per share (in HUF)</b>		
basic	261	197
diluted	260	196

The accompanying notes to unconsolidated financial statements on pages 86 to 112 form an integral part of these unconsolidated financial statements.



## STATEMENT OF CASH FLOW

(unconsolidated, based on IFRS) for the year ended December 31, 2003 in HUF mn

	2003	2002
<b>OPERATING ACTIVITIES</b>		
Profit before tax	84,528	63,001
<i>Adjustments to reconcile profit before tax to net cash provided by operating activities:</i>		
Income tax paid	– 15,817	– 11,873
Depreciation and amortization	12,745	13,085
Provision for possible loan and placement losses	7,053	6,214
(Credit)/provision for permanent diminution in value equity investments	– 111	555
(Credit)/provision for possible losses of other assets	– 205	749
Provision for possible losses on off-balance sheet commitments and contingent liabilities, net	3,705	2,066
Unrealised losses/(gains) on fair value adjustment of securities held-for-trading and available-for-sale	8,454	– 2,949
Unrealised losses/(gains) on fair value adjustment of derivative financial instruments	2,889	– 5,610
<i>Changes in operating assets and liabilities:</i>		
Net (increase)/decrease in accrued interest receivable	– 8,385	3,592
Net decrease/(increase) in other assets, excluding advances for investments and before provisions for possible losses	4,372	– 32,086
Net increase/(decrease) in accrued interest payable	416	– 1,291
Net increase in other liabilities	6,387	15,115
<b>Net cash provided by operating activities</b>	<b>106,031</b>	<b>50,568</b>
<b>INVESTING ACTIVITIES</b>		
Net decrease in placements with other banks, before provision for possible placement losses	112,399	49,210
Net increase in securities held-for-trading or available-for-sale before unrealised gains/lower of cost and market adjustment	– 116,441	– 95,204
Net increase in equity investments, before provision for permanent diminution in value	– 89,809	– 16,268
Net (increase)/decrease in securities held-to-maturity	– 263,264	36,701
Net (increase)/decrease in advances for investments included in other assets	– 53	21
Net increase in loans, before provision for possible loan losses	– 82,465	– 241,051
Net additions to premises, equipment and intangible assets	– 27,840	– 27,663
<b>Net cash used in investing activities</b>	<b>– 467,473</b>	<b>– 294,254</b>

## FINANCIAL REPORT

	2003	2002
<b>FINANCING ACTIVITIES</b>		
Net increase in due to banks and deposits from the National Bank of Hungary and other banks	44,680	21,268
Net increase in deposits from customers	218,875	202,931
Net (decrease)/increase in liabilities from issued securities	– 15	1,498
Decrease in subordinated bonds and loans	– 98	– 1,782
Net change in treasury shares	2,560	– 235
Net (increase)/decrease in the compulsory reserve established by the National Bank of Hungary	– 16,465	14,470
Dividends paid	– 9	– 7,110
<b>Net cash provided by financing activities</b>	<b>249,528</b>	<b>231,040</b>
<b>Net decrease in cash and cash equivalents</b>	<b>– 111,914</b>	<b>– 12,646</b>
<i>Cash and cash equivalents as at January 1</i>	<i>255,357</i>	<i>268,003</i>
<b>Cash and cash equivalents balance as at December 31</b>	<b>143,443</b>	<b>255,357</b>
<b>Analysis of cash and cash equivalents</b>		
Cash, due from banks and balances with the National Bank of Hungary	348,424	375,540
Compulsory reserve established by the National Bank of Hungary	– 93,067	– 107,537
<b>Cash and cash equivalents as at January 1</b>	<b>255,357</b>	<b>268,003</b>
Cash, due from banks and balances with the National Bank of Hungary	252,975	348,424
Compulsory reserve established by the National Bank of Hungary	– 109,532	– 93,067
<b>Cash and cash equivalents as at December 31</b>	<b>143,443</b>	<b>255,357</b>

The accompanying notes to unconsolidated financial statements on pages 86 to 112 form an integral part of these unconsolidated financial statements.



## STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

(unconsolidated, based on IFRS) for the year ended December 31, 2003 in HUF mn

	Share Capital	Retained Earnings and Reserves	Treasury Share	Total
<b>Balance as at January 1, 2002</b>	<b>28,000</b>	<b>141,559</b>	<b>- 17,750</b>	<b>151,809</b>
Net income after income taxes	-	51,901	-	51,901
Loss on sale of treasury shares	-	- 1,102	-	- 1,102
Change in carrying value of treasury shares	-	-	867	867
<b>Balance as at December 31, 2002</b>	<b>28,000</b>	<b>192,358</b>	<b>- 16,883</b>	<b>203,475</b>
Net income after income taxes	-	70,141	-	70,141
Gain on sale of treasury shares	-	5	-	5
Change in carrying value of treasury shares	-	-	2,555	2,555
<b>Balance as at December 31, 2003</b>	<b>28,000</b>	<b>262,504</b>	<b>- 14,328</b>	<b>276,176</b>

The accompanying notes to unconsolidated financial statements on pages 86 to 112 form an integral part of these unconsolidated financial statements.



## NOTES TO FINANCIAL STATEMENTS

(unconsolidated, based on IFRS)

### 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. The Bank's registered office address is 16, Nador street, Budapest 1051.

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 and PORTAL (USA).

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 the conversion of HUF 1,150 million nominal value preference shares issued by the Bank to common shares.



---

---

## FINANCIAL REPORT

In the first quarter of the year of 2002 the nominal value of the common shares of the Bank decreased from HUF 1,000 to HUF 100 per share.

As at December 31, 2003 approximately 92.4% of the Bank's shares were held by domestic and foreign private and institutional investors. The remaining shares are owned by employees (2.9%) and the Bank (4.7%).

The Bank provides a full range of commercial banking services through a nationwide network of 432 branches in Hungary.

As at December 31, 2003 the number of employees at the Bank was 7,986. The average number of employees for the year ended December 31, 2003 was 8,495.

### 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").

Some of the accounting principles prescribed for statutory purposes are different from those generally recognized in international financial markets. Certain adjustments have been made to the Bank's Hungarian unconsolidated statutory accounts (see Note 31), in order to present the unconsolidated financial position and results of operations of the Bank in accordance with all standards and interpretations approved by the International Accounting Standards Board (IASB), which are referred to as International Financial Reporting Standards (IFRS). These standards and interpretations were previously called International Accounting Standards (IAS).

### 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.

#### 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. Consolidated financial statements are currently being prepared by the Bank. See Note 2.7 for the description of the method of accounting for investments in subsidiaries and associated companies in these unconsolidated financial statements.

## FINANCIAL REPORT

### 2.4. SECURITIES HELD-TO-MATURITY

Investments in securities are accounted on a settlement date basis and are initially measured at cost. At subsequent reporting dates, securities that the Bank has the expressed intention and ability to hold to maturity (held-to-maturity 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 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 and mortgage bonds.

### 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 NBH, and other securities. Other securities include shares in commercial companies, shares in investment funds, bonds issued by companies, foreign government bonds and mortgage bonds.

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 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 amount of provision is the difference between the carrying amount and the recoverable amount, being the present value of the expected cash flows, including amounts recoverable from guarantees and collateral, discounted at the original effective interest rate.

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. SALE AND REPURCHASE AGREEMENTS

Where debt or equity securities are sold under a commitment to repurchase them at a pre-determined price, they remain on the balance sheet and the consideration received is recorded in Other liabilities. Conversely, debt or equity securities purchased under a commitment to resell are not recognised in the balance sheet and the consideration paid is recorded in Other assets. Interest is accrued evenly over the life of the repurchase agreement.

### 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	1–2%
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.

### 2.10. 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 Unconsolidated Statement of Operations over the period of the leases to produce a constant rate of charge on the balance of capital payments outstanding.

## FINANCIAL REPORT

Payments made under operating leases are charged to the Unconsolidated Statement of Operations 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.

### 2.11. 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 at acquisition cost as a deduction from shareholders' equity. Gains and losses on the sale of treasury shares are credited or charged directly to retained earnings and reserves.

### 2.12. 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.

### 2.13. 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.

### 2.14. 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 forward or swap agreements. 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.

## FINANCIAL REPORT

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 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.

### 2.15. 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.

### 2.16. COMPARATIVE FIGURES

Certain amounts in the 2002 unconsolidated financial statements have been reclassified to conform with the current year presentation.

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

		<i>(in HUF mn)</i>	
		2003	2002
<b>Cash on hand:</b>	In HUF	54,918	39,460
	In foreign currency	3,111	3,570
		58,029	43,030
<b>Due from banks and balances with NBH:</b>			
<b>Within one year:</b>	In HUF	191,911	301,709
	In foreign currency	3,035	3,251
		194,946	304,960
<b>Over one year:</b>	In foreign currency	–	434
		–	434
<b>Total</b>		<b>252,975</b>	<b>348,424</b>

Based on the requirements for compulsory reserves set by the National Bank of Hungary, the balance of compulsory reserves amounted to approximately HUF 109,532 million and HUF 93,067 million as at December 31, 2003 and 2002, respectively.

## FINANCIAL REPORT

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

		2003	(in HUF mn) 2002
<b>Within one year:</b>	In HUF	85,141	146,576
	In foreign currency	69,719	117,192
		<i>154,860</i>	<i>263,768</i>
<b>Over one year:</b>	In HUF	3,300	8,300
	In foreign currency	7,231	5,722
		<i>10,531</i>	<i>14,022</i>
<b>Total</b>		<b>165,391</b>	<b>277,790</b>
Allowance for possible placement losses		- 182	- 163
		<b>165,209</b>	<b>277,627</b>

Placements with other banks in foreign currency as at December 31, 2003 and 2002 bear interest rates in the range from 0.3% to 5.1% and from 0.1% to 9.2%, respectively.

Placements with other banks in HUF as at December 31, 2003 and 2002 bear interest rates in the range from 9.6% to 13.7% and from 7.5% to 11.2%, respectively.

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

	2003	(in HUF mn) 2002
Balance as at January 1	163	170
Provision/(credit) for possible placement losses	19	- 7
<b>Balance as at December 31</b>	<b>182</b>	<b>163</b>

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

	2003	(in HUF mn) 2002
<b>Securities held-for-trading</b>		
Hungarian Government discounted Treasury bills	2,632	4,996
Hungarian Government interest bearing Treasury bills	473	1,945
Government bonds	42,331	10,002
Mortgage bonds	4,260	-
Other securities	257	1,148
	<i>49,953</i>	<i>18,091</i>
<b>Securities available-for-sale</b>		
Government bonds	56,336	38,881
Hungarian Government discounted Treasury bills	20,293	-
Mortgage bonds	156,929	125,244
Other securities	28,884	22,192
	<i>262,442</i>	<i>186,317</i>
<b>Total</b>	<b>312,395</b>	<b>204,408</b>

## FINANCIAL REPORT

Approximately 93% and 90% of the held-for-trading and available-for-sale securities portfolio was denominated in HUF as at December 31, 2003 and 2002, respectively.

Approximately 2% and 10% of the government bonds were denominated in foreign currency as at December 31, 2003 and 2002. Approximately 75%, 2%, 15%, 8% of this portfolio was denominated in JPY, EUR, GBP, USD as at December 31, 2003 and 37%, 1%, 8% and 54% of this portfolio was denominated in JPY, EUR, GBP, USD as at December 31, 2002, respectively.

Interest rates on securities held-for-trading ranged from 2.1% to 13.1% and from 2.3% to 10.5% as at December 31, 2003 and 2002, respectively.

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

	2003	(in HUF mn) 2002
<b>Within five years:</b>		
variable interest	91,041	42,837
fixed interest	141,561	15,260
	232,602	58,097
<b>Over five years:</b>		
variable interest	21,489	29,772
fixed interest	50,169	105,193
	71,658	134,965
<b>Non interest-bearing securities</b>	<b>8,135</b>	<b>11,346</b>
<b>Total</b>	<b>312,395</b>	<b>204,408</b>

### NOTE 6: LOANS AND ALLOWANCE FOR POSSIBLE LOAN LOSSES

	2003	(in HUF mn) 2002
Short-term loans and trade bills (within one year)	406,091	381,364
Long-term loans and trade bills (over one year)	682,970	632,048
	1,089,061	1,013,412
Allowance for possible loan losses	- 18,636	- 18,418
	<b>1,070,425</b>	<b>994,994</b>

Foreign currency loans represent approximately 29% and 21% of the loan portfolio, before allowance for possible losses, as at December 31, 2003 and 2002, respectively.

Loans denominated in HUF, with a maturity within one year as at December 31, 2003 and 2002 bear interest rates in the range from 15.8% to 32% and from 12.3% to 33% respectively.

Loans denominated in HUF, with a maturity over one year as at December 31, 2003 and 2002 bear interest rates in the range from 4% to 22.8% and from 4% to 19.8%, respectively.

Approximately 1.6% and 1.7% of the gross loan portfolio represented loans on which interest is not being accrued as at December 31, 2003 and 2002, respectively.

## FINANCIAL REPORT

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

	2003		(in HUF mn) 2002	
Commercial loans	678,986	62%	555,099	55%
Municipality loans	91,529	8%	128,057	13%
Housing loans	182,640	17%	212,150	20%
Consumer loans	135,906	13%	118,106	12%
	<b>1,089,061</b>	<b>100%</b>	<b>1,013,412</b>	<b>100%</b>

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

	2003	(in HUF mn) 2002
Balance as at January 1	18,418	19,540
Provision for possible loan losses	7,034	6,221
Write-offs	- 6,816	- 7,343
<b>Balance as at December 31</b>	<b>18,636</b>	<b>18,418</b>

The Bank sells non-performing loans without recourse at estimated fair value to a wholly owned subsidiary, OTP Factoring Ltd., see Note 23.

### NOTE 7: EQUITY INVESTMENTS

	2003	(in HUF mn) 2002
Equity investments:		
Controlling interest	143,158	51,051
Significant interest	371	2,623
Other	949	995
	<i>144,478</i>	<i>54,669</i>
Allowance for permanent diminution in value	- 5,670	- 5,781
	<b>138,808</b>	<b>48,888</b>

Equity investments in companies in which the Bank has a controlling interest are detailed below. All companies are incorporated in Hungary unless indicated otherwise.

	2003		(in HUF mn) 2002	
	% Held (direct and indirect)	Cost	% Held (direct and indirect)	Cost
OTP-Garancia Insurance Ltd.	100.00%	7,472	100.00%	7,472
OTP Real Estate Ltd.	100.00%	1,228	100.00%	1,228
OTP Mérleg Ltd.*	100.00%	750	100.00%	750
Merkantil Bank Rt.	100.00%	1,600	100.00%	1,600
OTP Building Society Ltd.	100.00%	1,950	100.00%	1,950

\* OTP Securities Ltd. was renamed to OTP Mérleg Ltd. on March 11, 2003.

## FINANCIAL REPORT

*(Continued from page 94)*

	2003		2002		<i>(in HUF mn)</i>
	% Held <i>(direct and indirect)</i>	Cost	% Held <i>(direct and indirect)</i>	Cost	
HIF Ltd. (United Kingdom)	100.00%	1,132	100.00%	1,132	
Bank Center No. 1. Ltd.	100.00%	9,364	100.00%	9,364	
OTP Factoring Ltd.	100.00%	150	100.00%	150	
INGA One Ltd.	100.00%	407	100.00%	407	
INGA Two Ltd.	100.00%	5,892	100.00%	5,892	
OTP Fund Servicing and Consulting Ltd.	100.00%	1,317	100.00%	1,317	
OTP Fund Management Ltd.	100.00%	1,653	100.00%	1,653	
OTP Mortgage Bank Company Ltd.	100.00%	20,000	100.00%	7,100	
AIR-Invest Ltd.	100.00%	1,000	100.00%	1,000	
DSK Bank EAD (Bulgaria)	100.00%	79,162	–	–	
OTP Banka Slovensko a.s. (Slovakia)	97.10%	10,006	96.86%	9,970	
Other	–	75	–	66	
<b>Total</b>		<b>143,158</b>		<b>51,051</b>	

On October 1, 2003, the Bank completed the acquisition of DSK Bank EAD, a leading universal bank in Bulgaria with total assets of approximately HUF 306,615 million in accordance with Bulgarian Accounting Standards.

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

	2003	2002	<i>(in HUF mn)</i>
Balance as at January 1	5,781	5,226	
(Credit)/provision for permanent diminution in value	– 111	555	
<b>Balance as at December 31</b>	<b>5,670</b>	<b>5,781</b>	

### NOTE 8: HELD-TO-MATURITY INVESTMENTS

	2003	2002	<i>(in HUF mn)</i>
Government securities	276,892	345,024	
Hungarian Government discounted Treasury bills	987	3,689	
Mortgage bonds	346,130	12,032	
Other debt securities	1,300	1,300	
	<b>625,309</b>	<b>362,045</b>	

Interest conditions and the remaining maturities of held-to-maturity investments can be analysed as follows

	2003	2002	<i>(in HUF mn)</i>
<b>Within five years:</b> variable interest	90,234	127,014	
fixed interest	351,908	145,809	
	<b>442,142</b>	<b>272,823</b>	

## FINANCIAL REPORT

<i>(Continued from page 95)</i>	2003	<i>(in HUF mn)</i> 2002
<b>Over five years:</b> variable interest	43,995	47,333
fixed interest	139,172	41,889
	<i>183,167</i>	<i>89,222</i>
<b>Total</b>	<b>625,309</b>	<b>362,045</b>

A portfolio of mortgage bonds with a fair value of HUF 216,957 million issued by OTP Mortgage Bank Company Ltd. were reclassified as of June 30, 2003 from available-for-sale to the held-to-maturity as management decided and has the intention to hold such securities until maturity.

Approximately 99.7% and 98.6% of the debt securities portfolio was denominated in HUF as at December 31, 2003 and 2002, 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 6.3% to 10.5% and from 6.3% to 13% as at December 31, 2003 and 2002, respectively.

