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INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying unconsolidated balance sheets of National Savings and Commercial Bank Ltd. ("the Bank") as at December 31, 2002 and 2001, and the related unconsolidated statements of operation, cash flows and changes in shareholders' equity for the years then ended. 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, 2002 and 2001, 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 17, 2003

Deloitte & Touche

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Tohmatsu

NATIONAL SAVINGS AND COMMERCIAL BANK LTD.
UNCONSOLIDATED BALANCE SHEETS AS AT DECEMBER 31, 2002 AND 2001,
(in HUF mn)

	2002	2001
Cash, due from banks and balances with the National Bank of Hungary	348,424	375,540
Placements with other banks, net of allowance for possible placement losses	277,627	326,830
Securities held for trading and available-for-sale	204,408	106,255
Loans, net of allowance for possible loan losses	994,994	760,164
Accrued interest receivable	23,407	26,999
Equity investments	48,888	33,175
Securities held-to-maturity	362,045	398,746
Premises, equipment and intangible assets, net	71,305	56,727
Other assets	58,908	19,144
TOTAL ASSETS	**2,390,006**	**2,103,580**
Due to banks and deposits from the National Bank of Hungary and other banks	46,401	25,133
Deposits from customers	2,045,653	1,842,722
Liabilities from issued securities	2,054	556
Accrued interest payable	7,479	8,770
Other liabilities	69,433	57,297
Subordinated bonds and loans	15,511	17,293
TOTAL LIABILITIES	**2,186,531**	**1,951,771**
Share capital	28,000	28,000
Retained earnings and reserves	192,358	141,559
Treasury shares	(16,883)	(17,750)
TOTAL SHAREHOLDERS' EQUITY	**203,475**	**151,809**
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	**2,390,006**	**2,103,580**

NATIONAL SAVINGS AND COMMERCIAL BANK LTD.
UNCONSOLIDATED STATEMENTS OF OPERATIONS FOR THE YEARS ENDED DECEMBER 31, 2002 AND 2001
(in HUF mn)

	2002	2001
Interest Income:		
Loans	106,555	91,571
Placements with other banks	26,473	17,700
Due from banks and balances with the National Bank of Hungary	18,488	33,017
Securities held for trading or available-for-sale	11,075	8,316
Securities held-to-maturity	32,540	40,860
Total Interest Income	*195,131*	*191,464*
Interest Expense:		
Due to banks and deposits from the National Bank of Hungary and other banks	4,189	2,670
Deposits from customers	80,988	90,570
Liabilities from issued securities	74	45
Subordinated bonds and loans	963	1,391
Total Interest Expense	*86,214*	*94,676*
NET INTEREST INCOME	**108,917**	**96,788**
Provision for possible loan and placement losses	6,214	6,627
NET INTEREST INCOME AFTER PROVISION FOR POSSIBLE LOAN AND PLACEMENT LOSSES	**102,703**	**90,161**
Non-Interest Income:		
Fees and commissions	64,741	46,404
Foreign exchange losses and gains, net	(3,400)	2,421
Gains and losses on securities, net	2,600	(2,549)
Losses on real estate transactions, net	(14)	(59)
Dividend income	332	127
Other	3,989	2,037
Total Non-Interest Income	*68,248*	*48,381*
Non-Interest Expenses:		
Fees and commissions	7,854	6,406
Personnel expenses	37,571	32,551
Depreciation and amortization	13,085	12,475
Other	49,440	36,703
Total Non-Interest Expenses	*107,950*	*88,135*
INCOME BEFORE INCOME TAXES	63,001	50,407
Income taxes	11,100	9,239
NET INCOME AFTER INCOME TAXES	**51,901**	**41,168**
Earnings per share (in HUF)		
basic	197	1,563
diluted	196	1,559

NATIONAL SAVINGS AND COMMERCIAL BANK LTD.
UNCONSOLIDATED STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED DECEMBER 31, 2002 AND 2001
(in HUF mn)

	2002	2001
OPERATING ACTIVITIES		
Income before income taxes	63,001	50,407
Adjustments to reconcile income before income taxes to net cash provided by operating activities:		
Income tax paid	(11,873)	(10,428)
Depreciation and amortization	13,085	12,475
Provision for possible loan and placement losses	6,214	6,627
Provision/(credit) for permanent diminution in value of investments	555	(3,829)
Provision/(credit) for possible losses of other assets	749	(1,239)
Provision for possible losses on off-balance sheet commitments and contingent liabilities net	2,066	1,299
Unrealised gains on fair value adjustment of securities held-for-trading and available-for-sale	(2,949)	(667)
Unrealised (gains)/losses on fair value adjustment of derivative financial instruments	(5,610)	773
Effect of deferred taxes	215	268
Changes in operating assets and liabilities:		
Net decrease/(increase) in accrued interest receivable	3,592	(117)
Net increase in other assets, excluding advances for investments and before provisions for possible losses	(32,108)	(1,233)
Net decrease in accrued interest payable	(1,291)	(2,323)
Net increase/(decrease) in other liabilities	14,922	(2,850)
Net cash provided by operating activities	**50,568**	**49,163**
INVESTING ACTIVITIES		
Net decrease/(increase) in placements with other banks, before provision for possible placement losses	49,210	(103,237)
Net lncrease in securities held for trading or available-for-sale before unrealised gains/lower of cost and market adjustment	(95,204)	(15,251)
Net increase in equity investments, before provision for permanent diminution in value	(16,268)	(2,708)
Net decrease/(increase) in securities held-to-maturity	36,701	(36,775)
Net decrease in advances for investments included in other assets	21	38
Net increase in loans, before provision for possible loan losses	(241,051)	(141,131)
Net additions to premises, equipment and intangible assets	(27,663)	(13,529)
Net cash used in investing activities	**(294,254)**	**(312,593)**

