

AQVILO

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# BUSINESS *Review*



# BUSINESS REVIEW

In line with the Bank's medium-term strategic plan approved in 2001 for the years 2001-2005, a number of important developments were carried out in 2002 in the interests of strengthening the Bank's competitiveness, rationalising its operations, improving its profitability, and raising the level of its services, while at the same time preparations continued for accession to the European Union.

In 2002, the Bank achieved significant progress in implementing the development projects specified in its medium-term strategy, the aims of which were to raise the Bank's efficiency, enhance the quality and speed of data provision, and ensure a continuous improvement in the quality of customer service.

Of the various projects undertaken, one of the most significant was the SAP project, the first phase of which was completed in April of 2002 with the introduction of the Controlling, General Ledger and the Planning modules. As part

of the second phase, currently still underway, the Human Resource and the Integrated Purchasing modules were put into operation at the end of the year.

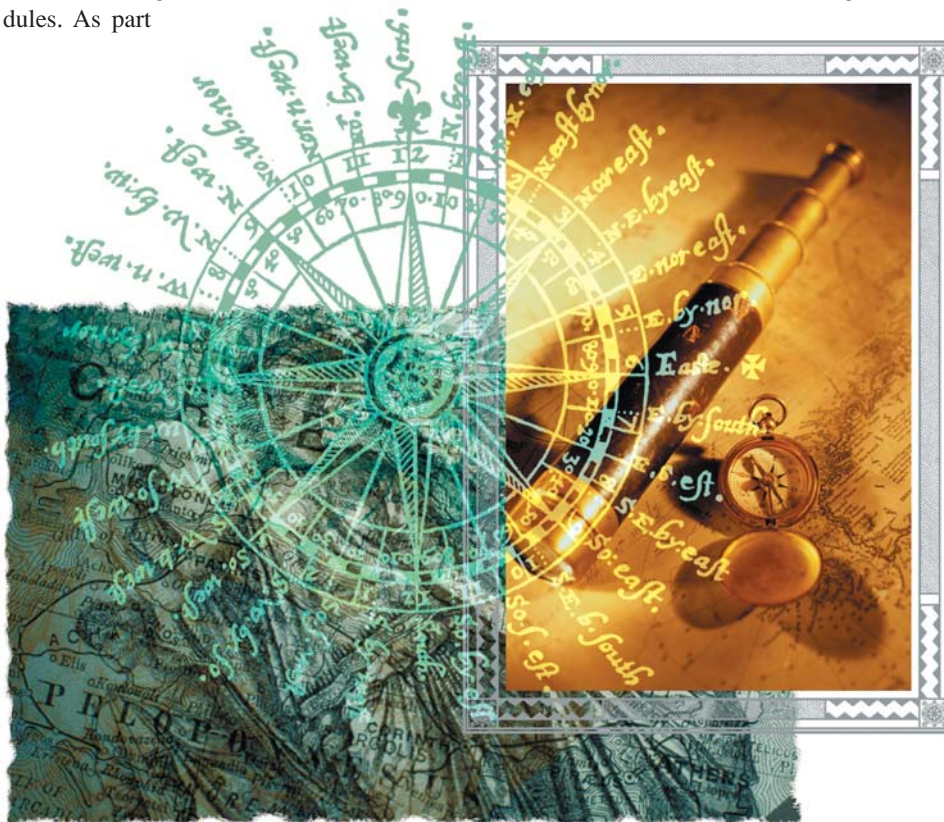
In 2002 work began on the creation of the transaction database, which will serve to support business decisions and sales. In the course of this work, the bank data model was prepared, and the various systems and the range of information that will constitute the source of the database were defined.

The Back Office Rationalisation project was aimed at making bank-operation processes more efficient, with these processes being re-formulated on a cost/return principle, and with activities that can be carried out more efficiently on a centralised basis being brought together under a central back-office unit.

In 2002 the Bank continued the development of its branch network. During the course of the year, the refurbishment

and upgrading of 20, mostly smaller (100–400 m<sup>2</sup>) branches was completed, and 7 new branches were opened in shopping centres. In the context of the technical development program, 178 ATMs were installed or relocated, 2 customs branches were set up, the frontage signs on 51 key branch offices were replaced, and video surveillance systems were installed in a total of 85 branches. By the end of the year, the Bank was at the disposal of its customers with a total of 427 branches (of which 70 were also providing customers-cashier services), 26 customs outlets and 72 automated customs-cashier units.

In 2002, the Bank continued with the particularly important task of constructing





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its new central headquarters in Babér street, Budapest. The 32,000 square-metre office building will provide ample space to accommodate 1,000 of the Bank's staff. Most of the Bank's central organisational units will be moving to the new head office in the course of 2003.

### RETAIL BANKING DIVISION

OTP Bank remains the largest participant in the Hungarian retail banking market, managing 38.4% of all household bank savings and more than 23% of household loans as of year-end 2002.