Interest on fixed rate and variable rate securities is, in most cases, paid semi-annually.

The fair value of held-to maturity investments was HUF 610,189 million and HUF 367,644 million as at December 31, 2003 and 2002, respectively.

### NOTE 9: PREMISES, EQUIPMENT AND INTANGIBLE ASSETS *(in HUF mn)*

#### For the year ended December 31, 2003:

	Intangible assets	Land and buildings	Machinery and equipment	Construction in progress	Total
<i>Cost</i>					
Balance as at January 1, 2003	32,655	37,241	54,609	6,951	131,456
Additions	17,190	12,325	11,251	19,630	60,396
Disposals	– 19,165	– 200	– 3,408	– 22,209	– 44,982
<b>Balance as at December 31, 2003</b>	<b>30,680</b>	<b>49,366</b>	<b>62,452</b>	<b>4,372</b>	<b>146,870</b>
<i>Depreciation and Amortization</i>					
Balance as at January 1, 2003	18,862	5,475	35,814	–	60,151
Additions	4,998	940	6,807	–	12,745
Disposals	– 9,030	– 46	– 3,350	–	– 12,426
<b>Balance as at December 31, 2003</b>	<b>14,830</b>	<b>6,369</b>	<b>39,271</b>	<b>–</b>	<b>60,470</b>
<i>Net book value</i>					
Balance as at January 1, 2003	13,793	31,766	18,795	6,951	71,305
<b>Balance as at December 31, 2003</b>	<b>15,850</b>	<b>42,997</b>	<b>23,181</b>	<b>4,372</b>	<b>86,400</b>

#### For the year ended December 31, 2002:

	Intangible assets	Land and buildings	Machinery and equipment	Construction in progress	Total
<i>Cost</i>					
Balance as at January 1, 2002	26,197	33,982	50,319	2,942	113,440
Additions	18,545	3,397	13,423	15,027	50,392
Disposals	– 12,087	– 138	– 9,133	– 11,018	– 32,376
<b>Balance as at December 31, 2002</b>	<b>32,655</b>	<b>37,241</b>	<b>54,609</b>	<b>6,951</b>	<b>131,456</b>

## FINANCIAL REPORT

<i>(Continued from page 96)</i>	Intangible assets	Land and buildings	Machinery and equipment	Construction in progress	Total
<i>Depreciation and Amortization</i>					
Balance as at January 1, 2002	14.331	4.709	37.673	–	56.713
Additions	5.590	794	6.701	–	13.085
Disposals	– 1.059	– 28	– 8.560	–	– 9.647
<b>Balance as at December 31, 2002</b>	<b>18.862</b>	<b>5.475</b>	<b>35.814</b>	<b>–</b>	<b>60.151</b>
<i>Net book value</i>					
Balance as at January 1, 2002	11.866	29.273	12.646	2.942	56.727
<b>Balance as at December 31, 2002</b>	<b>13.793</b>	<b>31.766</b>	<b>18.795</b>	<b>6.951</b>	<b>71.305</b>

### NOTE 10: OTHER ASSETS

	2003	<i>(in HUF mn)</i> 2002
Receivables due to collection of Hungarian Government securities	69	45
Property held-for-sale	307	455
Due from Government for interest subsidies	1,885	876
Trade receivables	1,716	2,740
Advances for securities and investments	528	475
Deferred tax assets	559	–
Taxes recoverable	821	278
Inventories	736	724
Other advances	327	334
Credits sold under deferred payment scheme	4,453	5,931
Loans sold under deferred payment scheme to OTP Mortgage Bank Company Ltd.	28,186	15,947
Margin account balance	–	240
Accounts with investment funds and pension funds	–	12,014
Settlement accounts	6	925
Receivables from investing services	1,139	2,335
Prepayments and accrued incomes	3,935	2,843
Fair value of derivative financial instruments	1,990	8,469
Other	3,871	6,695
	50,528	61,326
Allowance for possible losses on other assets	– 2.213	– 2.418
	<b>48,315</b>	<b>58,908</b>

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

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

	2003	<i>(in HUF mn)</i> 2002
Balance as at January 1	2,418	1,669
(Credit)/provision for possible losses	– 205	749
<b>Balance as at December 31</b>	<b>2,213</b>	<b>2,418</b>

## FINANCIAL REPORT

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

		<i>(in HUF mn)</i>	
		2003	2002
<b>Within one year:</b>	In HUF	7,478	29,920
	In foreign currency	22,690	7,100
		<i>30,168</i>	<i>37,020</i>
<b>Over one year:</b>	In HUF	4,291	4,774
	In foreign currency	56,622	4,607
		<i>60,913</i>	<i>9,381</i>
<b>Total</b>		<b>91,081</b>	<b>46,401</b>

Due to banks and deposits from the National Bank of Hungary and other banks payable in HUF within one year as at December 31, 2003 and 2002, bear interest rates in the range from 11.4% to 12.9% and from 7.5% to 9.7%, 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, 2003 and 2002, bear interest rates in the range from 3% to 9.4% and from 9% to 9.5% 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, 2003 and 2002, bear interest rates in the range from 0.3% to 2.7% and from 0.7% and 7.2%, 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, 2003 and 2002, bear interest rates in the range from 0.5% to 4.7% and from 1.4% and 9.2%, respectively.

### NOTE 12: DEPOSITS FROM CUSTOMERS

		<i>(in HUF mn)</i>	
		2003	2002
<b>Within one year:</b>	In HUF	1,947,081	1,740,583
	In foreign currency	279,332	293,597
		<i>2,226,413</i>	<i>2,034,180</i>
<b>Over one year:</b>	In HUF	38,115	11,473
		<i>38,115</i>	<i>11,473</i>
<b>Total</b>		<b>2,264,528</b>	<b>2,045,653</b>

Deposits from customers payable in HUF within one year as at December 31, 2003 and 2002, bear interest rates in the range from 0.8% to 11% and from 0.5% to 8%, respectively.

Deposits from customers payable in HUF over one year as at December 31, 2003 and 2002, bear interest rates in the range from 5.3% to 8.8% and from 5% to 7.6%, respectively.

Deposits from customers payable in foreign currency as at December 31, 2003 and 2002, bear interest rates in the range from 0.1% to 4.1% and from 0.1% to 1.6%, respectively.

## FINANCIAL REPORT

An analysis of deposits from customers by type, is as follows:

	2003		(in HUF mn) 2002	
Commercial deposits	440,034	20%	361,749	18%
Municipality deposits	164,571	7%	152,590	7%
Consumer deposits	1,659,923	73%	1,531,314	75%
	<b>2,264,528</b>	<b>100%</b>	<b>2,045,653</b>	<b>100%</b>

### NOTE 13: LIABILITIES FROM ISSUED SECURITIES

	2003	(in HUF mn) 2002
With original maturity:		
Within one year	238	338
Over one year	1,801	1,716
	<b>2,039</b>	<b>2,054</b>

Liabilities from issued securities are denominated in HUF at interest rates in the range from 2% to 4.3% and from 2% to 6.3% as at December 31, 2003 and 2002, respectively.

### NOTE 14: OTHER LIABILITIES

	2003	(in HUF mn) 2002
Taxes payable	2,044	1,608
Deferred tax liabilities	–	193
Giro clearing accounts	12,604	23,541
Accounts payable	8,145	5,656
Salaries and social security payable	5,882	6,153
Liabilities from security trading	15,852	5,431
Allowances for possible losses on off-balance sheet commitments, contingent liabilities	9,041	5,488
Margin account balance	34	–
Dividends payable	639	649
Accrued expenses	8,484	4,692
Suspense accounts	2,083	2,543
Loans for collection	2,202	1,567
Fair value of derivative financial instruments	90	3,680
Other	7,396	8,232
	<b>74,496</b>	<b>69,433</b>

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

	2003	(in HUF mn) 2002
Allowance for litigation	1,509	1,591
Allowance for other off-balance sheet commitments, contingent liabilities	5,785	2,140
Other allowances for expected liabilities	1,671	1,529
Allowance for housing warranties	76	228
<b>Total</b>	<b>9,041</b>	<b>5,488</b>



## FINANCIAL REPORT

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.

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

	2003	2002
	<i>(in HUF mn)</i>	
Balance as at January 1	5,488	3,491
Provision for off-balance sheet commitments and contingent liabilities, net	3,705	2,066
Release of allowance for housing warranties	- 152	- 69
<b>Balance as at December 31</b>	<b>9,041</b>	<b>5,488</b>

### 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 4.36% as at December 20, 2002, 3.25% as at June 20, 2003, and 4.8% as at December 20, 2003. 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 (15.92 million in EUR) subordinated loan from the European Bank for Reconstruction and Development with the original maturity of December 27, 2006. The maturity date was modified to August 27, 2008 on August 22, 2003. The loan is unsecured, subordinate to the other liabilities and has a twelve-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, 2003 and at six-month LIBOR + 1.35% from December 28, 2003 until August 27, 2008.

### NOTE 16: SHARE CAPITAL

	2003	2002
	<i>(in HUF mn)</i>	
Authorized, issued and fully paid:		
Common shares	28,000	28,000
	<b>28,000</b>	<b>28,000</b>

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).

## FINANCIAL REPORT

### NOTE 17: RETAINED EARNINGS AND RESERVES

	2003	2002 <i>(in HUF mn)</i>
Balance as at January 1	192,358	141,559
Net income after income taxes	70,141	51,901
Gain/(loss) on sale of Treasury Shares	5	- 1,102
<b>Balance as at December 31</b>	<b>262,504</b>	<b>192,358</b>

The Bank's reserves under Hungarian Accounting Standards were HUF 234,415 million and HUF 177,843 million as at December 31, 2003 and 2002, respectively. Of these amounts, legal reserves represent HUF 41,326 million and HUF 34,169 million as at December 31, 2003 and 2002, respectively. The legal reserves are not available for distribution.

The Annual General Meeting on April 25, 2003 decided that the Bank would not pay a dividend for the year ended December 31, 2002.

Dividends for the year ended December 31, 2003 will be proposed at the Annual General Meeting in April 2004. The proposed dividend for the year 2003 is HUF 16,800 million.

### NOTE 18: TREASURY SHARES

	2003	2002 <i>(in HUF mn)</i>
Nominal Value	1,324	1,543
Carrying Value at acquisition cost	14,328	16,883

### NOTE 19: OTHER EXPENSES

	2003	2002 <i>(in HUF mn)</i>
(Credit)/provision for permanent diminution in value of equity investments	- 111	555
(Credit)/provision for other assets	- 205	749
Provision for possible losses on off-balance sheet commitments, contingent liabilities	3,705	2,066
Administration expenses, including rent	18,329	17,960
Advertising	3,406	3,024
Taxes, other than income	11,184	7,864
Services	15,062	11,758
Professional fees	2,305	2,586
Other	2,652	2,878
	<b>56,327</b>	<b>49,440</b>

## FINANCIAL REPORT

### NOTE 20: INCOME TAXES

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

Deferred tax is calculated at 16%, which is the income tax rate effect from January 1, 2004.

*A reconciliation of the income tax is as follows:*

	<i>(in HUF mn)</i>	
	2003	2002
Current tax	15,139	10,885
Deferred tax	– 752	215
	<b>14,387</b>	<b>11,100</b>

*A reconciliation of the deferred tax asset/(liability) is as follows:*

	<i>(in HUF mn)</i>	
	2003	2002
Balance as at January 1	– 193	22
Deferred tax charge/(credit)	752	– 215
<b>Balance as at December 31</b>	<b>559</b>	<b>– 193</b>

*A reconciliation of the income tax charge is as follows:*

	<i>(in HUF mn)</i>	
	2003	2002
Net income before income taxes	84,528	63,001
Permanent differences due to movements in statutory provisions	– 1,360	– 3,033
Dividend income	– 7,691	– 332
Other permanent differences	3,929	2,030
Adjusted tax base	79,406	61,666
<b>Income tax</b>	<b>14,387</b>	<b>11,100</b>

### NOTE 21: FINANCIAL INSTRUMENTS

A financial instrument is any contract that gives rise to the right to receive cash or another financial asset from another party (financial asset) or the obligation to deliver cash or another financial asset to another party (financial liability).

Financial instruments may result in certain risks to the Bank. The most significant risks the Bank faces include:

#### *CREDIT RISK*

The Bank takes on exposure to credit risk which is the risk that a counter-party will be unable to pay amounts in full when due. The Bank structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower, or Banks of borrowers, and to geographical and industry segments. Such risks are monitored on a revolving basis and subject to an annual or more frequent review. The exposure to any one borrower including banks and brokers is further restricted by sub-limits covering on and off-balance sheet exposures and daily delivery risk limits in relation to trading items such as forward foreign exchange contracts. Actual exposures against limits are monitored daily.

## FINANCIAL REPORT

Exposure to credit risk is managed through regular analysis of the ability of borrowers and potential borrowers to meet interest and capital repayment obligations and by changing these lending limits where appropriate. Exposure to credit risk is also managed in part by obtaining collateral and corporate and personal guarantees.

### MARKET RISK

The Bank takes on exposure to market risks. Market risks arise from open positions in interest rate, currency and equity products, all of which are exposed to general and specific market movements. The Bank applies a 'value at risk' methodology to estimate the market risk of positions held and the maximum losses expected, based upon a number of assumptions for various changes in market conditions. The Management Board sets limits on the value of risk that may be accepted, which is monitored on a daily basis.

### LIQUIDITY RISK

See Note 27.

### FOREIGN CURRENCY RISK

See Note 28.

### INTEREST RATE RISK

See Note 29.

## NOTE 22: OFF-BALANCE SHEET ITEMS AND DERIVATIVE FINANCIAL INSTRUMENTS

In the normal course of business, the Bank becomes a party to various financial transactions that are not reflected on the balance sheet and are referred to as off-balance sheet financial instruments. The following represent notional amounts of these off-balance sheet financial instruments, unless stated otherwise.

### a) CONTINGENT LIABILITIES AND COMMITMENTS

	<i>(in HUF mn)</i>	
	<b>2003</b>	<b>2002</b>
Commitments to extend credit	392,308	314,127
Guarantees arising from banking activities	65,010	47,401
Confirmed letters of credit	956	787
Other	24,502	20,051
Legal disputes	2,469	4,846
	<b>485,245</b>	<b>387,212</b>

### COMMITMENTS TO EXTEND CREDIT, FROM GUARANTEES AND LETTERS OF CREDIT

The primary purpose of these instruments is to ensure that funds are available to a customer as required. Guarantees and standby letters of credit, which represent irrevocable assurances that the Bank will make payments in the event that a customer cannot meet its obligations to third parties, carry the same credit risk as loans.

Documentary and commercial letters of credit, which are written undertakings by the Bank on behalf of a customer authorising a third party to draw drafts on the Bank up to a stipulated amount under specific terms and conditions, are collateralised by the underlying shipments of goods to which they relate and therefore carry less risk than a direct borrowing.

## FINANCIAL REPORT

Commitments to extend credit represent unused portions of authorisations to extend credit in the form of loans, guarantees or letters of credit. With respect to credit risk on commitments to extend credit, the Bank is potentially exposed to loss in an amount equal to the total unused commitments. However, the likely amount of loss is less than the total unused commitments since most commitments to extend credit are contingent upon customers maintaining specific credit standards.

Guarantees, irrevocable letters of credit and undrawn loan commitments are subject to similar credit risk monitoring and credit policies as utilised in the extension of loans. The management of the Bank believes the market risk associated with guarantees, irrevocable letters of credit and undrawn loans commitments to be minimal.

### LEGAL DISPUTES

At the balance sheet date the Bank was involved in various claims and legal proceedings of a nature considered normal to its business. The level of these claims and legal proceedings correspond to the level of claims and legal proceedings in previous years.

The Bank believes that the various asserted claims and litigations in which it is involved will not materially affect its financial position, future operating results or cash flows, although no assurance can be given with respect to the ultimate outcome of any such claim or litigation.

### b) DERIVATIVES (nominal amount, unless otherwise stated)

	2003	2002
	<i>(in HUF mn)</i>	
Foreign currency contracts		
Assets	55,164	55,869
Liabilities	56,691	58,743
<b>Net</b>	<b>- 1,527</b>	<b>- 2,874</b>
<b>Net fair value</b>	<b>- 235</b>	<b>- 4,181</b>
Foreign exchange swaps and interest rate swaps		
Assets	230,852	161,347
Liabilities	216,839	150,126
<b>Net</b>	<b>14,013</b>	<b>11,221</b>
<b>Net fair value</b>	<b>14,711</b>	<b>17,210</b>
Option contracts		
Assets	25,402	183,322
Liabilities	18,184	164,658
<b>Net</b>	<b>7,218</b>	<b>18,664</b>
<b>Net fair value</b>	<b>7,128</b>	<b>18,805</b>
Forward rate agreements		
Assets	-	41,700
Liabilities	-	26,500
<b>Net</b>	<b>-</b>	<b>15,200</b>
<b>Net fair value</b>	<b>-</b>	<b>15,166</b>

## FINANCIAL REPORT

The Bank maintains strict control limits on net open derivative positions, i.e. the difference between purchase and sale contracts, by both amount and term. At any time the amount subject to credit risk is limited to the current fair value of instruments that are favourable to the Bank (i.e. assets), which in relation to derivatives is only a small fraction of the contract or notional values used to express the volume of instruments outstanding. This credit risk exposure is managed as part of the overall lending limits with customers, together with potential exposures from market movements. Collateral or other security is not usually obtained for credit risk exposures on these instruments, except of trading with clients, where the Bank in most of the cases requires margin deposits.

As at December 31, 2003, the Bank has derivative instruments with positive fair values of HUF 1,990 million and negative fair values of HUF 90 million. Positive fair values of derivative instruments are included in other assets, while negative fair values of derivative instruments are included in other liabilities. Corresponding figures as at December 31, 2002 are HUF 8,469 million and HUF 3,680 million.