NATIONAL SAVINGS AND COMMERCIAL BANK LTD.
UNCONSOLIDATED STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED DECEMBER 31, 2002 AND 2001
(in HUF mn) [continued]

	2002	2001
FINANCING ACTIVITIES		
Net increase/(decrease) in due to banks and deposits from the National Bank of Hungary and other banks	21,268	(19,282)
Net increase in deposits from customers	202,931	178,790
Net increase/(decrease) in liabilities from issued securities	1,498	(477)
Decrease in subordinated bonds and loans	(1,782)	(467)
Profit on sale of treasury shares	(1,102)	72
Decrease/(increase) in treasury shares	867	(8,683)
Net decrease in the compulsory reserve established by the National Bank of Hungary	14,470	75,611
Dividends paid	(7,110)	(3,492)
Net cash provided by financing activities	**231,040**	**222,072**
Net decrease in cash and cash equivalents	**(12,646)**	**(41,358)**
Cash and cash equivalents at the beginning of the year	268,003	309,361
Cash and cash equivalents at the end of the year	**255,357**	**268,003**

NATIONAL SAVINGS AND COMMERCIAL BANK LTD.
UNCONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY FOR THE YEARS ENDED DECEMBER 31, 2002 AND 2001
(in HUF mn)

	Share Capital	Retained Earnings and Reserves	Treasury Shares	Total
Balance as at January 1, 2001	**28,000**	**107,402**	**(9,067)**	**126,335**
Net income after income taxes	-	41,168	-	41,168
Profit on sale of treasury shares	-	72	-	72
Change in carrying value of treasury shares	-	-	(8,683)	(8,683)
Effects of adoption of IAS 39	-	192	-	192
Dividends declared on common shares	-	(7,275)	-	(7,275)
Balance as at December 31, 2001	**28,000**	**141,559**	**(17,750)**	**151,809**
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
Balance as at December 31, 2002	**28,000**	**192,358**	**(16,883)**	**203,475**

NOTE 1: ORGANIZATION AND BASIS OF FINANCIAL STATEMENTS

1.1. General

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

As at December 31, 1994, 79% of the Bank's shares were held directly or indirectly by the Hungarian Government and the remaining 21% were held by domestic investors or represented as own shares (less than 3%). In spring 1995, the Hungarian Government transferred 20% of the Bank's shares to the Hungarian Social Security Funds. Subsequent to the successful initial public offering in summer 1995, the Bank's shares were introduced to the Budapest and the Luxembourg stock exchanges and were also listed on SEAQ London 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 resolution No. 6/1/2001 concerning the conversion of HUF 1,150 million nominal value preference shares issued by the Bank to common shares.

As at December 31, 2002 approximately 91.7% of the Bank's shares were held by domestic and foreign private and institutional investors. The remaining shares are owned by employees, leading officials (2.8%) and the Bank (5.5%).

The Bank provides a full range of commercial banking services through a nationwide network of 427 branches in Hungary.

1.2. Accounting

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

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

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 1: ORGANIZATION AND BASIS OF FINANCIAL STATEMENTS [continued]

1.2. Accounting [continued]

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

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

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

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

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.

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES [continued]

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.

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

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

2.5. Securities held for trading and available-for-sale

Investments in securities are accounted on a settlement date basis and are initially measured at cost. Held for trading and available-for-sale investments are measured at subsequent reporting dates at fair value and unrealised gains and losses are included in the Unconsolidated Statement of Operations for the period. Such securities consist of discounted and interest bearing Treasury bills, Hungarian Government bonds, bonds issued by National Bank of Hungary (NBH), and other securities. Other securities include shares in commercial companies, shares in investment funds, bonds issued by companies, 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 future cash flows and the fair value of unquoted equity instruments is estimated using applicable price/earnings or price/cashflow ratios refined to reflect the specific circumstances of the user.

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

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES [continued]

2.6. Loans, placements with other banks and allowance for possible loan and placement losses

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

The allowances for possible loan and placement losses are maintained at levels adequate to absorb probable future losses and represents the difference between the carrying amount and the present value of expected future cash flows, discounted at the loans' original effective interest rate. 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.

2.7. 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 agreement

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.

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES [continued]

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 profit and loss account over the period of the leases to produce a constant rate of charge on the balance of capital payments outstanding.

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

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

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES [continued]

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 swaps. These financial instruments are used by the Bank to hedge interest rate risk and currency exposures associated with its transactions in the financial markets.

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

Changes in the fair value of derivatives that are designated and qualify as fair value hedges and that prove to be highly effective in relation to the hedged risk, are recorded in the 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.

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES [continued]

2.14. Derivative financial instruments [continued]

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 a reserve among unconsolidated shareholders' equity. Amounts deferred in equity are transferred to the Unconsolidated Statement of Operations and classified as revenue or expense in the periods during which the hedged assets and liabilities affect the result for the period. The ineffective element of the hedge is charged directly to the Unconsolidated Statement of Operations.

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

2.15. 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 2001 unconsolidated financial statements have been reclassified to conform with current period presentation.