### *FOREIGN CURRENCY CONTRACTS*

Foreign currency contracts are agreements to exchange specific amounts of currencies at a specified rate of exchange, at a spot date (settlement occurs two days after the trade date) or at a forward date (settlement occurs more than two days after the trade date). The notional amount of these contracts does not represent the actual market or credit risk associated with these contracts.

Foreign currency contracts are used by the Bank for risk management and trading purposes. The Bank's risk management foreign currency contracts were used to hedge against exchange rate fluctuations on loans and advances to credit institutions denominated in foreign currency.

### *FOREIGN EXCHANGE SWAPS AND INTEREST RATE SWAPS*

The Bank enters into foreign-exchange swap and interest rate swap transactions. The swap transaction is a complex agreement concerning to the swap of certain financial instruments, which usually consist of a prompt and one or more futures contracts.

Interest rate swaps obligate two parties to exchange one or more payments calculated with reference to fixed or periodically reset rates of interest applied to a specific notional principal amount. Notional principal is the amount upon which interest rates are applied to determine the payment streams under interest rate swaps.

Such notional principal amounts often are used to express the volume of these transactions but are not actually exchanged between the counter-parties. The Bank's interest rate swaps were used for management of interest rate exposures and have been accounted for at mark-to-market fair value.

### *FORWARD RATE AGREEMENTS*

A forward rate agreement is an agreement to settle amounts at a specified future date based on the difference between an interest rate index and an agreed upon fixed rate. Market risk arises from changes in the market value of contractual positions caused by movements in interest rates.

The Bank limits its exposure to market risk by entering into generally matching or offsetting positions and by establishing and monitoring limits on unmatched positions. Credit risk is managed through approval procedures that establish specific limits for individual counter-parties. The Bank's forward rate agreements were transacted for management of interest rate exposures and have been accounted for at mark-to-market fair value.

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



## FINANCIAL REPORT

### NOTE 23: RELATED PARTY TRANSACTIONS

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

During the years ended December 31, 2003 and 2002 the Bank sold, without recourse, non-performing loans and the related accrued interest receivable to OTP Factoring for HUF 3,634 million and HUF 4,961 million, respectively. The gross book value of such credits was HUF 10,043 million and HUF 12,238 million, respectively, with a corresponding allowance for possible loan losses of HUF 5,503 million and HUF 9,603 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 Building Society in relation to finalised customer contracts were HUF 924 million and HUF 481 million for the years ended December 31, 2003 and 2002, respectively.

Insurance premiums paid by the Bank to OTP Garancia Insurance were HUF 1,054 million and HUF 841 million for the years ended December 31, 2003 and 2002, respectively.

Commissions received by the Bank from OTP Fund Management in relation to custody activity were HUF 509 million and HUF 438 million in relation to trading activity were HUF 2,445 million and HUF 2,116 million for the years ended December 31, 2003 and 2002, respectively.

Commissions paid by the Bank to OTP Real Estate in relation to its activity were HUF 3,735 million and HUF 3,071 million for the years ended December 31, 2003 and 2002, respectively.

The Bank sold mortgage loans with recourse to OTP Mortgage Bank Company Ltd. of HUF 448,034 million and HUF 189,785 million during the years ended December 31, 2003 and 2002 (including interest). The book value of these receivables were HUF 447,289 million and HUF 189,430 million.

During the year ended December 31, 2003 the Bank received HUF 25,072 million in commissions from OTP Mortgage Bank Company Ltd. For the year ended December 31, 2002 such commissions were HUF 5,250 million. Such commissions are related to loans originally provided by the Bank and subsequently sold to OTP Mortgage Bank Company Ltd.

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.

The members of the Board of Directors and the Supervisory Board have credit lines of HUF 139 million as at December 31, 2003. Such credit is made available at normal market conditions.

In the normal course of business, the Bank gives loans and provides services to other related parties at normal market conditions. The amount of these loans was HUF 1,700 million and HUF 1,762 million, with commitments to extend credit and guarantees of HUF 135 million and HUF 173 million as at December 31, 2003 and 2002, respectively.

### NOTE 24: CASH AND CASH EQUIVALENTS

	2003	2002
Cash, due from banks and balances with the NBH	252,975	348,424
Compulsory reserve established by the NBH	- 109,532	- 93,067
	<b>143,443</b>	<b>255,357</b>

## FINANCIAL REPORT

### NOTE 25: 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 46,187 million and HUF 46,745 million as at December 31, 2003 and 2002, respectively.

### NOTE 26: CONCENTRATION OF ASSETS AND LIABILITIES

Approximately 22% and 30% 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, 2003 and 2002, respectively. Approximately 19% and 6% of the Bank's total assets consisted securities issued by the OTP Mortgage Bank Company Ltd. as at December 31, 2003 and 2002, respectively. There were no other significant concentrations of the Bank's assets or liabilities as at December 31, 2003 and 2002, respectively.

### NOTE 27: 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, 2003

	Within 3 months	Whitin 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	252,975	–	–	–	252,975
Placements with other banks, net of allowance for possible placement losses	146,823	7,855	10,174	357	165,209
Securities held-for-trading and available-for-sale	12,105	27,740	200,892	71,658	312,395
Loans, net of allowance for possible loan losses	109,641	285,516	461,162	214,106	1,070,425
Accrued interest receivable	31,789	1	2	–	31,792
Equity investments	–	–	–	138,808	138,808
Securities held-to-maturity	115,358	69,298	257,486	183,167	625,309
Premises, equipment and intangible assets, net	–	–	20,540	65,860	86,400
Other assets	44,389	3,926	–	–	48,315
<b>TOTAL ASSETS</b>	<b>713,080</b>	<b>394,336</b>	<b>950,256</b>	<b>673,956</b>	<b>2,731,628</b>

## FINANCIAL REPORT

*(Continued from page 107)*

	Within 3 months	Whitin one year and over 3 months	Within 5 years and over one year	Over 5 years	<i>(in HUF mn)</i> Total
Due to banks and deposits from the National Bank of Hungary and other banks	15,336	14,832	58,258	2,655	91,081
Deposits from customers	1,905,485	320,928	38,115	–	2,264,528
Liabilities from issued securities	238	–	1,801	–	2,039
Accrued interest payable	5,697	2,198	–	–	7,895
Other liabilities	63,762	10,734	–	–	74,496
Subordinated bonds and loans	–	–	10,413	5,000	15,413
<b>TOTAL LIABILITIES</b>	<b>1,990,518</b>	<b>348,692</b>	<b>108,587</b>	<b>7,655</b>	<b>2,455,452</b>
Share capital	–	–	–	28,000	28,000
Retained earnings and reserves	–	–	–	262,504	262,504
Treasury shares	–	– 14,328	–	–	– 14,328
<b>TOTAL SHAREHOLDERS' EQUITY</b>	<b>–</b>	<b>– 14,328</b>	<b>–</b>	<b>290,504</b>	<b>276,176</b>
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>	<b>1,990,518</b>	<b>334,364</b>	<b>108,587</b>	<b>298,159</b>	<b>2,731,628</b>
<b>LIQUIDITY (DEFICIENCY)/EXCESS</b>	<b>– 1,277,438</b>	<b>59,972</b>	<b>841,669</b>	<b>375,797</b>	<b>–</b>

As at December 31, 2002

	Within 3 months	Whitin one year and over 3 months	Within 5 years and over one year	Over 5 years	<i>(in HUF mn)</i> Total
Cash, due from banks and balances with the National Bank of Hungary	346,964	1,026	307	127	348,424
Placements with other banks, net of allowance for possible placement losses	217,817	45,788	13,722	300	277,627
Securities held-for-trading and available-for-sale	9,957	6,185	53,301	134,965	204,408
Loans, net of allowance for possible loan losses	150,122	225,304	338,292	281,276	994,994
Accrued interest receivable	21,979	1,395	33	–	23,407
Equity investments	–	–	–	48,888	48,888
Securities held-to-maturity	24,165	56,598	192,060	89,222	362,045
Premises, equipment and intangible assets, net	–	–	28,282	43,023	71,305
Other assets	51,408	7,500	–	–	58,908
<b>TOTAL ASSETS</b>	<b>822,412</b>	<b>343,796</b>	<b>625,997</b>	<b>597,801</b>	<b>2,390,006</b>
Due to banks and deposits from the National Bank of Hungary and other banks	27,445	9,575	7,737	1,644	46,401
Deposits from customers	1,671,710	362,470	11,473	–	2,045,653
Liabilities from issued securities	174	164	1,716	–	2,054
Accrued interest payable	4,810	2,669	–	–	7,479
Other liabilities	61,881	6,114	1,171	267	69,433
Subordinated bonds and loans	–	–	10,511	5,000	15,511
<b>TOTAL LIABILITIES</b>	<b>1,766,020</b>	<b>380,992</b>	<b>32,608</b>	<b>6,911</b>	<b>2,186,531</b>
Share capital	–	–	–	28,000	28,000
Retained earnings and reserves	–	–	–	192,358	192,358
Treasury shares	–	– 16,883	–	–	– 16,883
<b>TOTAL SHAREHOLDERS' EQUITY</b>	<b>–</b>	<b>– 16,883</b>	<b>–</b>	<b>220,358</b>	<b>203,475</b>
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>	<b>1,766,020</b>	<b>364,109</b>	<b>32,608</b>	<b>227,269</b>	<b>2,390,006</b>
<b>LIQUIDITY (DEFICIENCY)/EXCESS</b>	<b>– 943,608</b>	<b>– 20,313</b>	<b>593,389</b>	<b>370,532</b>	<b>–</b>

## FINANCIAL REPORT

### NOTE 28: NET FOREIGN CURRENCY POSITION AND FOREIGN CURRENCY RISK

As at December 31, 2003

	USD	EUR	Others	(in HUF mn) Total
Assets	75,018	301,021	93,382	469,421
Liabilities	- 91,700	- 244,969	- 34,086	- 370,755
Off-balance sheet assets and liabilities, net	19,596	- 91,036	- 7,094	- 78,534
<b>Net position</b>	<b>2,914</b>	<b>- 34,984</b>	<b>52,202</b>	<b>20,132</b>

As at December 31, 2002

	USD	EUR	Others	(in HUF mn) Total
Assets	155,937	173,721	53,140	382,798
Liabilities	- 112,482	- 170,049	- 34,211	- 316,742
Off-balance sheet assets and liabilities, net	- 42,961	- 4,656	- 4,067	- 51,684
<b>Net position</b>	<b>494</b>	<b>- 984</b>	<b>14,862</b>	<b>14,372</b>

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 measurement of the Bank's open foreign currency position involves monitoring the 'value at risk' limit on the foreign exchange exposure of the Bank.

### NOTE 29: 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.

The following table presents the interest repricing dates of the Bank. Variable yield assets and liabilities have been reported according to their next repricing date. Fixed income assets and liabilities have been reported according to their maturity.

## FINANCIAL REPORT

As at December 31, 2003 (in HUF mn)

ASSETS	Within 1 month		Within 3 months over 1 month		Within 1 year over 3 months		Within 2 years over 1 year		Over 2 years		Non-interest bearing		Total		Total
	HUF	In foreign currency	HUF	In foreign currency	HUF	In foreign currency	HUF	In foreign currency	HUF	In foreign currency	HUF	In foreign currency	HUF	In foreign currency	
<b>Cash due from banks and balances</b>															
<b>with the National Bank of Hungary</b>	<b>191,911</b>	<b>3,035</b>	-	-	-	-	-	-	-	-	<b>54,918</b>	<b>3,111</b>	<b>246,829</b>	<b>6,146</b>	<b>252,975</b>
Fixed interest	191,911	3,035	-	-	-	-	-	-	-	-	-	-	191,911	3,035	194,946
Variable interest	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Non-interest-bearing	-	-	-	-	-	-	-	-	-	-	54,918	3,111	54,918	3,111	58,029
<b>Placement with other banks</b>	<b>79,358</b>	<b>65,084</b>	<b>2,500</b>	<b>5,815</b>	<b>2,500</b>	<b>4,913</b>	-	-	-	-	<b>3,901</b>	<b>1,138</b>	<b>88,259</b>	<b>76,950</b>	<b>165,209</b>
Fixed interest	76,058	60,994	2,500	1,010	2,500	-	-	-	-	-	-	-	81,058	62,004	143,062
Variable interest	3,300	4,090	-	4,805	-	4,913	-	-	-	-	-	-	3,300	13,808	17,108
Non-interest-bearing	-	-	-	-	-	-	-	-	-	-	3,901	1,138	3,901	1,138	5,039
<b>Securities held-for-trading and available-for-sale</b>	<b>22,622</b>	-	<b>37,418</b>	<b>13,583</b>	<b>61,451</b>	<b>6,453</b>	<b>10,698</b>	<b>242</b>	<b>151,793</b>	-	<b>7,885</b>	<b>250</b>	<b>291,867</b>	<b>20,528</b>	<b>312,395</b>
Fixed interest	8	-	1,137	1,828	23,729	2,295	10,698	242	151,793	-	-	-	187,365	4,365	191,730
Variable interest	22,614	-	36,281	11,755	37,722	4,158	-	-	-	-	-	-	96,617	15,913	112,530
Non-interest-bearing	-	-	-	-	-	-	-	-	-	-	7,885	250	7,885	250	8,135
<b>Loans</b>	<b>567,096</b>	<b>99,490</b>	<b>147,573</b>	<b>188,929</b>	<b>18,758</b>	<b>21,103</b>	-	-	<b>27,476</b>	-	-	-	<b>760,903</b>	<b>309,522</b>	<b>1,070,425</b>
Fixed interest	10,980	8	-	125	1,751	-	-	-	27,476	-	-	-	40,207	133	40,340
Variable interest	556,116	99,482	147,573	188,804	17,007	21,103	-	-	-	-	-	-	720,696	309,389	1,030,085
<b>Securities held-to-maturity</b>	<b>22,697</b>	-	<b>192,665</b>	-	<b>76,875</b>	-	<b>36,672</b>	-	<b>294,325</b>	<b>2,075</b>	-	-	<b>623,234</b>	<b>2,075</b>	<b>625,309</b>
Fixed interest	-	-	91,255	-	66,753	-	36,672	-	294,325	2,075	-	-	489,005	2,075	491,080
Variable interest	22,697	-	101,410	-	10,122	-	-	-	-	-	-	-	134,229	-	134,229
<b>Fair value of derivative financial instruments in other assets</b>	<b>43,526</b>	<b>50,501</b>	<b>112,327</b>	<b>16,869</b>	<b>45,652</b>	<b>25,189</b>	<b>10,805</b>	<b>7,567</b>	<b>43,314</b>	<b>3,893</b>	-	-	<b>255,624</b>	<b>104,019</b>	<b>359,643</b>
Fixed interest	23,569	50,501	46,725	15,118	5,288	25,189	10,805	7,567	43,314	3,893	-	-	129,701	102,268	231,969
Variable interest	19,957	-	65,602	1,751	40,364	-	-	-	-	-	-	-	125,923	1,751	127,674

LIABILITIES	Within 1 month		Within 3 months over 1 month		Within 1 year over 3 months		Within 2 years over 1 year		Over 2 years		Non-interest bearing		Total		Total
	HUF	In foreign currency	HUF	In foreign currency	HUF	In foreign currency	HUF	In foreign currency	HUF	In foreign currency	HUF	In foreign currency	HUF	In foreign currency	
<b>Due to banks and deposits with the National Bank of Hungary</b>	<b>9,901</b>	<b>47,332</b>	-	<b>25,524</b>	-	<b>4,916</b>	<b>6</b>	-	<b>1,198</b>	-	<b>664</b>	<b>1,540</b>	<b>11,769</b>	<b>79,312</b>	<b>91,081</b>
Fixed interest	5,389	7,998	-	7,769	-	3,409	6	-	1,198	-	-	-	6,593	19,176	25,769
Variable interest	4,512	39,334	-	17,755	-	1,507	-	-	-	-	-	-	4,512	58,596	63,108
Non-interest-bearing	-	-	-	-	-	-	-	-	-	-	664	1,540	664	1,540	2,204
<b>Deposits from customers</b>	<b>1,761,203</b>	<b>51,075</b>	<b>216,332</b>	<b>197,519</b>	<b>7,661</b>	<b>29,451</b>	-	<b>1,287</b>	-	-	-	-	<b>1,985,196</b>	<b>279,332</b>	<b>2,264,528</b>
Fixed interest	358,313	51,075	216,332	197,519	7,661	29,451	-	1,287	-	-	-	-	582,306	279,332	861,638
Variable interest	1,402,890	-	-	-	-	-	-	-	-	-	-	-	1,402,890	-	1,402,890
<b>Liabilities from issued securities</b>	<b>143</b>	-	-	-	-	-	<b>1,801</b>	-	-	-	<b>95</b>	-	<b>2,039</b>	-	<b>2,039</b>
Fixed interest	-	-	-	-	-	-	1,801	-	-	-	-	-	1,801	-	1,801
Variable interest	143	-	-	-	-	-	-	-	-	-	-	-	143	-	143
Non-interest-bearing	-	-	-	-	-	-	-	-	-	-	95	-	95	-	95
<b>Fair value of derivative financial instruments in other liabilities</b>	<b>14,301</b>	<b>85,576</b>	<b>23,510</b>	<b>90,428</b>	<b>56,382</b>	<b>6,696</b>	<b>41,579</b>	-	<b>42,766</b>	-	-	-	<b>178,538</b>	<b>182,700</b>	<b>361,238</b>
Fixed interest	8,054	67,063	5,102	59,384	24,026	6,696	41,579	-	42,766	-	-	-	121,527	133,143	254,670
Variable interest	6,247	18,513	18,408	31,044	32,356	-	-	-	-	-	-	-	57,011	49,557	106,568
<b>Subordinated bonds and loans</b>	-	-	-	-	<b>5,000</b>	<b>10,413</b>	-	-	-	-	-	-	<b>5,000</b>	<b>10,413</b>	<b>15,413</b>
Variable interest	-	-	-	-	5,000	10,413	-	-	-	-	-	-	5,000	10,413	15,413

## FINANCIAL REPORT

As at December 31, 2002 (in HUF mn) [continued]

ASSETS	Within 1 month		Within 3 months over 1 month		Within 1 year over 3 months		Within 2 years over 1 year		Over 2 years		Non-interest bearing		Total		Total
	HUF	In foreign currency	HUF	In foreign currency	HUF	In foreign currency	HUF	In foreign currency	HUF	In foreign currency	HUF	In foreign currency	HUF	In foreign currency	
<b>Cash due from banks and balances</b>															
<b>with the National Bank of Hungary</b>	299,113	2,224	-	939	-	76	-	-	-	446	42,056	3,570	341,169	7,255	348,424
Fixed interest	299,113	2,224	-	197	-	-	-	-	-	446	-	-	299,113	2,867	301,980
Variable interest	-	-	-	742	-	76	-	-	-	-	-	-	-	818	818
Non-interest-bearing	-	-	-	-	-	-	-	-	-	-	42,056	3,570	42,056	3,570	45,626
<b>Placement with other banks</b>	105,037	106,711	21,500	7,062	23,780	7,932	-	-	-	-	4,396	1,209	154,713	122,914	277,627
Fixed interest	94,237	103,682	14,000	1,396	23,780	5,629	-	-	-	-	-	-	132,017	110,707	242,724
Variable interest	10,800	3,029	7,500	5,666	-	2,303	-	-	-	-	-	-	18,300	10,998	29,298
Non-interest-bearing	-	-	-	-	-	-	-	-	-	-	4,396	1,209	4,396	1,209	5,605
<b>Securities held-for-trading and available-for-sale</b>	23,142	-	14,637	14,631	27,981	2,252	177	3,873	111,485	271	5,719	240	183,141	21,267	204,408
Fixed interest	445	-	1,277	2,275	6,036	-	177	3,873	111,485	271	-	-	119,420	6,419	125,839
Variable interest	22,697	-	13,360	12,356	21,945	2,252	-	-	-	-	-	-	58,002	14,608	72,610
Non-interest-bearing	-	-	-	-	-	-	-	-	-	-	5,719	240	5,719	240	5,959
<b>Loans</b>	533,805	64,293	153,310	90,335	57,563	28,638	2,762	1,817	62,471	-	-	-	809,911	185,083	994,994
Fixed interest	1,983	-	9,984	-	621	2,142	91	1,297	735	-	-	-	13,414	3,439	16,853
Variable interest	531,822	64,293	143,326	90,335	56,942	26,496	2,671	520	61,736	-	-	-	796,497	181,644	978,141
<b>Securities held-to-maturity</b>	22,697	-	131,693	-	53,509	2,954	37,509	-	111,438	2,245	-	-	356,846	5,199	362,045
Fixed interest	-	-	1,853	-	35,387	2,954	37,509	-	111,438	2,245	-	-	186,187	5,199	191,386
Variable interest	22,697	-	129,840	-	18,122	-	-	-	-	-	-	-	170,659	-	170,659
<b>Fair value of derivative financial instruments in other assets</b>	70,579	67,224	37,131	13,521	114,176	21,545	-	8,458	1,162	-	-	-	223,048	110,748	333,796
Fixed interest	69,532	67,224	20,551	11,952	81,576	21,545	-	8,458	1,162	-	-	-	172,821	109,179	282,000
Variable interest	1,047	-	16,580	1,569	32,600	-	-	-	-	-	-	-	50,227	1,569	51,796

LIABILITIES	Within 1 month		Within 3 months over 1 month		Within 1 year over 3 months		Within 2 years over 1 year		Over 2 years		Non-interest bearing		Total		Total
	HUF	In foreign currency	HUF	In foreign currency	HUF	In foreign currency	HUF	In foreign currency	HUF	In foreign currency	HUF	In foreign currency	HUF	In foreign currency	
<b>Due to banks and deposits with the National Bank of Hungary</b>	25,318	3,687	2,887	7,073	3,498	197	-	-	1,573	446	1,418	304	34,694	11,707	46,401
Fixed interest	20,850	3,097	2,300	893	3,036	197	-	-	1,573	446	-	-	27,759	4,633	32,392
Variable interest	4,468	590	587	6,180	462	-	-	-	-	-	-	-	5,517	6,770	12,287
Non-interest-bearing	-	-	-	-	-	-	-	-	-	-	1,418	304	1,418	304	1,722
<b>Deposits from customers</b>	1,669,931	43,941	49,532	209,817	21,120	39,839	11,473	-	-	-	-	-	1,752,056	293,597	2,045,653
Fixed interest	449,726	43,941	49,532	209,817	9,128	39,839	11,473	-	-	-	-	-	519,859	293,597	813,456
Variable interest	1,220,205	-	-	-	11,992	-	-	-	-	-	-	-	1,232,197	-	1,232,197
<b>Liabilities from issued securities</b>	339	-	-	-	-	-	-	-	1,715	-	-	-	2,054	-	2,054
Fixed interest	-	-	-	-	-	-	-	-	1,715	-	-	-	1,715	-	1,715
Variable interest	339	-	-	-	-	-	-	-	-	-	-	-	339	-	339
<b>Fair value of derivative financial instruments in other liabilities</b>	22,398	110,834	13,951	18,027	68,920	32,188	9,407	1,842	52,546	-	-	-	167,222	162,891	330,113
Fixed interest	21,350	110,834	13,951	18,027	68,920	32,188	9,407	1,842	52,546	-	-	-	166,174	162,891	329,065
Variable interest	1,048	-	-	-	-	-	-	-	-	-	-	-	1,048	-	1,048
<b>Subordinated bonds and loans</b>	-	-	-	-	5,000	10,511	-	-	-	-	-	-	5,000	10,511	15,511
Variable interest	-	-	-	-	5,000	10,511	-	-	-	-	-	-	5,000	10,511	15,511

## FINANCIAL REPORT

### NOTE 30: 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.

	2003	2002
Income after income taxes (in HUF mn)	70,141	51,901
Weighted average number of common shares		
outstanding during the year for calculating basic EPS (piece)	268,322,068	263,700,791
Basic Earnings per share (in HUF)	261	197
Weighted average number of common shares		
outstanding during the year for calculating diluted EPS (piece)	269,377,589	264,488,644
Diluted Earnings per share (in HUF)	260	196

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

Diluted Earnings per share are determined after additionally taking into consideration the optional rights given to Senior Management of OTP Bank.

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

	<i>(in HUF mn)</i>				
	Retained Earnings and Reserves Jan 1, 2003	Net income for the year ended Dec 31, 2003	Dividend	Direct Movements on Reserves	Retained Earnings and Reserves Dec 31, 2003
<b>Hungarian financial statements</b>	<b>177,844</b>	<b>71,562</b>	<b>- 16,800</b>	<b>1,170</b>	<b>233,776</b>
<b>Adjustments to Hungarian financial statements:</b>					
Reversal of statutory general provision	14,253	2,803	-	-	17,056
Premium and discount amortization on investment securities	- 48	- 300	-	-	- 348
Allowance for possible loan losses	- 1,340	-	-	-	- 1,340
Allowance for possible losses on off-balance sheet commitments and contingent liabilities	- 228	152	-	-	- 76
Differences in carrying value of subsidiaries	1,012	- 295	-	-	717
Difference in accounting for finance leases	- 337	- 128	-	-	- 465
Fair value adjustment of held-for-trading and available-for-sale financial assets	3,481	- 8,454	-	-	- 4,973
Fair value adjustment of derivative financial instruments	- 1,754	3,943	-	-	2,189
Gain on sale of Treasury Shares	-	- 5	-	5	-
Reversal of goodwill and negative goodwill	- 572	1,257	-	-	685
Revaluation of investments denominated in foreign currency to historical cost	281	- 2,405	-	-	- 2,124
Difference in accounting of repo transaction	- 41	89	-	-	48
Reclassification of direct charges	-	1,170	-	- 1,170	-
Deferred taxation	- 193	752	-	-	559
Dividend payable for the year 2003 proposed at the Annual General Meeting	-	-	16,800	-	16,800
<b>International financial statements</b>	<b>192,358</b>	<b>70,141</b>	<b>-</b>	<b>5</b>	<b>262,504</b>



## FINANCIAL REPORT

# Deloitte.

Deloitte  
Auditing and Consulting Ltd.  
Nádor u. 21.  
H-1051 Budapest,  
Hungary  
P.O.Box 503  
H-1397 Budapest  
Hungary

Tel: +36 (1) 428-6800  
Fax: +36 (1) 428-6801  
[www.deloitte.com/Hungary](http://www.deloitte.com/Hungary)

### *INDEPENDENT AUDITORS' OPINION*

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, 2003 and 2002, and the related consolidated statements of operations, cash flows and changes in shareholders' equity for the years then ended, included on pages 114 to 147. 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, 2003 and 2002, and the consolidated results of its operations, cash flows and changes in shareholders' equity for the years then ended in accordance with International Financial Reporting Standards.

Budapest, April 7, 2004

Deloitte

Audit.Tax.Consulting.Financial Advisory

A member firm of  
Deloitte Touche Tohmatsu

Registered by the Budapest Court of Registration  
Company Reg. No.: 01-09-071057



## BALANCE SHEET

(consolidated, based on IFRS) as at December 31, 2003 and 2002 in HUF mn

	2003	2002
Cash, due from banks and balances with the National Bank of Hungary	276,501	355,440
Placements with other banks, net of allowance for possible placement losses	252,335	295,892
Securities held-for-trading and available-for-sale	377,016	220,091
Loans, net of allowance for possible loan losses	1,982,587	1,280,710
Accrued interest receivable	32,432	26,195
Equity investments	5,878	5,464
Securities held-to-maturity	299,772	352,916
Premises, equipment and intangible assets, net	167,337	93,568
Other assets	66,981	86,315
<b>TOTAL ASSETS</b>	<b>3,460,839</b>	<b>2,716,591</b>
Due to banks and deposits from the National Bank of Hungary and other banks	126,402	79,060
Deposits from customers	2,689,833	2,151,169
Liabilities from issued securities	124,887	84,862
Accrued interest payable	16,395	12,627
Other liabilities	175,677	149,345
Subordinated bonds and loans	15,413	15,511
<b>TOTAL LIABILITIES</b>	<b>3,148,607</b>	<b>2,492,574</b>
Share capital	28,000	28,000
Retained earnings and reserves	309,220	223,412
Treasury shares	- 25,420	- 27,800
<b>TOTAL SHAREHOLDERS' EQUITY</b>	<b>311,800</b>	<b>223,612</b>
MINORITY INTEREST	432	405
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>	<b>3,460,839</b>	<b>2,716,591</b>

The accompanying notes to consolidated financial statements on pages 118 to 147 form an integral part of these consolidated financial statements.



## PROFIT AND LOSS ACCOUNT

(consolidated, based on IFRS) as at December 31, 2003 and 2002 in HUF mn

	2003	2002
<b>INTEREST INCOME:</b>		
Loans	159,054	129,711
Placements with other banks	20,820	26,653
Due from banks and balances with the National Bank of Hungary	18,499	19,251
Securities held-for-trading and available-for-sale	56,874	21,879
Securities held-to-maturity	28,155	32,822
<i>TOTAL INTEREST INCOME</i>	<i>283,402</i>	<i>230,316</i>
<b>INTEREST EXPENSE:</b>		
Due to banks and deposits from the National Bank of Hungary and other banks	18,096	6,440
Deposits from customers	81,418	85,445
Liabilities from issued securities	7,044	3,193
Subordinated bonds and loans	748	963
<i>TOTAL INTEREST EXPENSE</i>	<i>107,306</i>	<i>96,041</i>
<b>NET INTEREST INCOME</b>	<b>176,096</b>	<b>134,275</b>
Provision for possible loan and placement losses	10,817	8,817
<b>NET INTEREST INCOME AFTER PROVISION FOR POSSIBLE LOAN AND PLACEMENT LOSSES</b>	<b>165,279</b>	<b>125,458</b>
<b>NON-INTEREST INCOME:</b>		
Fees and commissions	81,644	63,618
Foreign exchange gains and losses, net	5,167	– 2,768
Losses and gains on securities, net	– 7,591	1,062
Gains on real estate transactions, net	1,473	809
Dividend income	437	600
Insurance premiums	56,269	49,715
Other	12,249	11,545
<i>TOTAL NON-INTEREST INCOME</i>	<i>149,648</i>	<i>124,581</i>
<b>NON-INTEREST EXPENSES:</b>		
Fees and commissions	19,944	12,965
Personnel expenses	61,303	50,241
Depreciation and amortization	19,793	17,021
Insurance expenses	41,825	39,752
Other	69,401	56,932
<i>TOTAL NON-INTEREST EXPENSE</i>	<i>212,266</i>	<i>176,911</i>
<b>INCOME BEFORE INCOME TAXES</b>	<b>102,661</b>	<b>73,128</b>
Income taxes	– 19,324	– 13,952
<b>NET INCOME AFTER INCOME TAXES</b>	<b>83,337</b>	<b>59,176</b>
Minority interest	– 1	55
<b>NET INCOME</b>	<b>83,336</b>	<b>59,231</b>
<b>Consolidated earnings per share (in HUF)</b>		
basic	320	229
diluted	319	228

The accompanying notes to consolidated financial statements on pages 118 to 147 form an integral part of these consolidated financial statements.



## STATEMENT OF CASH FLOW

(consolidated, based on IFRS) as at December 31, 2003 and 2002 in HUF mn

	2003	2002
<b>OPERATING ACTIVITIES</b>		
Profit before tax	102,661	73,128
<i>Adjustments to reconcile profit before tax to net cash provided by operating activities</i>		
Income tax paid	– 20,275	– 15,436
Depreciation and amortization	19,793	17,021
Provision for possible loan and placement losses	10,817	8,817
Provision for permanent diminution in value of held-to-maturity investments	–	26
Provision/(credit) for permanent diminution in value of equity investments	34	– 1,548
Provision/(credit) for possible losses on other assets	1,507	– 1,317
Provision for possible losses on off-balance sheet commitments and contingent liabilities, net	997	2,355
Net (income)/loss from accounting for associates under the equity method of accounting	– 268	160
Net increase in insurance reserves	15,657	16,316
Unrealised losses/(gains) on fair value adjustment of securities held-for-trading and available-for-sale	6,263	– 369
Unrealised losses/(gains) on fair value adjustment of derivative financial instruments	2,860	– 5,610
Minority interest	– 1	55
<i>Changes in operating assets and liabilities</i>		
Net (increase)/decrease in accrued interest receivable	– 3,481	3,928
Net decrease/(increase) in other assets, excluding advances for investments and before allowance for possible losses	12,444	– 12,328
Net increase/(decrease) in accrued interest payable	1,385	– 730
Net increase in other liabilities	9,435	10,201
<b>Net Cash Provided by Operating Activities</b>	<b>159,828</b>	<b>94,669</b>
<b>INVESTING ACTIVITIES</b>		
Net decrease in placements with other banks, before provision for possible placement losses	100,523	48,522
Net (increase)/decrease in securities held-for-trading and available-for-sale, before unrealised gains or losses	– 111,346	32,265
Net decrease/(increase) in equity investments, before provision for permanent diminution in value	554	– 861
Purchase of investment in subsidiary, net	– 67,758	– 3,288
Net decrease in debt securities held-to-maturity	70,183	48,740
Net (increase)/decrease in advances for investments, included in other assets	– 74	17
Net increase in loans, before provision for possible loan losses	– 564,303	– 448,152
Net additions to premises, equipment and intangible assets	– 36,439	– 31,791
<b>Net Cash Used in Investing Activities</b>	<b>– 608,660</b>	<b>– 354,548</b>

## FINANCIAL REPORT

	2003	2002
<b>FINANCING ACTIVITIES</b>		
Net increase in due to banks and deposits from the National Bank of Hungary and other banks	47,259	6,815
Net increase in deposits from customers	277,847	194,716
Net increase in liabilities from issued securities	40,025	43,590
Decrease in subordinated bonds and loans	- 98	- 1,782
Minority interest	15	24
Foreign currency translation gains/(losses)	2,467	- 360
Net change in treasury shares	2,385	- 2,545
Net (increase)/decrease in compulsory reserves at National Bank of Hungary	- 16,627	15,055
Dividends paid	- 8	- 6,912
<b>Net Cash Provided by Financing Activities</b>	<b>353,265</b>	<b>248,601</b>
<b>Net Decrease in Cash and Cash Equivalents</b>	<b>- 95,566</b>	<b>- 11,278</b>
<i>Cash and cash equivalents as at January 1</i>	<i>260,226</i>	<i>271,504</i>
<b>Cash and Cash Equivalents as at December 31</b>	<b>164,660</b>	<b>260,226</b>
<b>Analysis of cash and cash equivalents opening and closing balance</b>		
Cash, due from banks and balances with the National Bank of Hungary	355,440	381,773
Compulsory reserve established by the National Bank of Hungary	- 95,214	- 110,269
<b>Cash and cash equivalents as at January 1</b>	<b>260,226</b>	<b>271,504</b>
Cash, due from banks and balances with the National Bank of Hungary	276,501	355,440
Compulsory reserve established by the National Bank of Hungary	- 111,841	- 95,214
<b>Cash and cash equivalents as at December 31</b>	<b>164,660</b>	<b>260,226</b>

The accompanying notes to consolidated financial statements on pages 118 to 147 form an integral part of these consolidated financial statements.



## STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

(consolidated, based on IFRS) as at December 31, 2003 and 2002 in HUF mn

	Share Capital	Retained Earnings and Reserves	Treasury Share	Total
<b>Balance as at January 1, 2002</b>	<b>28,000</b>	<b>165,643</b>	<b>- 26,357</b>	<b>167,286</b>
Net income after income taxes	-	59,231	-	59,231
Loss on sale of treasury shares	-	- 1,102	-	- 1,102
Change in carrying value of treasury shares	-	-	- 1,443	- 1,443
Foreign currency translation gain	-	- 360	-	- 360
<b>Balance as at December 31, 2002</b>	<b>28,000</b>	<b>223,412</b>	<b>- 27,800</b>	<b>223,612</b>
Net income after income taxes	-	83,336	-	83,336
Gain on sale of treasury shares	-	5	-	5
Change in carrying value of treasury shares	-	-	2,380	2,380
Foreign currency translation gain	-	2,467	-	2,467
<b>Balance as at December 31, 2003</b>	<b>28,000</b>	<b>309,220</b>	<b>- 25,420</b>	<b>311,800</b>

The accompanying notes to consolidated financial statements on pages 118 to 147 form an integral part of these consolidated financial statements.