NOTE 3: CASH, DUE FROM BANKS AND BALANCES WITH THE NATIONAL BANK OF HUNGARY (in HUF mn)

	2002	2001
Cash on hand:		
In HUF	39,460	38,540
In foreign currency	3,570	10,630
	43,030	49,170
Due from banks and balances with NBH:		
Within one year:		
In HUF	301,709	320,279
In foreign currency	3,251	4,360
	304,960	324,639
Over one year:		
In foreign currency	434	1,731
Total	348,424	375,540

Based on the requirements for compulsory reserves set by the National Bank of Hungary, the balance of compulsory reserves amounted to approximately HUF 93,067 million and HUF 107,537 million as at December 31, 2002 and 2001 respectively.

NOTE 4: PLACEMENTS WITH OTHER BANKS AND ALLOWANCE FOR POSSIBLE PLACEMENT LOSSES (in HUF mn)

	2002	2001
Within one year:		
In HUF	146,576	73,206
In foreign currency	117,192	235,455
	263,768	308,661
Over one year:		
In HUF	8,300	8,300
In foreign currency	5,722	10,039
	14,022	18,339
Total	277,790	327,000
Allowance for possible placement losses	(163)	(170)
	277,627	326,830

Placements with other banks in foreign currency as at December 31, 2002 and 2001 bear interest rates in the range from 0.1% to 9.2% and from 1% to 6.5%, respectively.

NOTE 4: PLACEMENTS WITH OTHER BANKS AND ALLOWANCE FOR POSSIBLE PLACEMENT LOSSES (in HUF mn) [continued]

Placements with other banks in HUF as at December 31, 2002 and 2001 bear interest rates in the range from 7.5% to 11.2% and from 8.4% to 11.3%, respectively.

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

	2002	2001
Balance as at January 1	170	183
Credit for possible placement losses	(7)	(13)
Balance as at December 31	163	170

NOTE 5: SECURITIES HELD FOR TRADING AND AVAILABLE-FOR-SALE (in HUF mn)

	2002	2001
Securities held for trading		
Hungarian Government discounted Treasury bills	4,996	7,545
Hungarian Government interest bearing Treasury bills	1,945	1,333
Government bonds	10,002	23,197
Bonds issued by National Bank of Hungary	-	5,129
Other securities	1,148	6,041
	18,091	43,245
Securities available-for-sale		
Government bonds	38,881	44,267
Other securities	22,192	18,413
Mortgage bonds	125,244	330
	186,317	63,010
Total	204,408	106,255

Approximately 90% and 65% of the held for trading and available-for-sale securities portfolio was denominated in HUF as at December 31, 2002 and 2001, respectively.

Approximately 10% and 23% of the government bonds were denominated in foreign currency as at December 31, 2002 and 2001, respectively. Approximately 54%, 37%, 1% and 8% of this portfolio was denominated in USD, JPY, EUR and GBP as at December 31, 2002 and 78%, 13%, 8% and 1% of this portfolio was denominated in USD, JPY, EUR and GBP as at December 31, 2001.

Interest rates on securities held for trading ranged from 2.3% to 10.5% and from 2.8% to 14% as at December 31, 2002 and 2001, respectively.

NOTE 5: SECURITIES HELD FOR TRADING AND AVAILABLE-FOR-SALE (in HUF mn) [continued]

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

	2002	2001
Within five years:		
variable interest	42,837	64,260
fixed interest	15,260	18,957
	58,097	83,217
Over five years:		
variable interest	29,772	670
fixed interest	105,193	14,678
	134,965	15,348
Non-interest-bearing securities	11,346	7,690
Total	204,408	106,255

NOTE 6: LOANS AND ALLOWANCE FOR POSSIBLE LOAN LOSSES (in HUF mn)

	2002	2001
Short-term loans and trade bills (within one year)	381,364	334,740
Long-term loans and trade bills (over one year)	632,048	444,964
	1,013,412	779,704
Allowance for possible loan losses	(18,418)	(19,540)
	994,994	760,164

Foreign currency loans represent approximately 21% and 18% of the loan portfolio, before allowance for possible losses, as at December 31, 2002 and 2001, respectively.

Loans denominated in HUF, with a maturity within one year as at December 31, 2002 and 2001 bear interest rates in the range from 12.3% to 33% and from 14% to 29%, respectively.

Loans denominated in HUF, with a maturity over one year as at December 31, 2002 and 2001 bear interest rates in the range from 4% to 19.8% and from 11.1% to 21.5%, respectively.

NOTE 6: LOANS AND ALLOWANCE FOR POSSIBLE LOAN LOSSES (in HUF mn) [continued]

Approximately 1.7% and 3% of the gross loan portfolio represented loans on which interest is not being accrued as at December 31, 2002 and 2001 respectively.

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

	2002		2001	
Commercial loans	555,099	55%	464,123	60%
Municipality loans	128,057	13%	55,745	7%
Housing loans	212,150	20%	149,512	19%
Consumer loans	118,106	12%	110,324	14%
	1,013,412	100%	779,704	100%

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

	2002	2001
Balance as at January 1	19,540	19,816
Provision for possible loan losses	6,221	6,640
Write-offs	(7,343)	(6,916)
Balance as at December 31	18,418	19,540

The Bank regularly 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 (in HUF mn)

	2002	2001
Equity investments:		
Controlling interest	51,051	36,876
Significant interest	2,623	365
Other	995	1,160
	54,669	38,401
Allowance for permanent diminution in value	(5,781)	(5,226)
	48,888	33,175

NOTE 7: EQUITY INVESTMENTS (in HUF mn) [continued]