## NOTES TO FINANCIAL STATEMENTS

(consolidated, based on IFRS)

### 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.

The Bank's registered office address is 16 Nador street, Budapest 1051.

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 and PORTAL (USA).

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.



## FINANCIAL REPORT

In the first quarter of the year of 2002 the nominal value of the common shares of the Bank has decreased from HUF 1,000 to HUF 100 per share.

As at December 31, 2003 approximately 92.4% of the Bank's shares were held by domestic and foreign private and institutional investors. The remaining shares are owned by employees (2.9%) and the Bank (4.7%).

The Bank provides a full range of commercial banking services through a wide network of 761 branches, thereof 432 branches are in Hungary, 271 branches are in Bulgaria and 58 branches are in Slovakia.

As at December 31, 2003 the number of employees at the Bank and its subsidiary companies (together the "Group") was 16,992. The average number of employees for the year ended December 31, 2003 was 17,311.

### 1.2. ACCOUNTING

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").

Some of the accounting principles prescribed for statutory purposes are different from those generally recognized in international financial markets. Certain adjustments have been made to the Bank's Hungarian consolidated statutory accounts, in order to present the consolidated financial position and results of operations of the Bank in accordance with all standards and interpretations approved by the International Accounting Standards Board (IASB), which are referred to as International Financial Reporting Standards (IFRS). These standards and interpretations were previously called International Accounting Standards (IAS).

### 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 certain financial instruments, which 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.

## FINANCIAL REPORT

### 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 26. However, certain subsidiaries in which the Bank holds a controlling interest have not been consolidated in accordance with IFRS 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 2.9.).

### 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 recorded as Depreciation and amortization in the Consolidated Statement of Operations, in anticipation of future economic benefits, on a straight-line basis over a period of five years. 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.

The excess, as at the date of the exchange transaction, of the Bank's interest in the fair values of the identifiable assets and liabilities acquired over the cost of the acquisition, is recognised as negative goodwill among intangible assets.

The extent that negative goodwill relates to expectations of future losses and expenses that are identified in the Bank's plan for the acquisition and can be measured reliably, but which do not represent identifiable liabilities at the date of acquisition, that portion of negative goodwill is recognised as Other income in the Consolidated Statement of Operations when the future losses and expenses are recognised.

To the extent that negative goodwill does not relate to identifiable expected future losses and expenses that can be measured reliably at the date of acquisition, negative goodwill is recognised as other income on a systematic basis over the remaining weighted average useful life of the identifiable acquired depreciable/amortisable assets.

Income, expenses, profits and losses of subsidiaries after the date of acquisition are included in the Bank's Consolidated Statements of Operations.

### 2.5. SECURITIES HELD-TO-MATURITY

Investments in securities are accounted on a settlement date basis and are initially measured at cost. At subsequent reporting dates, securities that the Group has the expressed intention and ability to hold to maturity (held-to-maturity 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 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.

## FINANCIAL REPORT

### 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 NBH and other securities. Other securities include shares in commercial companies, shares in investment funds, bonds issued by companies and foreign governments and mortgage bonds issued by other financial institutions.

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 of 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 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.

### 2.7. 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 interests are reversed. Loan origination fees and costs are recognized in the Consolidated Statement of Operations in full at the time of the loan origination.

The amount of provision is the difference between the carrying amount and the recoverable amount, being the present value of the expected cash flows, including amounts recoverable from guarantees and collateral, discounted at the original effective interest rate.

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. SALE AND REPURCHASE AGREEMENTS

Where debt or equity securities are sold under a commitment to repurchase them at a pre-determined price, they remain on the balance sheet and the consideration received is recorded in Other liabilities. Conversely, debt or equity securities purchased under a commitment to resell are not recognised in the balance sheet and the consideration paid is recorded in Other assets. Interest is accrued evenly over the life of the repurchase agreement.

### 2.9. 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. Shares which are intended to be disposed of are included among securities available-for-sale.

## FINANCIAL REPORT

Unconsolidated subsidiaries and 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.

### 2.10. 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	3.4–50%
Vehicles	10–33%
Leased assets	16.7–33.3%
Goodwill and negative goodwill	4–20%
Software	14.2–50%
Property rights	14.2–33%

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.

### 2.11. 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, 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 Consolidated Statement of Operations over the period of the leases to produce a constant rate of charge on the balance of capital payments outstanding.

## FINANCIAL REPORT

Payments made under operating leases are charged to the Consolidated Statement of Operations 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.

### 2.12. 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.

### 2.13. 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 other countries where insurance operations are conducted and is based upon mortality tables approved by regulatory authorities.

### 2.14. 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 at acquisition cost 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.

### 2.15. INCOME TAXES

The annual taxation charge is based on the tax payable under fiscal regulations prevailing in the country where the company is incorporated, 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 apply to the future period when the asset is expected to be realised or the liability is settled.

### 2.16. 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.

## FINANCIAL REPORT

### 2.17. 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 consolidated 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.

### 2.18. 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.

### 2.19. 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. The major non banking segment is insurance operations.

Over 90% of Group's income and expense for the years ended December 31, 2003 and 2002 originated in Hungary.

### 2.20. COMPARATIVE FIGURES

Certain amounts in the 2002 consolidated financial statements have been reclassified to conform with the current year presentation.

## FINANCIAL REPORT

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

		2003	(in HUF mn) 2002
<b>Cash on hand:</b>	In HUF	55,073	42,114
	In foreign currency	21,730	3,570
		76,803	45,684
<b>Due from banks and balances with the National Bank of Hungary:</b>			
<b>Within one year:</b>	In HUF	195,402	306,003
	In foreign currency	4,296	3,319
		199,698	309,322
<b>Over one year:</b>	In foreign currency	–	434
<b>Total</b>		<b>276,501</b>	<b>355,440</b>

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 111,841 million and HUF 95,214 million as at December 31, 2003 and 2002, respectively.

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

		2003	(in HUF mn) 2002
<b>Within one year:</b>	In HUF	99,079	148,158
	In foreign currency	143,127	134,175
		242,206	282,333
<b>Over one year:</b>	In HUF	3,000	8,000
	In foreign currency	7,311	5,722
		10,311	13,722
		<b>252,517</b>	<b>296,055</b>
<b>Allowance for possible placement losses</b>		– 182	– 163
<b>Total</b>		<b>252,335</b>	<b>295,892</b>

Placements of OTP Banka Slovensko, a.s. with the National Bank of Slovakia amounted to HUF 21,940 million and HUF 13,847 million as at December 31, 2003 and 2002, respectively.

Placements of DSK Bank EAD with the National Bank of Bulgaria amounted to HUF 15,226 million as at December 31, 2003.

Placements with other banks in foreign currency as at December 31, 2003 and 2002 bear interest rates in the range from 0.3% to 5.1% and from 0.1% to 9.2%, respectively.

Placements with other banks in HUF as at December 31, 2003 and 2002 bear interest rates in the range from 9.6% to 13.7% and from 7.5% to 11.2%, respectively.

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

	2003	(in HUF mn) 2002
Balance as at January 1	163	170
Provision/(credit) for possible placement losses	19	– 7
<b>Balance as at December 31</b>	<b>182</b>	<b>163</b>

## FINANCIAL REPORT

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

	2003	2002
<i>(in HUF mn)</i>		
<b>Held-for-trading securities:</b>		
Discounted Treasury bills	60,178	46,335
Hungarian Government interest bearing Treasury bills	473	1,945
Government bonds	105,804	60,837
Mortgage bonds	1,476	–
Other securities	5,539	7,615
	<b>173,470</b>	<b>116,732</b>
<b>Available-for-sale securities:</b>		
Government bonds	142,952	74,747
Discounted Treasury bills	21,993	–
Other bonds	31,959	23,660
Mortgage bonds	1,443	331
Other securities	5,199	4,621
	<b>203,546</b>	<b>103,359</b>
<b>Total</b>	<b>377,016</b>	<b>220,091</b>

Approximately 76% and 85% of the held-for-trading and available-for-sale securities portfolio was denominated in HUF as at December 31, 2003 and 2002, respectively.

Approximately 26% and 12% of the government bonds were denominated in foreign currency as at December 31, 2003 and 2002, respectively. Approximately 9.3%, 2.3%, 0.4%, 31.6%, 27.1% and 29.3% of this portfolio was denominated in USD, JPY, GBP, EUR, SKK and BGN as at December 31, 2003 and 15.4%, 11%, 2.3%, 0.2% and 71.1% of this portfolio was denominated in USD, JPY, GBP, EUR and SKK as at December 31, 2002.

Interest rates on securities held-for-trading are ranged from 1.2% to 13.1% and from 2.3% to 13% as at December 31, 2003 and 2002, respectively.

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

	2003	2002
<i>(in HUF mn)</i>		
<b>Within five years:</b>		
with variable interest	64,609	50,669
with fixed interest	223,443	103,242
	<b>288,052</b>	<b>153,911</b>
<b>Over five years:</b>		
with variable interest	8,184	17,950
with fixed interest	60,033	26,215
	<b>68,217</b>	<b>44,165</b>
Non interest-bearing securities	20,747	22,015
<b>Total</b>	<b>377,016</b>	<b>220,091</b>

## FINANCIAL REPORT

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

	2003	2002
	<i>(in HUF mn)</i>	
Loans and trade bills within one year	519,671	401,895
Loans and trade bills over one year	1,527,072	935,050
	2,046,743	1,336,945
Allowance for possible loan losses	– 64,156	– 56,235
<b>Total</b>	<b>1,982,587</b>	<b>1,280,710</b>

Foreign currency loans represent approximately 24.6% and 18% of the total loan portfolio, before allowance for possible losses, as December 31, 2003 and 2002, respectively.

Loans denominated in HUF, with maturity within one year as at December 31, 2003 and 2002, bear interest rates in the range from 6% to 32% and from 9.5% to 33%, respectively.

Loans denominated in HUF, with maturity over one year as at December 31, 2003 and 2002, bear interest rates in the range from 4% to 22.8% and from 4% to 20%, respectively.

Approximately 3% and 6.3% of the gross loan portfolio represented loans on which interest is not being accrued as at December 31, 2003 and 2002, respectively.

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

	2003		2002	
	<i>(in HUF mn)</i>			
Commercial loans	764,864	37%	629,309	47%
Municipality loans	92,774	5%	128,255	10%
Housing loans	826,808	40%	411,838	31%
Consumer loans	362,297	18%	167,543	12%
	<b>2,046,743</b>	<b>100%</b>	<b>1,336,945</b>	<b>100%</b>

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

	2003	2002
	<i>(in HUF mn)</i>	
Balance as at January 1	56,235	50,371
Provision for possible loan losses	9,648	8,824
Write-offs	– 1,670	– 2,960
Foreign currency translation loss	– 57	–
<b>Balance as at December 31</b>	<b>64,156</b>	<b>56,235</b>



## FINANCIAL REPORT

The fair value of held-to-maturity investments was HUF 302,738 million and HUF 358,468 million as at December 31, 2003 and 2002, respectively.

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

	2003	(in HUF mn) 2002
Balance as at January 1	26	–
Provision for permanent diminution in value	–	26
Foreign currency translation loss	4	–
<b>Balance as at December 31</b>	<b>30</b>	<b>26</b>

### NOTE 9: PREMISES, EQUIPMENT AND INTANGIBLE ASSETS, NET *(in HUF mn)*

For the year ended December 31, 2003:

	Intangible assets	Land and buildings	Machinery and equipment	Construction in progress	Total
<i>Cost</i>					
Balance as at January 1, 2003	30,755	59,357	79,403	7,326	176,841
Additions	56,719	29,418	18,704	23,974	128,815
Foreign currency translation differences	118	1,513	927	23	2,581
Disposals	– 19,204	– 291	– 8,339	– 24,821	– 52,655
<b>Balance as at December 31, 2003</b>	<b>68,388</b>	<b>89,997</b>	<b>90,695</b>	<b>6,502</b>	<b>255,582</b>
<i>Depreciation and Amortization</i>					
Balance as at January 1, 2003	20,191	11,451	51,631	–	83,273
Charge	7,405	1,634	10,754	–	19,793
Foreign currency translation differences	104	579	826	–	1,509
Disposals	– 9,176	– 272	– 6,882	–	– 16,330
<b>Balance as at December 31, 2003</b>	<b>18,524</b>	<b>13,392</b>	<b>56,329</b>	<b>–</b>	<b>88,245</b>
<i>Net book value</i>					
Balance as at January 1, 2003	10,564	47,906	27,772	7,326	93,568
<b>Balance as at December 31, 2003</b>	<b>49,864</b>	<b>76,605</b>	<b>34,366</b>	<b>6,502</b>	<b>167,337</b>

An analysis of the changes in the goodwill and negative goodwill for the year ended December 31, 2003 is as follows:

	Goodwill	Negative goodwill
<i>Cost</i>		
Balance as at January 1, 2003	1,062	– 4,216
Additions	38,226	–
<b>Balance as at December 31, 2003</b>	<b>39,288</b>	<b>– 4,216</b>
<i>Depreciation and Amortization</i>		
Balance as at January 1, 2003	1,009	892
Charge	1,955	148
<b>Balance as at December 31, 2003</b>	<b>2,964</b>	<b>1,040</b>
<i>Net book value</i>		
Balance as at January 1, 2003	53	– 3,324
<b>Balance as at December 31, 2003</b>	<b>36,324</b>	<b>– 3,176</b>

## FINANCIAL REPORT

### NOTE 10: OTHER ASSETS

	2003	(in HUF mn) 2002
Receivables due from collection of Hungarian Government securities	69	45
Property held-for-sale	10,641	10,244
Due from Hungarian Government for interest subsidies	1,885	876
Trade receivables and other advances	5,803	3,511
Advances for securities and investments	553	479
Taxes recoverable	2,400	821
Inventories	1,587	962
Credits sold under deferred payment scheme	45	503
Receivables from leasing activities	21,023	28,752
Receivables due from insurance bond holders	2,136	2,039
Margin account balance	–	240
Receivables due from pension funds and fund management	1,195	12,707
Settlement accounts	6	925
Prepayments and accrued income	7,307	4,773
Receivables from investing services	1,139	2,335
Fair value of derivative financial instruments	1,993	8,476
Other	13,138	11,098
	70,920	88,786
Allowance for possible losses on other assets	– 3,939	– 2,471
<b>Total</b>	<b>66,981</b>	<b>86,315</b>

Allowance for possible losses on other assets mainly consists of allowances for property held-for-sale, trade receivables, receivables from leasing activities and reinsurance receivables.

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

	2003	(in HUF mn) 2002
Balance as at January 1	2,471	3,788
Provision/(credit) for possible losses on other assets	1,507	– 1,317
Foreign currency translation gain	– 39	–
<b>Balance as at December 31</b>	<b>3,939</b>	<b>2,471</b>

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

	2003	(in HUF mn) 2002
<b>Within one year:</b>		
In HUF	2,417	27,323
In foreign currency	55,357	31,213
	57,774	58,536
<b>Over one year:</b>		
In HUF	4,291	4,774
In foreign currency	64,337	15,750
	68,628	20,524
<b>Total</b>	<b>126,402</b>	<b>79,060</b>

## FINANCIAL REPORT

Due to banks and deposits from the National Bank of Hungary and other banks payable in HUF within one year as at December 31, 2003 and 2002, bear interest rates in the range from 11.4% to 12.9% and from 7.5% to 9.7%, 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, 2003 and 2002, bear interest rates in the range from 3% to 9.4% and from 3% to 9.5%, 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, 2003 and 2002, bear interest rates in the range from 0.2% to 6% and from 0.7% to 8.4%, 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, 2003 and 2002, bear interest rates in the range from 0.5% to 8% and from 1.4% to 9.2%, respectively.

### NOTE 12: DEPOSITS FROM CUSTOMERS

		<i>(in HUF mn)</i>	
		2003	2002
<b>Within one year:</b>	In HUF	1,961,435	1,756,724
	In foreign currency	661,761	360,327
		<i>2,623,196</i>	<i>2,117,051</i>
<b>Over one year:</b>	In HUF	66,049	33,693
	In foreign currency	588	425
		<i>66,637</i>	<i>34,118</i>
<b>Total</b>		<b>2,689,833</b>	<b>2,151,169</b>

Deposits from customers payable in HUF within one year as at December 31, 2003 and 2002, bear interest rates in the range from 0.8% to 11% and from 0% to 9.1%, respectively.

Deposits from customers payable in HUF over one year as at December 31, 2003 and 2002, bear interest rates in the range from 3% to 8.8% and from 3% to 7.6%, respectively.

Deposits from customers payable in foreign currency within one year as at December 31, 2003 and 2002, bear interest rates in the range from 0% to 5.3%, respectively.

Deposits from customers payable in foreign currency over one year as at December 31, 2003 and 2002, bear interest rates in the range from 0% to 6% and from 0.1% to 5.4%, respectively.

An analysis of deposits from customers by type, is as follows:

		<i>(in HUF mn)</i>		
		2003	2002	
Commercial deposits	501,371	19%	381,242	18%
Municipality deposits	188,487	7%	156,365	7%
Consumer deposits	1,999,975	74%	1,613,562	75%
	<b>2,689,833</b>	<b>100%</b>	<b>2,151,169</b>	<b>100%</b>

## FINANCIAL REPORT

### NOTE 13: LIABILITIES FROM ISSUED SECURITIES

	2003	(in HUF mn) 2002
With original maturity:		
Within one year	23,161	12,312
Over one year	101,726	72,550
<b>Total</b>	<b>124,887</b>	<b>84,862</b>

Liabilities from issued securities are denominated mainly in HUF and as at December 31, 2003 and 2002, bear interest at rates in the range from 2% to 9.3% and from 6.4% to 9.3%, respectively.

### NOTE 14: OTHER LIABILITIES

	2003	(in HUF mn) 2002
Deferred tax liabilities	2,579	699
Taxes payable	3,231	2,340
Giro clearing accounts	13,191	23,916
Accounts payable	11,723	7,981
Insurance reserves	84,201	68,544
Salaries and social security payable	8,082	7,398
Liability from security trading	15,876	5,431
Allowance for possible losses on off-balance sheet commitments and contingent liabilities	8,357	7,511
Margin account balance	34	–
Dividends payable	588	598
Advances received from customers	3,863	1,681
Accrued expenses	11,366	6,941
Loan for collection	2,202	1,567
Suspense accounts	2,083	2,543
Fair value of derivative financial instruments	90	3,713
Other	8,211	8,482
<b>Total</b>	<b>175,677</b>	<b>149,345</b>

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

	2003	(in HUF mn) 2002
Allowance for litigation	1,509	1,591
Allowance for possible losses on off-balance sheet commitments and contingent liabilities	4,463	3,212
Other allowances (for expected liabilities)	2,046	2,232
Allowance for housing warranties	339	476
<b>Balance as at December 31</b>	<b>8,357</b>	<b>7,511</b>

## FINANCIAL REPORT

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 and other Group companies.

As part of its operations, the Group financed and constructed residential accommodation for resale on which it was required to provide a ten-year-guarantee against defective workmanship. The Group 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.

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

	2003	(in HUF mn) 2002
Balance as at January 1	7,511	5,225
Allowance for possible off-balance sheet commitments and contingent liabilities	998	2,355
Write-offs	- 152	- 69
<b>Balance as at December 31</b>	<b>8,357</b>	<b>7,511</b>

Movements in insurance reserves can be summarized as follows:

	2003	(in HUF mn) 2002
Balance as at January 1	68,544	52,228
Net increase in insurance reserves	15,657	16,316
<b>Balance as at December 31</b>	<b>84,201</b>	<b>68,544</b>

### 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 4.36% as at December 20, 2002, 3.25% as at June 20, 2003, and 4.8% as at December 20, 2003. 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 (15.92 million in EUR) subordinated loan from the European Bank for Reconstruction and Development with the original maturity of December 27, 2006. The maturity date was modified to August 27, 2008 on August 22, 2003. The loan is unsecured, subordinate to the other liabilities and has a twelve-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, 2003 and at six-month LIBOR + 1.35% from December 28, 2003 until August 27, 2008.



## FINANCIAL REPORT

### NOTE 16: SHARE CAPITAL

	2003	(in HUF mn) 2002
Authorized, issued and fully paid:		
Common shares	28,000	28,000
	<b>28,000</b>	<b>28,000</b>

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).

### NOTE 17: RETAINED EARNINGS AND RESERVES

	2003	(in HUF mn) 2002
Balance as at January 1	223,412	165,643
Net income after income taxes	83,336	59,231
Profit/(loss) on sale of treasury shares	5	- 1,102
Foreign currency translation gain/(loss)	2,467	- 360
<b>Balance as at December 31</b>	<b>309,220</b>	<b>223,412</b>

The Bank's unconsolidated reserves under Hungarian Accounting Standards were HUF 234,415 million and HUF 177,843 million at December 31, 2003 and 2002, respectively. Of these amounts, legal reserves represent HUF 41,326 million and HUF 34,169 million, respectively. The legal reserves are not available for distribution.

The Annual General Meeting on April 25, 2003 decided that the Bank would not pay a dividend for the year ended December 31, 2002.

Dividends for the year ended December 31, 2003 will be proposed at the Annual General Meeting in April 2004.

### NOTE 18: TREASURY SHARES

	2003	(in HUF mn) 2002
Nominal value (Common Shares)	2,115	2,334
Carrying value at acquisition cost	25,420	27,800

### NOTE 19: MINORITY INTEREST

	2003	(in HUF mn) 2002
Balance as at January 1	405	-
Minority interest purchased	- 23	381
Minority interest deriving from capital increase	-	79
Foreign currency translation gain	49	-
Minority interest included in net income	1	- 55
<b>Balance as at December 31</b>	<b>432</b>	<b>405</b>

## FINANCIAL REPORT

### NOTE 20: OTHER EXPENSES

	2003	(in HUF mn) 2002
Provision for permanent diminution in value of held-to-maturity investments	–	26
Provision/(credit) for permanent diminution in value of equity investments	34	– 1,548
Provision/(credit) for other assets	1,507	– 1,317
Provision for off-balance sheet commitments and contingent liabilities	997	2,355
Administration expenses, including rent	23,290	21,070
Advertising	5,071	4,272
Taxes, other than income taxes	13,774	9,540
Services	19,211	15,037
Professional fees	2,884	2,769
Other	2,633	4,728
<b>Total</b>	<b>69,401</b>	<b>56,932</b>

### NOTE 21: INCOME TAXES

The Group is presently liable for income tax at rates of 18%, 23.5%, 25% and 30% of taxable income. The 18% rate relates to the Bank and its subsidiaries incorporated in Hungary. The 23.5% rate relates to the Bank's subsidiary incorporated in Bulgaria. The 25% rate relates to the Bank's subsidiary incorporated in Slovakia and the 30% rate relates to the Bank's United Kingdom subsidiary.

Deferred tax is calculated at the income tax rate of 16% in Hungary and 23.5% in Bulgaria.

A reconciliation of the income tax charges is as follows:

	2003	(in HUF mn) 2002
Current tax	20,164	13,870
Deferred tax	– 840	82
<b>Total</b>	<b>19,324</b>	<b>13,952</b>

A reconciliation of the deferred tax liability is as follows:

	2003	(in HUF mn) 2002
Balance as at January 1	– 699	– 617
Effect of purchase of subsidiary undertakings	– 2,720	–
Deferred tax charge/(credit)	840	– 82
<b>Balance as at December 31</b>	<b>– 2,579</b>	<b>– 699</b>

A reconciliation of the income tax charge is as follows:

	2003	(in HUF mn) 2002
Income before income taxes	102,661	73,128
Timing differences	4,073	4,397
Adjusted income before income taxes	106,734	77,525
<b>Income taxes</b>	<b>19,324</b>	<b>13,952</b>

## FINANCIAL REPORT

### NOTE 22: FINANCIAL INSTRUMENTS

A financial instrument is any contract that gives rise to the right to receive cash or another financial asset from another party (financial asset) or the obligation to deliver cash or another financial asset to another party (financial liability). Financial instruments may result in certain risks to the Group. The most significant risks the Group faces include:

#### *CREDIT RISK*

The Group takes on exposure to credit risk which is the risk that a counter-party will be unable to pay amounts in full when due. The Group structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower, or Banks of borrowers, and to geographical and industry segments. Such risks are monitored on a revolving basis and subject to an annual or more frequent review. The exposure to any one borrower including banks and brokers is further restricted by sub-limits covering on and off-balance sheet exposures and daily delivery risk limits in relation to trading items such as forward foreign exchange contracts. Actual exposures against limits are monitored daily. Exposure to credit risk is managed through regular analysis of the ability of borrowers and potential borrowers to meet interest and capital repayment obligations and by changing these lending limits where appropriate. Exposure to credit risk is also managed in part by obtaining collateral and corporate and personal guarantees.

#### *MARKET RISK*

The Group takes on exposure to market risks. Market risks arise from open positions in interest rate, currency and equity products, all of which are exposed to general and specific market movements. The Group applies a 'value at risk' methodology to estimate the market risk of positions held and the maximum losses expected, based upon a number of assumptions for various changes in market conditions. The Management Board of the Group sets limits on the value of risk that may be accepted, which is monitored on a daily basis.

#### *FOREIGN CURRENCY RISK*

See Note 30.

#### *LIQUIDITY RISK*

See Note 31.

#### *INTEREST RATE RISK*

See Note 32.

### NOTE 23: OFF-BALANCE SHEET ITEMS AND DERIVATIVE FINANCIAL INSTRUMENTS

In the normal course of business, the Group becomes a party to various financial transactions that are not reflected on the balance sheet and are referred to as off-balance sheet financial instruments. The following represent notional amounts of these off-balance sheet financial instruments, unless stated otherwise.

## FINANCIAL REPORT

### a) CONTINGENT LIABILITIES

	2003	(in HUF mn) 2002
Commitments to extend credit	414,543	310,559
Guarantees arising from banking activities	65,727	137,469
Confirmed letters of credit	983	787
Legal disputes	2,893	4,846
Others	2,263	22,467
<i>Total</i>	<i>486,409</i>	<i>476,128</i>

### COMMITMENTS TO EXTEND CREDIT, FROM GUARANTEES AND LETTERS OF CREDIT

The primary purpose of these instruments is to ensure that funds are available to a customer as required. Guarantees and standby letters of credit, which represent irrevocable assurances that the Group will make payments in the event that a customer cannot meet its obligations to third parties, carry the same credit risk as loans. Documentary and commercial letters of credit, which are written undertakings by the Group on behalf of a customer authorising a third party to draw drafts on the Group up to a stipulated amount under specific terms and conditions, are collateralised by the underlying shipments of goods to which they relate and therefore carry less risk than a direct borrowing.

Commitments to extend credit represent unused portions of authorisations to extend credit in the form of loans, guarantees or letters of credit. With respect to credit risk on commitments to extend credit, the Group is potentially exposed to loss in an amount equal to the total unused commitments. However, the likely amount of loss is less than the total unused commitments since most commitments to extend credit are contingent upon customers maintaining specific credit standards.

Guarantees, irrevocable letters of credit and undrawn loan commitments are subject to similar credit risk monitoring and credit policies as utilised in the extension of loans. The management of the Group believes the market risk associated with guarantees, irrevocable letters of credit and undrawn loans commitments to be minimal.

### LEGAL DISPUTES

At the balance sheet date the Group was involved in various claims and legal proceedings of a nature considered normal to its business. The level of these claims and legal proceedings correspond to the level of claims and legal proceedings in previous years.

The Group believes that the various asserted claims and litigations in which it is involved will not materially affect its financial position, future operating results or cash flows, although no assurance can be given with respect to the ultimate outcome of any such claim or litigation.

## FINANCIAL REPORT

### b) DERIVATIVES (nominal amount, unless otherwise stated)

	2003	(in HUF mn) 2002
<b>Foreign currency contracts</b>		
Assets	57,763	57,743
Liabilities	- 59,244	- 63,581
<b>Net</b>	<b>- 1,481</b>	<b>- 5,838</b>
<b>Net fair value</b>	<b>- 189</b>	<b>- 7,171</b>
<b>Foreign exchange swaps and interest rate swaps</b>		
Assets	231,222	161,347
Liabilities	- 217,210	- 150,126
<b>Net</b>	<b>14,012</b>	<b>11,221</b>
<b>Net fair value</b>	<b>14,713</b>	<b>17,210</b>
<b>Option contracts</b>		
Assets	25,402	183,322
Liabilities	- 18,956	- 164,999
<b>Net</b>	<b>6,446</b>	<b>18,323</b>
<b>Net fair value</b>	<b>6,356</b>	<b>18,464</b>
<b>Forward rate agreements</b>		
Assets	-	41,700
Liabilities	- 1	- 26,500
<b>Net</b>	<b>- 1</b>	<b>15,200</b>
<b>Net fair value</b>	<b>- 1</b>	<b>15,166</b>

The Group maintains strict control limits on net open derivative positions, i.e. the difference between purchase and sale contracts, by both amount and term. At any one time the amount subject to credit risk is limited to the current fair value of instruments that are favourable to the Group (i.e. assets), which in relation to derivatives is only a small fraction of the contract or notional values used to express the volume of instruments outstanding. This credit risk exposure is managed as part of the overall lending limits with customers, together with potential exposures from market movements. Collateral or other security is not usually obtained for credit risk exposures on these instruments, except of trading with clients, where the Group in most of the cases requires margin deposits.

As at December 31, 2003, the Group has derivative instruments with positive fair values of HUF 1,993 million and negative fair values of HUF 90 million. Corresponding figures as at December 31, 2002 are HUF 8,476 million and HUF 3,713 million.

#### FOREIGN CURRENCY CONTRACTS

Foreign currency contracts are agreements to exchange specific amounts of currencies at a specified rate of exchange, at a spot date (settlement occurs two days after the trade date) or at a forward date (settlement occurs more than two days after the trade date). The notional amount of these contracts does not represent the actual market or credit risk associated with these contracts.

Foreign currency contracts are used by the Group for risk management and trading purposes. The Group's risk management foreign currency contracts were used to hedge against exchange rate fluctuations on loans and advances to credit institutions denominated in foreign currency.

## FINANCIAL REPORT

### FOREIGN EXCHANGE SWAPS AND INTEREST RATE SWAPS

The Group enters into foreign-exchange swap and interest rate swap transactions. The swap transaction is a complex agreement concerning to the swap of certain financial instruments, which usually consist of a prompt and one or more futures contracts.

Interest rate swaps obligate two parties to exchange one or more payments calculated with reference to fixed or periodically reset rates of interest applied to a specific notional principal amount. Notional principal is the amount upon which interest rates are applied to determine the payment streams under interest rate swaps.

Such notional principal amounts often are used to express the volume of these transactions but are not actually exchanged between the counter-parties. The Group's interest rate swaps were used for management of interest rate exposures and have been accounted for at mark-to-market fair value.

### FORWARD RATE AGREEMENTS

A forward rate agreement is an agreement to settle amounts at a specified future date based on the difference between an interest rate index and an agreed upon fixed rate. Market risk arises from changes in the market value of contractual positions caused by movements in interest rates. The Group limits its exposure to market risk by entering into generally matching or offsetting positions and by establishing and monitoring limits on unmatched positions. Credit risk is managed through approval procedures that establish specific limits for individual counterparties. The Group's forward rate agreements were transacted for management of interest rate exposures and have been accounted for at mark-to-market fair value.

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

### NOTE 24: RELATED PARTY TRANSACTIONS

The members of the Board of Directors and the Supervisory Board have credit lines of HUF 139 million as at December 31, 2003. Such credit is made available at normal market conditions.

In the normal course of business, the Bank gives loans and provides services to other related parties at normal market conditions. The amount of these loans was HUF 1,700 million and HUF 1,762 million, with commitments to extend credit and guarantees of HUF 135 million and HUF 173 million as at December 31, 2003 and 2002, respectively.

### NOTE 25: CASH AND CASH EQUIVALENTS

	2003	2002
		<i>(in HUF mn)</i>
Cash, due from banks and balances with the National Bank of Hungary	276,501	355,440
Compulsory reserve established by the National Bank of Hungary	– 111,841	– 95,214
	<b>164,660</b>	<b>260,226</b>

## FINANCIAL REPORT

### NOTE 26: CASH FLOW STATEMENT

#### A) PURCHASE AND CONSOLIDATION OF SUBSIDIARY UNDERTAKINGS

On October 1, 2003 the Bank completed the acquisition of 100% of the shares of DSK Bank EAD, a leading universal bank in Bulgaria. The purchase price of DSK Bank EAD was EUR 311 million, which was provided in cash.

During 2001, the Bank has entered into a sale purchase agreement to acquire 92.6% interest in OTP Banka Slovensko, a. s. (OBS), whose former name was Investična a rozvojová banka, a universal bank in Slovakia. The acquisition was closed on April 4, 2002. The cost of the transaction was SKK 700 million, which was provided in cash. Subsequently the Bank increased the capital of OBS and acquired some minority interest which resulted in 97.1% ownership as at December 31, 2003.

The fair values of the assets and liabilities acquired, and related goodwill and negative goodwill are as follows:

	2003	(in HUF mn) 2002
Cash, due from banks, and balances with the National Bank	- 11,405	- 1,052
Placements with other banks, net of allowance for possible placement losses	- 56,985	- 12,319
Securities held-for-trading and available-for-sale	- 51,842	- 16,978
Loans, net of allowance for possible loan losses	- 148,372	- 70,048
Accrued interest receivable	- 2,756	- 326
Equity investment	- 734	- 399
Debt securities held-to-maturity	- 17,039	- 53
Premises, equipment and intangible assets	- 19,047	- 9,680
Other assets	- 1,026	- 656
Due to banks and deposits from the National Bank and other banks	83	35,293
Deposits from customers	260,817	64,941
Liabilities from issued securities	-	1,198
Accrued interest payable	2,383	731
Other liabilities	4,824	411
Minority interest	12	381
	- 41,087	- 8,556
(Goodwill)/Negative goodwill	- 38,226	4,216
<b>Cash consideration</b>	<b>- 79,313</b>	<b>- 4,340</b>

#### B) ANALYSIS OF NET OUTFLOW OF CASH IN RESPECT OF PURCHASE OF SUBSIDIARIES

	2003	(in HUF mn) 2002
Cash consideration	- 79,313	- 4,340
Cash acquired	11,405	1,052
<b>Net cash outflow</b>	<b>- 67,908</b>	<b>- 3,288</b>

## FINANCIAL REPORT

### NOTE 27: MAJOR SUBSIDIARIES

Equity investments in companies in which the Bank has a controlling interest are detailed below. All companies are incorporated in Hungary unless indicated otherwise.