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

	December 31, 2002		December 31, 2001	
	% Held (direct and indirect)	Cost	% Held (direct and indirect)	Cost
OTP Garancia Institute Ltd.	100.00%	7,472	100.00%	7,472
OTP Real Estate Ltd.	100.00%	1,228	100.00%	1,175
OTP Securities 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
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%	7,100	100.00%	3,000
AIR-Invest Ltd.	100.00%	1,000	100.00%	1,000
OTP Banka Slovensko a.s. (Slovakia)	95.74%	9,970	-	-
Other	100.00%	66	100.00%	14
		51,051		36,876

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

	2002	2001
Balance as at January 1	5,226	9,055
Provision/(credit) for permanent diminution in value	555	(3,829)
Balance as at December 31	5,781	5,226

NOTE 8: HELD-TO-MATURITY INVESTMENTS (in HUF mn)

	2002	**2001**
Government securities	345,024	376,582
Hungarian Government discounted Treasury bills	3,689	19,068
Bonds issued by the National Bank of Hungary	-	2,496
Other debt securities	13,332	600
	362,045	398,746

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

	2002	**2001**
Within five years, variable interest	127,014	166,385
Within five years, fixed interest	145,809	157,240
	272,823	323,625
Over five years, variable interest	47,333	50,661
Over five years, fixed interest	41,889	24,460
	89,222	75,121
Total	362,045	398,746

Approximately 99% and 97% of the debt securities portfolio was denominated in HUF as at December 31, 2002 and 2001, 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 13% and from 7.5% to 14% as at December 31, 2002 and 2001, respectively. Interest on fixed rate and variable rate securities is, in most cases, paid semi-annually.

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

	2002	2001
Land and buildings	37,241	33,982
Machinery and equipment	54,609	50,319
Construction in progress	6,951	2,942
Intangible assets	32,655	26,197
	131,456	113,440
Accumulated depreciation and amortization	(60,151)	(56,713)
	71,305	56,727

NOTE 10: OTHER ASSETS (in HUF mn)

	2002	2001
Receivables due to collection of Hungarian Government securities	45	113
Property held for sale	455	1,174
Due from Government for interest subsidies	876	685
Trade receivables	2,740	2,540
Advances for securities and investments	475	496
Deferred tax asset	-	22
Taxes recoverable	278	191
Inventories	724	1,015
Other advances	334	309
Credits sold under deferred payment scheme	5,931	4,447
Loans sold under deferred payment scheme to OTP Mortgage Bank Company Ltd.	15,947	-
Subsidies paid on behalf of the Government	777	408
Margin account balance	240	513
Accounts with invesment funds and pension funds	12,014	84
Settlement accounts	925	1,498
Receivables from investing services	2,335	682
Prepayments and accrued incomes	2,843	1,646
Fair value of derivative financial instruments	8,469	20
Other	5,918	4,970
	61,326	20,813
Allowance for possible losses on other assets	(2,418)	(1,669)
	58,908	19,144

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.

NOTE 10: OTHER ASSETS (in HUF mn) [continued]

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

	2002	2001
Balance as at January 1	1,669	2,908
Provision/(credit) for possible losses	749	(1,239)
Balance as at December 31	2,418	1,669

NOTE 11: DUE TO BANKS AND DEPOSITS FROM THE NATIONAL BANK OF HUNGARY AND OTHER BANKS (in HUF mn)

	2002	2001
Within one year:		
In HUF	29,920	4,783
In foreign currency	7,100	3,421
	37,020	8,204
Over one year:		
In HUF	4,774	7,821
In foreign currency	4,607	9,108
	9,381	16,929
Total	46,401	25,133

Due to banks and deposits from the National Bank of Hungary and other banks payable in HUF within one year as at December 31, 2002 and 2001, bear interest rates in the range from 7.5% to 9.7% and from 9.7% to 10.8%, respectively.

Due to banks and deposits from the National Bank of Hungary and other banks payable in HUF over one year as at December 31, 2002 and 2001, bear interest rates in the range from 9% to 9.5% and from 3% to 9.8%, 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, 2002 and as 2001, bear interest rates in the range from 0.7% to 7.2% and from 1.1% and 2.5%, 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, 2002 and 2001, bear interest rates in the range form 1.4% to 9.2% and from 1.4% to 9.2%, respectively.

NOTE 12: DEPOSITS FROM CUSTOMERS (in HUF mn)

	2002	2001
Within one year:		
In HUF	1,740,583	1,467,714
In foreign currency	293,597	359,052
	2,034,180	1,826,766
Over one year:		
In HUF	11,473	15,956
	11,473	15,956
Total	2,045,653	1,842,722

Deposits from customers payable in HUF within one year as at December 31, 2002 and 2001, bear interest rates in the range from 0.5% to 8% and from 0.5% to 8.5%, respectively.

Deposits from customers payable in HUF over one year as at December 31, 2002 and 2001, bear interest rates in the range from 5% to 7.6% and from 6.5% to 8.5%, respectively.

Deposits from customers payable in foreign currency as at December 31, 2002 and 2001, bear interest rates in the range from 0.1% to 1.6% and from 0.1% to 2.1%, respectively.

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

	2002		2001	
Commercial deposits	361,749	18%	267,512	15%
Municipality deposits	152,590	7%	154,925	8%
Consumer deposits	1,531,314	75%	1,420,285	77%
	2,045,653	100%	1,842,722	100%

NOTE 13: LIABILITIES FROM ISSUED SECURITIES (in HUF mn)

	2002	2001
With original maturity:		
Within one year	338	538
Over one year	1,716	18
	2,054	556

Liabilities from issued securities are denominated in HUF at interest rates in the range from 2% to 6.3% and from 3.8% to 8.3% as at December 31, 2002 and 2001, respectively.