Name	Ownership (Direct and Indirect)		Activity
	2003	2002	
OTP-Garancia Insurance Ltd.	100.00%	100.00%	insurance
OTP Real Estate Ltd.	100.00%	100.00%	real estate management and development
OTP Mérleg Ltd. *	100.00%	100.00%	real estate management
HIF Ltd. (United Kingdom)	100.00%	100.00%	forfeiting
Merkantil Bank Ltd.	100.00%	100.00%	financing car purchases
Merkantil Car Ltd.	100.00%	100.00%	financing car purchases, leasing
OTP Building Society Ltd.	100.00%	100.00%	financing flat purchase and reconstruction
Bank Center No. 1. Ltd.	100.00%	100.00%	letting real estates
OTP Factoring Ltd.	100.00%	100.00%	work-out
Inga Companies	100.00%	100.00%	property management
OTP Fund Management Ltd.	100.00%	100.00%	fund management
OTP Mortgage Bank Company Ltd.	100.00%	100.00%	mortgage loaning
OTP Funds Servicing and Consulting Ltd.	100.00%	100.00%	fund services
OTP Banka Slovensko, a. s. (Slovakia)	97.10%	96.86%	commercial banking services
DSK Bank EAD (Bulgaria)	100.00%	–	commercial banking services

\* OTP Securities Ltd. was renamed OTP Mérleg Ltd. on March 11, 2003.

For details of the acquisition of DSK Bank EAD in 2003 and OTP Banka Slovensko, a. s. in 2002 refer to Note 26.

### NOTE 28: 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 amounted to HUF 46,187 million and HUF 46,745 million as at December 31, 2003 and 2002, respectively.

### NOTE 29: CONCENTRATION OF ASSETS AND LIABILITIES

Approximately 21.8% and 30.4% of the Group's total assets consist of receivables from, or securities issued by, the Hungarian Government or the National Bank of Hungary as at December 31, 2003 and 2002, respectively.

As at December 31, 2003 and 2002 85.7% and 95.7% of the Group's total assets were held by companies incorporated in Hungary. There were no other significant concentrations of the Group's assets or liabilities as at December 31, 2003 and 2002.

## FINANCIAL REPORT

### NOTE 30: NET FOREIGN CURRENCY POSITION AND FOREIGN CURRENCY RISK

As at December 31, 2003

	USD	EUR	Others	(in HUF mn) Total
Assets	110,933	300,078	411,599	822,610
Liabilities	- 125,574	- 287,008	- 394,605	- 807,187
Off-balance sheet assets and liabilities, net	18,097	- 93,515	- 121,109	- 196,527
<b>Net position</b>	<b>3,456</b>	<b>- 80,445</b>	<b>- 104,115</b>	<b>- 181,104</b>

As at December 31, 2002

	USD	EUR	Others	(in HUF mn) Total
Assets	160,805	131,151	139,708	431,664
Liabilities	- 116,739	- 177,792	- 122,342	- 416,873
Off-balance sheet assets and liabilities, net	- 44,412	- 4,103	- 3,208	- 51,723
<b>Net position</b>	<b>- 346</b>	<b>- 50,744</b>	<b>14,158</b>	<b>- 36,932</b>

The table above provides an analysis of the Group's main currency exposures. The remaining currencies are shown within 'Others'. Whilst the Group 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 measurement of the Group's open foreign currency position involves monitoring the 'value at risk' limit on the foreign exchange exposure of the Group.

### NOTE 31: 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, 2003

	Within 3 months	Whitin 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	276,501	-	-	-	276,501
Placements with other banks, net of allowance for possible placement losses	234,145	7,879	9,874	437	252,335
Securities held-for-trading and available-for-sale	63,994	70,756	176,078	66,188	377,016
Loans, net of allowance for possible loan losses	93,074	363,600	780,960	744,953	1,982,587
Accrued interest receivable	22,761	4,813	1,563	3,295	32,432
Equity investments	-	-	-	5,878	5,878

## FINANCIAL REPORT

<i>(Continued from page 142)</i>	Within 3 months	Whitin one year and over 3 months	Within 5 years and over one year	Over 5 years	<i>(in HUF mn)</i> Total
Debt securities held-to-maturity	24,821	44,069	149,314	81,568	299,772
Premises, equipment and intangible assets, net	2,135	6,892	53,320	104,990	167,337
Other assets	25,438	20,435	19,392	1,716	66,981
<b>TOTAL ASSETS</b>	<b>742,869</b>	<b>518,444</b>	<b>1,190,501</b>	<b>1,009,025</b>	<b>3,460,839</b>
Due to banks and deposits from the					
National Bank of Hungary and other banks	26,909	30,533	66,217	2,743	126,402
Deposits from customers	2,239,798	383,401	63,017	3,617	2,689,833
Liabilities from issued securities	6,505	16,655	32,845	68,882	124,887
Accrued interest payable	9,352	4,613	2,382	48	16,395
Other liabilities	75,902	13,548	24,100	62,127	175,677
Subordinated bonds and loans	–	–	10,413	5,000	15,413
<b>TOTAL LIABILITIES</b>	<b>2,358,466</b>	<b>448,750</b>	<b>198,974</b>	<b>142,417</b>	<b>3,148,607</b>
Share capital	–	–	–	28,000	28,000
Retained earnings and reserves	–	–	–	309,220	309,220
Treasury shares	–	–25,420	–	–	–25,420
<b>TOTAL SHAREHOLDERS' EQUITY</b>	<b>–</b>	<b>–25,420</b>	<b>–</b>	<b>337,220</b>	<b>311,800</b>
MINORITY INTEREST	–	–	–	432	432
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>	<b>2,358,466</b>	<b>423,330</b>	<b>198,974</b>	<b>480,069</b>	<b>3,460,839</b>
<b>LIQUIDITY (DEFICIENCY)/EXCESS</b>	<b>–1,615,597</b>	<b>95,114</b>	<b>991,527</b>	<b>528,956</b>	<b>–</b>

As at December 31, 2002

	Within 3 months	Whitin one year and over 3 months	Within 5 years and over one year	Over 5 years	<i>(in HUF mn)</i> Total
Cash, due from banks and balances					
with the National Bank of Hungary	349,939	5,067	307	127	355,440
Placements with other banks, net of					
allowance for possible placement losses	236,358	45,812	13,722	–	295,892
Securities held-for-trading and available-for-sale	35,289	46,382	89,126	49,294	220,091
Loans, net of allowance for possible loan losses	104,848	238,784	488,148	448,930	1,280,710
Accrued interest receivable	22,977	2,859	93	266	26,195
Equity investments	–	–	–	5,464	5,464
Debt securities held-to-maturity	24,186	56,606	193,531	78,593	352,916
Premises, equipment and intangible assets, net	276	1,135	32,878	59,279	93,568
Other assets	43,474	18,141	23,849	851	86,315
<b>TOTAL ASSETS</b>	<b>817,347</b>	<b>414,786</b>	<b>841,654</b>	<b>642,804</b>	<b>2,716,591</b>
Due to banks and deposits from the					
National Bank of Hungary and other banks	31,753	26,898	18,741	1,668	79,060
Deposits from customers	1,727,023	390,027	19,914	14,205	2,151,169
Liabilities from issued securities	3,133	9,180	32,506	40,043	84,862

## FINANCIAL REPORT

*(Continued from page 143)*

	Within 3 months	Whitin one year and over 3 months	Within 5 years and over one year	Over 5 years	(in HUF mn) Total
Accrued interest payable	6,003	3,691	2,900	33	12,627
Other liabilities	69,410	9,955	15,415	54,565	149,345
Subordinated bonds and loans	–	–	10,511	5,000	15,511
<b>TOTAL LIABILITIES</b>	<b>1,837,322</b>	<b>439,751</b>	<b>99,987</b>	<b>115,514</b>	<b>2,492,574</b>
Share capital	–	–	–	28,000	28,000
Retained earnings and reserves	–	–	–	223,412	223,412
Treasury shares	–	– 27,800	–	–	– 27,800
<b>TOTAL SHAREHOLDERS' EQUITY</b>	<b>–</b>	<b>– 27,800</b>	<b>–</b>	<b>251,412</b>	<b>223,612</b>
MINORITY INTEREST	–	–	–	405	405
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>	<b>1,837,322</b>	<b>411,951</b>	<b>99,987</b>	<b>367,331</b>	<b>2,716,591</b>
<b>LIQUIDITY (DEFICIENCY)/EXCESS</b>	<b>– 1,019,975</b>	<b>2,835</b>	<b>741,667</b>	<b>275,473</b>	<b>–</b>

### NOTE 32: 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 Group'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 Group to benefit from a high level of flexibility in adjusting for its interest rate matching and interest rate risk exposure.

The following table presents the interest repricing dates of the Group. Variable yield assets and liabilities have been reported according to their next repricing date. Fixed income assets and liabilities have been reported according to their maturity.

## FINANCIAL REPORT

As at December 31, 2003 (in HUF mn)

ASSETS	Within 1 month		Within 3 months over 1 month		Within 1 year over 3 months		Within 2 years over 1 year		Over 2 years		Non-interest bearing		Total		Total
	HUF	In foreign currency	HUF	In foreign currency	HUF	In foreign currency	HUF	In foreign currency	HUF	In foreign currency	HUF	In foreign currency	HUF	In foreign currency	
<b>Cash, due from banks and balances</b>															
<b>with the National Bank of Hungary</b>	<b>195,058</b>	<b>3,979</b>	<b>481</b>	-	-	-	-	-	-	-	<b>55,004</b>	<b>21,979</b>	<b>250,543</b>	<b>25,958</b>	<b>276,501</b>
Fixed rate	195,004	3,875	-	-	-	-	-	-	-	-	-	-	195,004	3,875	198,879
Variable rate	54	104	481	-	-	-	-	-	-	-	-	-	535	104	639
Non-interest-bearing	-	-	-	-	-	-	-	-	-	-	55,004	21,979	55,004	21,979	76,983
<b>Placements with other banks, net of allowance for possible placement losses</b>	<b>92,972</b>	<b>121,031</b>	<b>2,500</b>	<b>8,130</b>	<b>2,500</b>	<b>4,913</b>	-	-	<b>24</b>	-	<b>3,901</b>	<b>16,364</b>	<b>101,897</b>	<b>150,438</b>	<b>252,335</b>
Fixed rate	89,972	116,862	2,500	3,325	2,500	-	-	-	24	-	-	-	94,996	120,187	215,183
Variable rate	3,000	4,169	-	4,805	-	4,913	-	-	-	-	-	-	3,000	13,887	16,887
Non-interest-bearing	-	-	-	-	-	-	-	-	-	-	3,901	16,364	3,901	16,364	20,265
<b>Securities held-for-trading and available-for-sale</b>	<b>25,933</b>	<b>5,130</b>	<b>48,751</b>	<b>14,540</b>	<b>61,112</b>	<b>17,045</b>	<b>40,292</b>	<b>6,588</b>	<b>93,575</b>	<b>44,030</b>	<b>17,689</b>	<b>2,331</b>	<b>287,352</b>	<b>89,664</b>	<b>377,016</b>
Fixed rate	3,218	1,370	31,498	2,577	60,098	2,688	40,292	6,588	93,575	44,030	-	-	228,681	57,253	285,934
Variable rate	22,715	3,760	17,253	11,963	1,014	14,357	-	-	-	-	-	-	40,982	30,080	71,062
Non-interest-bearing	-	-	-	-	-	-	-	-	-	-	17,689	2,331	17,689	2,331	20,020
<b>Loans</b>	<b>741,583</b>	<b>374,414</b>	<b>154,269</b>	<b>142,550</b>	<b>34,258</b>	<b>31,417</b>	<b>25,970</b>	<b>3,752</b>	<b>462,898</b>	<b>8,252</b>	<b>2,229</b>	<b>995</b>	<b>1,421,207</b>	<b>561,380</b>	<b>1,982,587</b>
Fixed rate	14,022	2,119	3,813	907	5,029	6,083	5,482	1,700	44,835	4,545	-	-	73,181	15,354	88,535
Variable rate	727,561	372,295	150,456	141,643	29,229	25,334	20,488	2,052	418,063	3,707	-	-	1,345,797	545,031	1,890,828
Non-interest-bearing	-	-	-	-	-	-	-	-	-	-	2,229	995	2,229	995	3,224
<b>Debt securities held-to-maturity</b>	<b>22,697</b>	<b>2,272</b>	<b>103,867</b>	-	<b>51,083</b>	<b>662</b>	<b>36,672</b>	<b>2,065</b>	<b>65,640</b>	<b>14,348</b>	-	<b>466</b>	<b>279,959</b>	<b>19,813</b>	<b>299,772</b>
Fixed rate	-	-	766	-	39,798	571	36,672	2,065	65,640	14,348	-	-	142,876	16,984	159,860
Variable rate	22,697	2,272	103,101	-	11,285	91	-	-	-	-	-	-	137,083	2,363	139,446
Non-interest-bearing	-	-	-	-	-	-	-	-	-	-	-	466	-	466	466
<b>Fair value of derivative financial instruments in other assets</b>	<b>43,526</b>	<b>50,501</b>	<b>112,327</b>	<b>16,869</b>	<b>45,652</b>	<b>25,189</b>	<b>10,805</b>	<b>7,567</b>	<b>43,314</b>	<b>3,893</b>	-	<b>3</b>	<b>255,624</b>	<b>104,022</b>	<b>359,646</b>
Fixed rate	23,569	50,501	46,725	15,118	5,288	25,189	10,805	7,567	43,314	3,893	-	-	129,701	102,268	231,969
Variable rate	19,957	-	65,602	1,751	40,364	-	-	-	-	-	-	-	125,923	1,751	127,674
Non-interest-bearing	-	-	-	-	-	-	-	-	-	-	-	3	-	3	3

LIABILITIES	Within 1 month		Within 3 months over 1 month		Within 1 year over 3 months		Within 2 years over 1 year		Over 2 years		Non-interest bearing		Total		Total
	HUF	In foreign currency	HUF	In foreign currency	HUF	In foreign currency	HUF	In foreign currency	HUF	In foreign currency	HUF	In foreign currency	HUF	In foreign currency	
<b>Due to banks and deposits from the National Bank of Hungary and other banks</b>															
Fixed rate	8,815	59,451	-	28,190	-	16,739	6	7,435	1,198	2,363	665	1,540	10,684	115,718	126,402
Variable rate	2,807	20,232	-	8,421	-	9,298	6	6,129	1,198	281	-	-	4,011	44,361	48,372
Non-interest-bearing	6,008	39,219	-	19,769	-	7,441	-	1,306	-	2,082	-	-	6,008	69,817	75,825
Deposits from customers	-	-	-	-	-	-	-	-	-	-	665	1,540	665	1,540	2,205
Fixed rate	1,769,174	399,843	217,867	217,323	14,613	39,239	9,075	1,543	16,753	13	3	4,387	2,027,485	662,348	2,689,833
Variable rate	364,763	127,753	217,867	217,323	14,613	39,239	9,075	1,534	16,753	13	-	-	623,071	385,871	1,008,942
Non-interest-bearing	1,404,411	272,090	-	-	-	-	-	-	-	-	-	-	1,404,411	272,090	1,676,501
Liabilities from issued securities	-	-	-	-	-	-	-	-	-	-	3	4,387	3	4,387	4,390
Fixed rate	16,879	249	25,562	1,018	10,467	828	1,801	97	64,698	3,187	101	-	119,508	5,379	124,887
Variable rate	609	249	761	1,018	10,467	828	1,801	97	64,698	3,187	-	-	78,336	5,379	83,715
Non-interest-bearing	16,270	-	24,801	-	-	-	-	-	-	-	-	-	41,071	-	41,071
Fair value of derivative financial instruments in other liabilities	-	-	-	-	-	-	-	-	-	-	101	-	101	-	101
Subordinated bonds and loans	14,301	85,576	23,510	90,428	56,382	6,696	41,579	-	42,766	-	-	-	178,538	182,700	361,238
Fixed rate	8,054	67,063	5,102	59,384	24,026	6,696	41,579	-	42,766	-	-	-	121,527	133,143	254,670
Variable rate	6,247	18,513	18,408	31,044	32,356	-	-	-	-	-	-	-	57,011	49,557	106,568
Subordinated bonds and loans	-	-	-	-	5,000	10,413	-	-	-	-	-	-	5,000	10,413	15,413
Variable rate	-	-	-	-	5,000	10,413	-	-	-	-	-	-	5,000	10,413	15,413

## FINANCIAL REPORT

As at December 31, 2002 (in HUF mn) [continued]