NOTE 14: OTHER LIABILITIES (in HUF mn)

	2002	2001
Taxes payable	1,608	1,804
Deferred tax liabilities	193	-
Giro clearing accounts	23,541	13,942
Accounts payable	5,656	4,876
Salaries and social security payable	6,153	5,539
Liability from security trading	5,431	5,177
Allowances for possible losses on off-balance sheet commitments, contingent liabilities	5,488	3,491
Dividends payable	649	7,758
Accrued expenses	4,692	2,977
Suspense accounts	2,543	3,228
Loans for collection	1,567	967
Fair value of derivative financial instruments	3,680	841
Other	8,232	6,697
	69,433	57,297

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

	2002	2001
Allowance for litigation	1,591	779
Allowance for other off-balance sheet commitments, contingent liabilities	2,140	1,253
Other allowances for expected liabilities	1,529	1,162
Allowance for housing warranties	228	297
Balance as at December 31	5,488	3,491

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.

NOTE 14: OTHER LIABILITIES (in HUF mn) [continued]

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

	2002	2001
Balance as at January 1	3,491	2,345
Provision for off-balance sheet commitments and contingent liabilities, net	2,066	1,299
Write-off of allowance for housing waranties	(69)	(153)
Balance as at December 31	5,488	3,491

NOTE 15: SUBORDINATED BONDS AND LOANS

In 1993, the Bank issued HUF 5 billion in bonds, which are subordinated to the other liabilities of the Bank and subscribed by the Hungarian Ministry of Finance. Interest on subordinated bonds and the frequency of payment of interests are based on condition of interest of 2013/C credit consolidated government bonds, which is a variable-rate bond, the interest payable and the rate of interest are fixed twice a year. The semi-annual interest payable was 5.57 as at December 20, 2001, 5.19% as at June 20, 2002, and 4.36% as at December 20, 2002. 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. The loan is unsecured, subordinate to the other liabilities and has a ten-year maturity, with interest payable at six-month LIBOR + 1.4% from December 27, 1996 until December 29, 1997, at six-month LIBOR + 1.0% from December 29, 1997 until June 28, 1999, at six-month LIBOR + 1.7% from June 28, 1999 until December 27, 2004 and at six-month LIBOR + 2.5% from December 27, 2004 until December 27, 2006.

NOTE 16: SHARE CAPITAL (in HUF mn)

	2002	2001
Authorized, issued and fully paid:		
Common shares	28,000	28,000
	28,000	28,000

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

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 (in HUF mn)

	2002	2001
Balance as at January 1	141,559	107,402
Net income after income taxes	51,901	41,168
Effect of adoption of IAS 39	-	192
(Loss)/profit on sale of Treasury Shares	(1,102)	72
Dividends	-	(7,275)
Balance as at December 31	192,358	141,559

The Bank's reserves under Hungarian Accounting Standards were HUF 177,843 million and HUF 130,515 million as at December 31, 2002 and 2001, respectively. Of these amounts, legal reserves represent HUF 34,169 million and HUF 29,450 million, respectively. The legal reserves are not available for distribution.

Dividends for the year ended December 31, 2001 represent the dividends declared by the Bank's shareholders for shares at the Annual General Meeting in 2002.

Dividends for the year ended December 31, 2002 will be proposed at the Annual General Meeting in April 2003.

NOTE 18: TREASURY SHARES (in HUF mn)

	2002	2001
Nominal Value	1,543	1,542
Carrying Value	16,883	17,750

NOTE 19: OTHER EXPENSES (in HUF mn)

	2002	2001
Provision/(credit) for permanent diminution in value of equity investments	555	(3,829)
Provision/(credit) for other assets	749	(1,239)
Provision for possible losses on off-balance sheet commitments, contingent liabilities	2,066	1,299
Administration expenses, including rent	17,960	15,696
Advertising	3,024	2,198
Taxes, other than income	7,864	6,823
Services	11,758	11,507
Professional fees	2,586	2,039
Other	2,878	2,209
	49,440	36,703

NOTE 20: INCOME TAXES (in HUF mn)

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

A reconciliation of the income tax is as follows:

	2002	2001
Current tax	10,885	8,971
Deferred tax	215	268
	11,100	9,239

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

	2002	2001
Balance as at January 1	22	332
Effects of adoption of IAS 39	-	(42)
Deferred tax charge	(215)	(268)
Balance as at December 31	(193)	22

A reconciliation of the income tax charge is as follows:

	2002	2001
Net income before income taxes	63,001	50,407
Permanent differences due to movements in statutory provisions	(3,033)	(1,731)
Dividend income	(332)	(127)
Other permanent differences	2,030	2,778
Adjusted tax base	61,666	51,327
Income tax at 18%	11,100	9,239

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.

NOTE 21: FINANCIAL INSTRUMENTS [continued]

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

	2002	**2001**
Commitments to extend credit	314,127	255,630
Guarantees arising from banking activities	47,401	36,487
Confirmed letters of credit	787	3,799
Other	20,051	1
Legal disputes	4,846	3,487
Local tax contingency	-	542
	387,212	299,946

NOTE 22: OFF BALANCE SHEET ITEMS AND DERIVATIVE FINANCIAL INSTRUMENTS [continued]

Commitments 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.