ASSETS	Within 1 month		Within 3 months over 1 month		Within 1 year over 3 months		Within 2 years over 1 year		Over 2 years		Non-interest bearing		Total		Total
	HUF	In foreign currency	HUF	In foreign currency	HUF	In foreign currency	HUF	In foreign currency	HUF	In foreign currency	HUF	In foreign currency	HUF	In foreign currency	
<b>Cash, due from banks and balances with the National Bank of Hungary</b>	<b>303,158</b>	<b>2,224</b>	<b>363</b>	<b>939</b>	<b>-</b>	<b>76</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>446</b>	<b>42,090</b>	<b>6,144</b>	<b>345,611</b>	<b>9,829</b>	<b>355,440</b>
Fixed rate	303,154	2,224	363	197	-	-	-	-	-	446	-	-	303,517	2,867	306,384
Variable rate	4	-	-	742	-	76	-	-	-	-	-	-	4	818	822
Non-interest-bearing	-	-	-	-	-	-	-	-	-	-	42,090	6,144	42,090	6,144	48,234
<b>Placements with other banks, net of allowance for possible placement losses</b>	<b>106,857</b>	<b>118,429</b>	<b>21,200</b>	<b>7,336</b>	<b>23,780</b>	<b>8,829</b>	<b>-</b>	<b>9</b>	<b>24</b>	<b>773</b>	<b>4,425</b>	<b>4,230</b>	<b>156,286</b>	<b>139,606</b>	<b>295,892</b>
Fixed rate	106,057	115,400	14,000	1,670	23,780	6,526	-	9	24	773	-	-	143,861	124,378	268,239
Variable rate	800	3,029	7,200	5,666	-	2,303	-	-	-	-	-	-	8,000	10,998	18,998
Non-interest-bearing	-	-	-	-	-	-	-	-	-	-	4,425	4,230	4,425	4,230	8,655
<b>Securities held-for-trading and available-for-sale</b>	<b>26,609</b>	<b>-</b>	<b>39,168</b>	<b>23,719</b>	<b>46,100</b>	<b>2,252</b>	<b>11,626</b>	<b>6,340</b>	<b>52,907</b>	<b>276</b>	<b>10,854</b>	<b>240</b>	<b>187,264</b>	<b>32,827</b>	<b>220,091</b>
Fixed rate	2,403	-	18,851	2,275	44,629	-	11,626	6,340	51,910	276	-	-	129,419	8,891	138,310
Variable rate	24,206	-	20,317	21,444	1,471	2,252	-	-	997	-	-	-	46,991	23,696	70,687
Non-interest-bearing	-	-	-	-	-	-	-	-	-	-	10,854	240	10,854	240	11,094
<b>Loans</b>	<b>629,640</b>	<b>101,702</b>	<b>155,248</b>	<b>62,425</b>	<b>63,034</b>	<b>32,066</b>	<b>9,928</b>	<b>6,525</b>	<b>216,549</b>	<b>1,798</b>	<b>1,404</b>	<b>391</b>	<b>1,075,803</b>	<b>204,907</b>	<b>1,280,710</b>
Fixed rate	6,554	88	11,890	201	5,964	4,726	7,150	3,138	157,165	1,316	-	-	188,723	9,469	198,192
Variable rate	623,086	101,614	143,358	62,224	57,070	27,340	2,778	3,387	59,384	482	-	-	885,676	195,047	1,080,723
Non-interest-bearing	-	-	-	-	-	-	-	-	-	-	1,404	391	1,404	391	1,795
<b>Debt securities held-to-maturity</b>	<b>23,193</b>	<b>-</b>	<b>132,675</b>	<b>47</b>	<b>42,855</b>	<b>2,954</b>	<b>37,509</b>	<b>-</b>	<b>111,438</b>	<b>2,245</b>	<b>-</b>	<b>-</b>	<b>347,670</b>	<b>5,246</b>	<b>352,916</b>
Fixed rate	-	-	1,853	-	35,387	2,954	37,509	-	111,438	2,245	-	-	186,187	5,199	191,386
Variable rate	23,193	-	130,822	47	7,468	-	-	-	-	-	-	-	161,483	47	161,530
<b>Fair value of derivative financial instruments in other assets</b>	<b>70,579</b>	<b>67,224</b>	<b>37,131</b>	<b>13,521</b>	<b>114,176</b>	<b>21,545</b>	<b>-</b>	<b>8,458</b>	<b>1,162</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>223,048</b>	<b>110,748</b>	<b>333,796</b>
Fixed rate	69,532	67,224	20,551	11,952	81,576	21,545	-	8,458	1,162	-	-	-	172,821	109,179	282,000
Variable rate	1,047	-	16,580	1,569	32,600	-	-	-	-	-	-	-	50,227	1,569	51,796

LIABILITIES	Within 1 month		Within 3 months over 1 month		Within 1 year over 3 months		Within 2 years over 1 year		Over 2 years		Non-interest bearing		Total		Total
	HUF	In foreign currency	HUF	In foreign currency	HUF	In foreign currency	HUF	In foreign currency	HUF	In foreign currency	HUF	In foreign currency	HUF	In foreign currency	
<b>Due to banks and deposits from the National bank of Hungary and other banks</b>	<b>25,242</b>	<b>22,994</b>	<b>2,887</b>	<b>11,430</b>	<b>3,498</b>	<b>6,266</b>	<b>-</b>	<b>2,797</b>	<b>1,573</b>	<b>609</b>	<b>1,373</b>	<b>391</b>	<b>34,573</b>	<b>44,487</b>	<b>79,060</b>
Fixed rate	20,774	21,492	2,300	906	3,036	5,249	-	66	1,573	609	-	-	27,683	28,322	56,005
Variable rate	4,468	1,502	587	10,524	462	1,017	-	2,731	-	-	-	-	5,517	15,774	21,291
Non-interest-bearing	-	-	-	-	-	-	-	-	-	-	1,373	391	1,373	391	1,764
<b>Deposits from customers</b>	<b>1,683,028</b>	<b>96,839</b>	<b>49,207</b>	<b>218,293</b>	<b>26,802</b>	<b>45,265</b>	<b>18,539</b>	<b>299</b>	<b>12,841</b>	<b>25</b>	<b>31</b>	<b>-</b>	<b>1,790,448</b>	<b>360,721</b>	<b>2,151,169</b>
Fixed rate	463,213	62,128	49,207	218,293	14,810	45,265	18,539	299	12,841	25	-	-	558,610	326,010	884,620
Variable rate	1,219,815	34,711	-	-	11,992	-	-	-	-	-	-	-	1,231,807	34,711	1,266,518
Non-interest-bearing	-	-	-	-	-	-	-	-	-	-	31	-	31	-	31
<b>Liabilities from issued securities</b>	<b>12,840</b>	<b>207</b>	<b>27,521</b>	<b>346</b>	<b>642</b>	<b>1,253</b>	<b>-</b>	<b>258</b>	<b>41,758</b>	<b>-</b>	<b>37</b>	<b>-</b>	<b>82,798</b>	<b>2,064</b>	<b>84,862</b>
Fixed rate	770	207	1,311	346	642	1,253	-	258	41,758	-	-	-	44,481	2,064	46,545
Variable rate	12,070	-	26,210	-	-	-	-	-	-	-	-	-	38,280	-	38,280
Non-interest-bearing	-	-	-	-	-	-	-	-	-	-	37	-	37	-	37
<b>Fair value of derivative financial instruments in other liabilities</b>	<b>22,398</b>	<b>110,834</b>	<b>13,951</b>	<b>18,027</b>	<b>68,920</b>	<b>32,188</b>	<b>9,407</b>	<b>1,842</b>	<b>52,546</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>167,222</b>	<b>162,891</b>	<b>330,113</b>
Fixed rate	21,350	110,834	13,951	18,027	68,920	32,188	9,407	1,842	52,546	-	-	-	166,174	162,891	329,065
Variable rate	1,048	-	-	-	-	-	-	-	-	-	-	-	1,048	-	1,048
<b>Subordinated bonds and loans</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>5,000</b>	<b>10,511</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>5,000</b>	<b>10,511</b>	<b>15,511</b>
Variable rate	-	-	-	-	5,000	10,511	-	-	-	-	-	-	5,000	10,511	15,511

## FINANCIAL REPORT

### NOTE 33: EARNINGS PER SHARE

Consolidated Earnings per share attributable to the Group's common shares are determined based on dividing consolidated 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 period.

	2003	2002
Consolidated net income (in HUF mn)	83,336	59,231
Weighted average number of common shares outstanding during the year for calculating basic EPS (piece)	260,408,048	258,901,972
<b>Consolidated Basic Earnings per share (in HUF)</b>	<b>320</b>	<b>229</b>
Weighted average number of common shares outstanding during the year for calculating diluted EPS (piece)	261,463,569	259,550,274
<b>Consolidated Diluted Earnings per share (in HUF)</b>	<b>319</b>	<b>228</b>

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

Diluted Earnings per share are determined after additionally taking into consideration the optional rights given to Senior Management of OTP Bank.



# SHAREHOLDER

## *Information*

# *B* **BOARD OF DIRECTORS OF OTP BANK LTD.**



**DR. SÁNDOR CSÁNYI**  
*Chairman-CEO*  
*OTP Bank Ltd.*



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



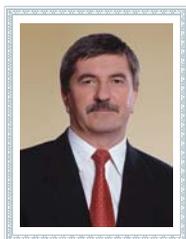
**MIHÁLY BAUMSTARK**  
*Chairman-CEO*  
*Csányi Vinery Ltd.*



**DR. TIBOR BÍRÓ**  
*Department Head*  
*Budapest Business School*



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



**DR. ISTVÁN KOCSIS**  
*CEO*  
*Paks Nuclear Power Plant Ltd.*



**CSABA LANTOS**  
*Deputy CEO*  
*OTP Bank Ltd.*



**GÉZA LENK**  
*Deputy CEO*  
*OTP Bank Ltd.*



**DR. ANTAL PONGRÁCZ**  
*Deputy CEO*  
*OTP Bank Ltd.*



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



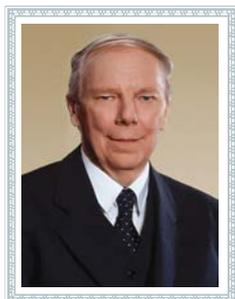
**DR. JÓZSEF VÖRÖS**  
*General Deputy Rector*  
*Pécs University*

*S***SUPERVISORY BOARD OF OTP BANK LTD.**



**DR. TIBOR TOLNAY (CHAIRMAN)**

*Chairman-CEO  
Magyar Építők Ltd.*



**DR. GÁBOR NAGY (VICE CHAIRMAN)**

*Head of Codification Group  
Ministry of Finance, Accounting Division*



**MRS. ZSÓFIA ZSÁKÓ GYULAI**

*Managing Director  
OTP Bank Ltd., Banking Operations Directorate  
(until February 29, 2004)*



**DR. GÁBOR HORVÁTH**

*Lawyer*



**ANTAL KOVÁCS**

*Managing Director  
OTP Bank Ltd., South Transdanubian Region  
(from April 29, 2004)*



**DR. SÁNDOR PINTÉR**

*CEO  
CIVIL Biztonsági Szolgálat Ltd.*



**MS. KLÁRA VÉCSEI**

*Deputy Managing Director  
OTP Bank Ltd., Northern Hungary Region*



## INFORMATION FOR SHAREHOLDERS

### GENERAL COMPANY DATA

HEAD OFFICE OF OTP BANK LTD.:

1051 Budapest, Nádor utca 16. · Telephone: (+36-1) 353-1444 · Fax: (+36-1) 312-6858

### AZ OTP BANK LTD.

The Bank's share capital as at December 31, 2003 was HUF 28,000,001,000, consisting of 280,000,000 ordinary shares of HUF 100 nominal value each, and 1 voting-preference share of nominal value HUF 1,000.

### OWNERSHIP STRUCTURE AS AT DECEMBER 31, 2003

Shareholder		Participation as a % of registered capital (ownership share)
Domestic shareholders	State	1 voting preference share
	State budgetary organizations	0.1%
	Managers and employees	2.9%
	OTP Bank Ltd.	4.7%
	Other domestic investors	11.5%
	<i>Total domestic ownership</i>	<i>19.2%</i>
Foreign shareholders	Foreign investors	80.8%
<b>Total</b>		<b>100.0%</b>

### DIVIDEND

OTP Bank Ltd.'s General Meeting of April 29, 2004 passed a resolution that the value of dividends on the 2003 financial year for the ordinary shares HUF 60 each and HUF 600 for the voting preference share, i.e. 60% of the face value of the shares, which will be increased on the first day of the dividend payment by the volume of dividend concerning the Bank's own 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.

### STOCK EXCHANGE LISTING

The ordinary shares of OTP Bank Ltd. are listed on the Budapest Stock Exchange in category "A", and the global depository receipts (GDRs) representing the ordinary shares that are traded abroad are listed on the Luxembourg Stock Exchange. (1 GDR embodies 2 ordinary shares.) The Regulation S GDRs are traded on the London SEAQ International. The Rule 144A GDRs are traded in the PORTAL system. The custodian bank for the OTP GDRs is the Bank of New York, and the safekeeper is OTP Bank Ltd. (Stock exchange symbol for OTP Bank shares: OTP, Reuters: OTP.BU).



## SHAREHOLDER INFORMATION

### 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 JUNE 14, 2004

Private investors who have questions regarding shares or dividends, or about resolutions passed at the General Meeting, should contact the Secretariat of OTP Bank Ltd. Telephone: (+36-1) 312-5085.

### PARTICIPATION AND VOTING 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 Hungary

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

- the holder of the registered share has been effectively entered into the Company's Share Book;
- the voting right relating to the ownership of the shares shall not violate the provisions of the Company's Articles of Association, which circumstance shall be verified through monitoring by the Company following the receipt of notification from KELER Ltd.;
- with respect to participation in the General Meeting and the exercising of voting rights on the part of the organisation exercising shareholders' rights on the basis of the voting-preference share (golden share) issued in favour of the Hungarian State, the general rules shall apply, with the proviso that, in the case of certain matters specified in the Articles of Association of OTP Bank Ltd., the consent of the holder of the golden share is required in order for the resolution to be passed;
- the rules on participation in the General Meeting and the exercising of voting rights on the part of GDR holders are contained in the Custody Agreement concluded between the Bank of New York and OTP Bank Ltd.

### INVESTOR RELATIONS

Institutional shareholders of OTP Bank Ltd. should contact the following address if they require further information:  
OTP Bank Ltd. Investor Relations

1051 Budapest, Nádor utca 16. Telephone: (+36-1) 269-1693 Fax: (+36-1) 331-6312  
e-mail: investor.relations@otpbank.hu

### ANNOUNCEMENTS

OTP Bank Ltd. fulfils its disclosure obligations related to corporate events and prescribed in Act CXX of 2001 in Magyar Tőkepiac [Hungarian Capital Market] and on the website of the Budapest Stock Exchange ([www.bet.hu](http://www.bet.hu)).

### INTERNET

The address of the Bank's website is [www.otpbank.hu](http://www.otpbank.hu).

## COMMITMENT TO SOCIAL CAUSES

Besides being a highly successful business, as Hungary's largest commercial bank OTP Bank Ltd. devotes considerable attention to activities and events that serve the public interest and benefit society as a whole, and, commensurate with the opportunities available to it, uses the financial means at its disposal to contribute to the achievement of socially important goals.

In accordance with its stated sponsorship philosophy, through its philanthropic activities the Bank participates as an active supporter, motivator and carer in the everyday lives of people and society, and it does so by creating opportunities that are essential for success in today's increasingly demanding world, by building and developing communities that offer security and strength, and by broadening and improving inter-generational relationships.

### **OTP BANK'S COMMITMENT TO THE CREATION OF OPPORTUNITY**

Over the past decade in Hungary, many new social and cultural requirements have arisen as a result of EU convergence. These requirements have their roots and foundations in our everyday lives, and it is only a lack of funding that prevents them from being fulfilled. They may be related to culture, competitive or recreational sports, or to the various areas of civil society.

This is why, besides its business activities, the Bank assists the needy and uses the resources at its disposal to create opportunities. Within its means, the Bank supports charitable initiatives aimed at improving the chances of individuals or of communities, and showing the way forward.

To this end the Bank is a major sponsor of Special Olympics Hungary, which is part of an international movement to assist the mentally handicapped in living a fuller life.

In the field of children's healthcare, since 1994 the Bank has been a key partner organisation to the International Children's Safety Service, which is dedicated to assisting children who have been disadvantaged for any reason. For this purpose, the Bank also organises fundraising programs.

Among the Bank's many charitable initiatives, the András Fáy Foundation, founded and run by the Bank, is particularly noteworthy. In 2003 the foundation decided to focus on the nurturing of talent, by offering research grants to the students at institutes of higher education in order to create the opportunity for them to achieve excellence and further develop their abilities.

### **OTP BANK'S COMMITMENT TO COMMUNITY-BUILDING AND BRIDGING THE GENERATION GAP**

When formulating its sponsorship philosophy, the Bank had to recognise, in the course of its everyday charity work, that showing the way and creating opportunities would only be possible with the help of co-operative partners. Sponsorship and assistance are only really effective where the local community is capable of lending its support.

This is why the sponsorship of local civil and other organisations (police, fire brigades, schools and local councils, etc.), as well as important local sporting events (e.g. the Triathlon Team World Championship, IAAF Hammer Throwing World Final, OTP Bank Golf Cup) and sports clubs (e.g. Újpest Football Club, Fotex Veszprém FC, Univer KSE, Eger Water Polo Team, Kaposvár Klímavill KSE, Alba Regia SC) is treated as a key priority.

However, through decades of experience in the human side of customer relations, the Bank has learned that one of the most difficult tasks in community building is maintaining a dialogue and openness between people. This is why one of the goals of the Bank's sponsorship philosophy is the bridging of the generation gap.

OTP Bank uses the age-old means of art and culture to help resolve conflicts and bring the generations closer together, by supporting quality musical events (e.g. Zorán concert tour, the Tisza Water Festival, the Sziget [Island] Music Festival, the Szolnok Music Festival and the Győri Nyár [Győr Summer] Festival), civic cultural days, village fetes and theatre productions (e.g. Miskolc National Theatre, Gárdonyi Géza Theatre, Gyula Castle Theatre, Pécs National Theatre, the Petőfi Theatre in Veszprém, the Vörösmarty Theatre in Székesfehérvár).



## **COMBAT AGAINST MONEY LAUNDERING**

In order to avoid that OTP Bank Ltd. be used for Money Laundering activities, we do everything to establish the true identity of any person/client demanding/applying for any services from the bank, and OTP Bank Ltd. shall not perform any transaction order given by a client who does not identify him/herself pursuant to the legal regulations.

In accordance with Act No. XXIV of 1994 on the prevention and impeding of Money Laundering, and the implementing Governmental Decree:

OTP Bank Ltd. operates an internal control and information system for the purpose of preventing of banking and financial transactions enabling or realising Money Laundering.

OTP Bank Ltd. has developed internal rules approved by the Supervisory Authority of Financial Institutions, and all of its employee are under a legal obligation to act in accordance with the provision of this Rules.

The employees of the Bank are to be perform their identifying and reporting obligations.

The performance of the reporting obligations shall not be regarded as a violation of bank, securities, insurance and business secrets.

Omission of the reporting obligation constitutes a crime punishable under the Penal Code.

OTP Bank Ltd. cooperates with the authorities to disclose any circumstances relating to Money Laundering.

OTP Bank Ltd.'s Announcement on its client-identification procedure as set out here is available in every premises of OTP Bank Ltd. open to clients.

PHOTO STYLING: HAMU ÉS GYÉMÁNT MAGAZIN



ARTWORK AND PRODUCTION: ARTEMIS LTD., 2004

PUBLISHER: OTP BANK LTD. ♦ RESPONSIBLE EDITOR: INVESTOR RELATIONS

GRAPHICS: LÁSZLÓ LELKES ♦ PHOTO: STOCKBYTE®