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

	2002	**2001**
Foreign currency contracts		
Assets	55,869	34,488
Liabilities	58,743	35,436
	(2,874)	(948)
Foreign exchange swaps and interest rate swaps		
Assets	161,347	122,728
Liabilities	150,126	122,664
	11,221	64

NOTE 22: OFF BALANCE SHEET ITEMS AND DERIVATIVE FINANCIAL INSTRUMENTS [continued]

	2002	2001
Option contracts		
Assets	183,322	28,294
Liabilities	164,658	19,310
	18,664	8,984
Forward rate agreements		
Assets	41,700	30,768
Liabilities	26,500	30,986
	15,200	(218)

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 one 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 31 December 2002, the Bank has derivative instruments with positive fair values of 8,469 million and negative fair values of 3,680 million. Corresponding figures as at 31 December 2001 are 20 million and 841 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.

NOTE 22: OFF BALANCE SHEET ITEMS AND DERIVATIVE FINANCIAL INSTRUMENTS [continued]

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 counterparties. 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.

NOTE 23: RELATED PARTY TRANSACTIONS

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

During the years ended December 31, 2002 and 2001 the Bank sold, without recourse, non-performing loans and the related accrued interest receivable to OTP Factoring for HUF 4,961 million and HUF 1,423 million, respectively. The gross book value of such credits was HUF 12,238 million and HUF 5,564 million, respectively, with a corresponding allowance for possible loan losses of HUF 9,603 million and HUF 4,774 million, respectively. The underlying mortgage rights were also transferred to OTP Factoring. Gains or losses related to such transactions are included in the unconsolidated financial statements.

Commissions received by the Bank from OTP Securities in relation to securities transactions were HUF 86 million and HUF 806 million for the years ended December 31, 2002 and 2001, respectively. Losses recorded by the Bank from the sale of securities to OTP Secuities were HUF 120 million, and HUF 262 million for the years ended December 31, 2002, and 2001, respectively.

Commissions received by the Bank from OTP Building Society in relation to finalised customer contracts were HUF 481 million and HUF 461 million for the years ended December 31, 2002 and 2001, respectively.

Insurance premiums paid by the Bank to OTP Garancia Insurance were HUF 841 million and HUF 685 million for the years ended December 31, 2002 and 2001, respectively.

Commissions received by the Bank from OTP Fund Management in relation to custody activity were HUF 438 million and HUF 319 million in relation to trading activity were HUF 2,116 million and HUF 1,571 million for the years ended December 31, 2002 and 2001, respectively.

NOTE 23: RELATED PARTY TRANSACTIONS [continued]

Commissions received by the Bank from OTP Real Estate in relation to its activity were HUF 3,071 million and HUF 1,167 million for the years ended December 31, 2002 and 2001, respectively.

The Bank sold mortgage bonds with recourse to OTP Mortgage Bank Company Ltd. for the amount of HUF 189,785 million at the year ended December 31, 2002 (including interest). The gross book value of these receivables was HUF 189,430 million.

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 a credit line of HUF 103 million as at December 31 2002. 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 1,762 million, with commitments to extend credit and guarantees of HUF 173 million as at December 31, 2002.

NOTE 24: CASH AND CASH EQUIVALENTS (in HUF mn)

	2002	2001
Cash, due from banks and balances with the NBH	348,424	375,540
Compulsory reserve established by the NBH	(93,067)	(107,537)
	255,357	268,003

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 27,061 million and HUF 42,843 million as at December 31, 2002 and 2001, respectively.

NOTE 26: CONCENTRATION OF ASSETS AND LIABILITIES

Approximately 30% and 38% 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, 2002 and 2001, respectively. There were no other significant concentrations of the Bank's assets or liabilities as at December 31, 2002 and 2001, respectively.

NOTE 27: MATURITY ANALYSIS OF ASSETS AND LIABILITIES AND LIQUIDITY RISK (in HUF mn)

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.

NOTE 27: MATURITY ANALYSIS OF ASSETS AND LIABILITIES AND LIQUIDITY RISK (in HUF mn) [continued]

As at December 31, 2002	Within 3 months	Within one year and over 3 months	Within 5 years and over one year	Over 5 years	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
TOTAL ASSETS	**822,412**	**343,796**	**625,997**	**597,801**	**2,390,006**
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
TOTAL LIABILITIES	**1,766,020**	**380,992**	**32,608**	**6,911**	**2,186,531**
Share capital	-	-	-	28,000	28,000
Retained earnings and reserves	-	-	-	192,358	192,358
Treasury shares	-	(16,883)	-	-	(16,883)
TOTAL SHAREHOLDERS' EQUITY	**-**	**(16,883)**	**-**	**220,358**	**203,475**
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	**1,766,020**	**364,109**	**32,608**	**227,269**	**2,390,006**
LIQUIDITY (DEFICIENCY)/EXCESS	**(943,608)**	**(20,313)**	**593,389**	**370,532**	**-**

NOTE 27: MATURITY ANALYSIS OF ASSETS AND LIABILITIES AND LIQUIDITY RISK (in HUF mn) [continued]

As at December 31, 2001	Within 3 months	Within one year and over 3 months	Within 5 years and over one year	Over 5 years	Total
Cash, due from banks and balances with the National Bank of Hungary	372,593	1,216	1,480	251	375,540
Placements with other banks, net of allowance for possible placement losses	134,070	174,421	17,499	840	326,830
Securities held for trading and available-for-sale	16,549	8,366	65,992	15,348	106,255
Loans, net of allowance for possible loan losses	83,379	238,835	254,903	183,047	760,164
Accrued interest receivable	20,949	5,884	120	46	26,999
Equity investments	-	-	-	33,175	33,175
Securities held-to-maturity	42,801	55,154	225,670	75,121	398,746
Premises, equipment and intangible assets, net	-	-	19,526	37,201	56,727
Other assets	12,418	6,726	-	-	19,144
TOTAL ASSETS	**682,759**	**490,602**	**585,190**	**345,029**	**2,103,580**
Due to banks and deposits from the national bank of hungary and other banks	4,346	3,858	14,499	2,430	25,133
Deposits from customers	1,491,259	335,507	15,929	27	1,842,722
Liabilities from issued securities	228	310	18	-	556
Accrued interest payable	4,536	4,234	-	-	8,770
Other liabilities	45,580	11,717	-	-	57,297
Subordinated bonds and loans	-	-	12,293	5,000	17,293
TOTAL LIABILITIES	**1,545,949**	**355,626**	**42,739**	**7,457**	**1,951,771**
Share capital	-	-	-	28,000	28,000
Retained earnings and reserves	-	-	-	141,559	141,559
Treasury shares	-	(17,750)	-	-	(17,750)
TOTAL SHAREHOLDERS' EQUITY	**-**	**(17,750)**	**-**	**169,559**	**151,809**
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	**1,545,949**	**337,876**	**42,739**	**177,016**	**2,103,580**
LIQUIDITY (DEFICIENCY)/EXCESS	**(863,190)**	**152,726**	**542,451**	**168,013**	**-**

NOTE 28: NET FOREIGN CURRENCY POSITION AND FOREIGN CURRENCY RISK (in HUF mn)

As at December 31, 2002

	USD	EUR	Others	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)
Net position	494	(984)	14,862	14,372

As at December 31, 2001

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

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

NOTE 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.

NOTE 29: INTEREST RATE RISK MANAGEMENT (in HUF mn) [continued]

As at December 31, 2002

ASSETS	within 1 month		within 3 months over month		within 1 year over 3 months		within 2 years over year		over 2 years		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	
Cash due from banks and balances with the National Bank of Hungary	**341,169**	**5,794**	**-**	**939**	**-**	**76**	**-**	**-**	**-**	**446**	**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**
Placements with other banks	**109,433**	**107,920**	**21,500**	**7,062**	**23,780**	**7,932**	**-**	**-**	**-**	**-**	**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**
Securities held-for-trading and available-for-sale	**28,861**	**240**	**14,637**	**14,631**	**27,981**	**2,252**	**177**	**3,873**	**111,485**	**271**	**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**
Loans	**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**
Securities held-to-maturity	**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**
FX swap, FX forward, FX futures, FRA deals included in other assets	**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**

<u>NOTE 29:</u> INTEREST RATE RISK MANAGEMENT (in HUF mn) [continued]

As at December 31, 2002

LIABILITIES	within 1 month		within 3 months over month		within 1 year over 3 months		within 2 years over 1 year		over 2 years		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	
Due to banks and deposits with the National Bank of Hungary	**26,736**	**3,991**	**2,887**	**7,073**	**3,498**	**197**	**-**	**-**	**1,573**	**446**	**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**
Deposits from customers	**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**
Liabilities from issued securities	**339**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**1,715**	**-**	**2,054**	**-**	**2,054**
fixed interest	-	-	-	-	-	-	-	-	1,715	-	1,715	-	**1,715**
variable interest	339	-	-	-	-	-	-	-	-	-	339	-	**339**
FX swap, FX forward, FX futures, FRA deals included in other liabilities	**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**
Subordinated bonds and loans	**-**	**-**	**-**	**-**	**5,000**	**10,511**	**-**	**-**	**-**	**-**	**5,000**	**10,511**	**15,511**
fixed interest	-	-	-	-	-	-	-	-	-	-	-	-	-
variable interest	-	-	-	-	5,000	10,511	-	-	-	-	5,000	10,511	**15,511**

NOTE 29: INTEREST RATE RISK MANAGEMENT (in HUF mn) [continued]

As at December 31, 2001

ASSETS	within 1 month		within 3 months over month		within 1 year over 3 months		within 2 years over 1 year		over 2 years		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	
Cash due from banks and balances with the National Bank of Hungary	**358,819**	**13,774**	-	-	-	**2,947**	-	-	-	-	**358,819**	**16,721**	**375,540**
fixed interest	317,431	3,144	-	-	-	-	-	-	-	-	317,431	3,144	**320,575**
variable interest	-	-	-	-	-	2,947	-	-	-	-	-	2,947	**2,947**
non-interest-bearing	41,388	10,630	-	-	-	-	-	-	-	-	41,388	10,630	**52,018**
Placements with other banks	**65,236**	**188,395**	**15,300**	**50,427**	**800**	**6,672**	-	-	-	-	**81,336**	**245,494**	**326,830**
fixed interest	53,532	172,714	15,000	40,109	800	5,023	-	-	-	-	69,332	217,846	**287,178**
variable interest	8,000	5,124	300	10,318	-	1,649	-	-	-	-	8,300	17,091	**25,391**
non-interest-bearing	3,704	10,557	-	-	-	-	-	-	-	-	3,704	10,557	**14,261**
Securities held-for-trading and available-for-sale	**4,528**	**14,461**	**20,642**	**6,033**	**31,193**	**201**	**2,803**	**2,896**	**9,559**	**13,939**	**68,725**	**37,530**	**106,255**
fixed interest	2,937	-	5,891	31	8,166	201	2,803	2,896	9,559	13,939	29,356	17,067	**46,423**
variable interest	-	8,362	14,751	6,002	23,027	-	-	-	-	-	37,778	14,364	**52,142**
non-interest-bearing	1,591	6,099	-	-	-	-	-	-	-	-	1,591	6,099	**7,690**
Loans	**534,345**	**103,970**	**31,979**	**37,510**	**30,845**	**21,515**	-	-	-	-	**597,169**	**162,995**	**760,164**
fixed interest	1,647	-	-	-	-	-	-	-	-	-	1,647	-	**1,647**
variable interest	532,053	103,856	31,979	37,510	30,845	21,515	-	-	-	-	594,877	162,881	**757,758**
non-interest-bearing	645	114	-	-	-	-	-	-	-	-	645	114	**759**
Securities held-to-maturity	**38,530**	-	**158,051**	-	**66,244**	**4,619**	**33,005**	**3,524**	**91,994**	**2,779**	**387,824**	**10,922**	**398,746**
fixed interest	15,834	-	5,389	-	48,137	2,603	33,005	3,524	91,994	2,779	194,359	8,906	**203,265**
variable interest	22,696	-	152,662	-	18,107	2,016	-	-	-	-	193,465	2,016	**195,481**
FX swap, FX forward, FX futures, FRA deals included in other assets	**79,075**	**42,689**	**23,307**	**17,148**	**34,248**	**17,361**	**1,029**	**56**	-	-	**137,659**	**77,254**	**214,913**
fixed interest	79,075	42,689	23,307	17,148	34,248	17,361	1,029	56	-	-	137,659	77,254	**214,913**

NOTE 29: INTEREST RATE RISK MANAGEMENT (in HUF mn) [continued]

As at December 31, 2001

LIABILITIES	within 1 month		within 3 months over month		within 1 year over 3 months		within 2 years over 1 year		over 2 years		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	
Due to banks and deposits with the National Bank of Hungary	**7,828**	**2,544**	**347**	**7,152**	**2,179**	**2,833**	**395**	**-**	**1,855**	**-**	**12,604**	**12,529**	**25,133**
fixed interest	750	-	347	-	1,726	-	395	-	1,855	-	5,073	-	**5,073**
variable interest	5,634	1,355	-	7,152	453	2,833	-	-	-	-	6,087	11,340	**17,427**
non-interest-bearing	1,444	1,189	-	-	-	-	-	-	-	-	1,444	1,189	**2,633**
Deposits from customers	**1,400,282**	**54,873**	**30,387**	**279,564**	**37,045**	**24,615**	**15,956**	**-**	**-**	**-**	**1,483,670**	**359,052**	**1,842,722**
fixed interest	328,858	54,873	30,204	279,564	6,128	24,615	3,234	-	-	-	368,424	359,052	**727,476**
variable interest	1,071,424	-	183	-	30,917	-	12,722	-	-	-	1,115,246	-	**1,115,246**
Liabilities from issued securities	**556**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**556**	**-**	**556**
variable interest	556	-	-	-	-	-	-	-	-	-	556	-	**556**
FX swap, FX forward, FX futures, FRA deals included in other liabilities	**9,586**	**109,916**	**14,982**	**20,147**	**42,444**	**18,582**	**57**	**-**	**-**	**-**	**67,069**	**148,645**	**215,714**
fixed interest	9,586	109,916	14,982	20,147	42,444	18,582	57	-	-	-	67,069	148,645	**215,714**
Subordinated bonds and loans	**-**	**-**	**-**	**-**	**5,000**	**12,293**	**-**	**-**	**-**	**-**	**5,000**	**12,293**	**17,293**
variable interest	-	-	-	-	5,000	12,293	-	-	-	-	5,000	12,293	**17,293**

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.

	2002	2001
Income after income taxes (in HUF mn)	51,901	41,168
Weighted average number of common shares outstanding during the year for calculating basic EPS (piece)	263,700,791	26,341,861
Basic Earnings per share (in HUF)	197	1,563
Weighted average number of common shares outstanding during the year for calculating diluted EPS (piece)	264,488,644	26,399,522
Diluted Earnings per share (in HUF)	196	1,559

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

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.

NOTE 31: RECONCILIATION OF FINANCIAL STATEMENTS PREPARED UNDER HUNGARIAN ACCOUNTING STANDARDS AND FINANCIAL STATEMENTS PREPARED UNDER IAS (in HUF mn)

	Retained Earnings and Reserves January 1, 2002	Net Income for the year ended December 31, 2002	Dividends	Direct Movements on Reserves	Retained Earnings and Reserves December 31, 2002
Hungarian financial statements	130,515	47,198	-	131	177,844
Adjustments to Hungarian financial statements:					
Reversal of statutory general provision	10,929	3,324	-	-	14,253
Premium and discount amortization on investment securities	(3)	(45)	-	-	(48)
Allowance for possible loan losses	(1,340)	-	-	-	(1,340)
Allowance for possible losses on off-balance sheet commitments and contingent liabilities	(297)	69	-	-	(228)
Increase of investment in subsidiary, recorded as an expense in the Hungarian financial statements	1,012	-	-	-	1,012
Difference in accounting for finance leases	149	(486)	-	-	(337)
Fair value adjustment of held for trading and available-for-sale financial assets	532	2,949	-	-	3,481
Fair value adjustment of derivative financial instruments	(502)	(1,252)	-	-	(1,754)
Loss on sale of Treasury Shares	-	1,102	-	(1,102)	-
Revesal of negative goodwill	-	(572)	-	-	(572)
Revaluation of investments denominated in foreign currency to historical cost	-	281	-	-	281
Difference in accounting for repo transactions	-	(41)	-	-	(41)
Reclassification of direct charges	-	(411)	-	411	-
Deferred taxation	22	(215)	-	-	(193)
Reclassification of direct charge related to local tax	542	-	-	(542)	-
International financial statements	141,559	51,901	-	(1,102)	192,358