#### RETAIL DEPOSITS

By the end of 2002, the balance of retail loans placed with the Bank had reached HUF 1,523.7 billion, which represents an increase of 8.4% compared to the previous year. Within total retail deposits, forint deposits increased by HUF 181.8 billion, or 16.9%, significantly ahead of inflation, while foreign-currency deposits fell by 19.4%. The Bank's market share was 39.2% of forint deposits and 35.4% of foreign-currency deposits.

Within the HUF 1,258.6 billion in total retail forint deposits, the balance of retail current account deposits saw the greatest increase – of HUF 204.2 billion, or 32.4% – and their share of total retail forint deposits increased from 58.5% in the previous year to 66.3%. Within this, the volume of time deposits held on current accounts increased by 28.8%. The number of retail forint current accounts had reached 2.7 million by the end of 2002, representing an increase of 4.6%.

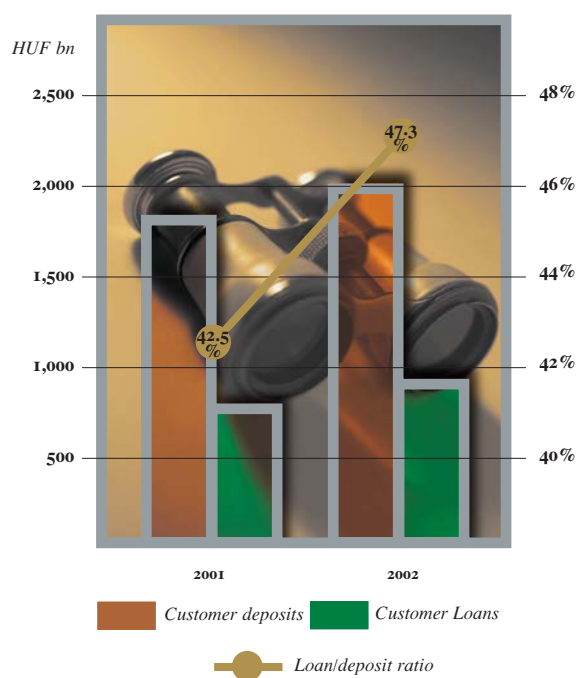
Following a slight, 4.6%, decline over the year, the total balance of passbook deposits amounted to HUF 389.7 billion as of 31 December 2002, and consequently, their share within total deposits dropped from 38% in the previous year to 31% in 2002.

One of the Bank's leading new products in 2002 was the Retail Savings Account, which represents a flexibly accessible facility for customers with relatively large savings. By year-end 2002, customers had deposited a total of close to HUF 20 billion in 8,033 of these accounts, partly thanks to last autumn's advantageous interest rate promotion, which primarily affected volumes.

In accordance with the law on the prevention of money laundering, the process of assigning the names of account holders to anonymous accounts has continued apace. By

31 December 2002, 1.46 million deposit-holders with total deposits of HUF 290 billion had been named, and as a result only 2% of OTP Bank's total retail savings are now held in anonymous accounts (HUF 29.7 billion in 797,000 deposits). The average balance of anonymous deposits is HUF 40,000.

The balance of foreign-currency deposits fell by 19.4% in 2002, to HUF 265.1 billion. This was due mainly to the



Customer assets and liabilities

impact of foreign exchange liberalisation, a strengthening forint and the favourable development in interest rates on forint savings. At the same time, the number of foreign-currency sight accounts fell by a greater extent than the total volume of such accounts, by 21.1%, while the number of time deposits held on foreign-currency accounts dropped by just 16.6%.

As of year-end 2002 the volume of securities and deposit certificates was HUF 9.4 billion, down 36.6% from the previous year, which is in line with the Bank's objectives. Of the CDs issued by the Bank, Deposit Notes represented the largest share (95.4%), with the volume of these notes standing at HUF 7.1 billion as at year-end, down 50.6% from the previous year.

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### RETAIL LOANS

The latest change to the system of housing subsidies had a major impact on the retail lending market in 2002. Due to these changes, housing loans subsidised on the liabilities side, i.e. loans that can be extended by mortgage banks, have been available under even more favourable conditions since 1 March 2002. As a result, the demand for housing loans grew swiftly, and by year-end 2002 the volume of housing loans provided by the Hungarian banking industry had increased by more than 138%, reaching close to HUF 787 billion.

In response to the changed market circumstances, OTP Bank made it possible for its customers to take advantage of subsidised housing loans offered under favourable conditions: The Bank's fully owned subsidiary, OTP Mortgage Bank Ltd., began operating in February 2002, and since 11

April has been offering Forrás hitelek (Source Loans), subsidised on the liabilities side, in a consortium through OTP Bank's branch network. As a result of this, the interest on Source Loans has fallen from 12.5% in April to 5.5%, and the demand for the loans has increased dramatically.

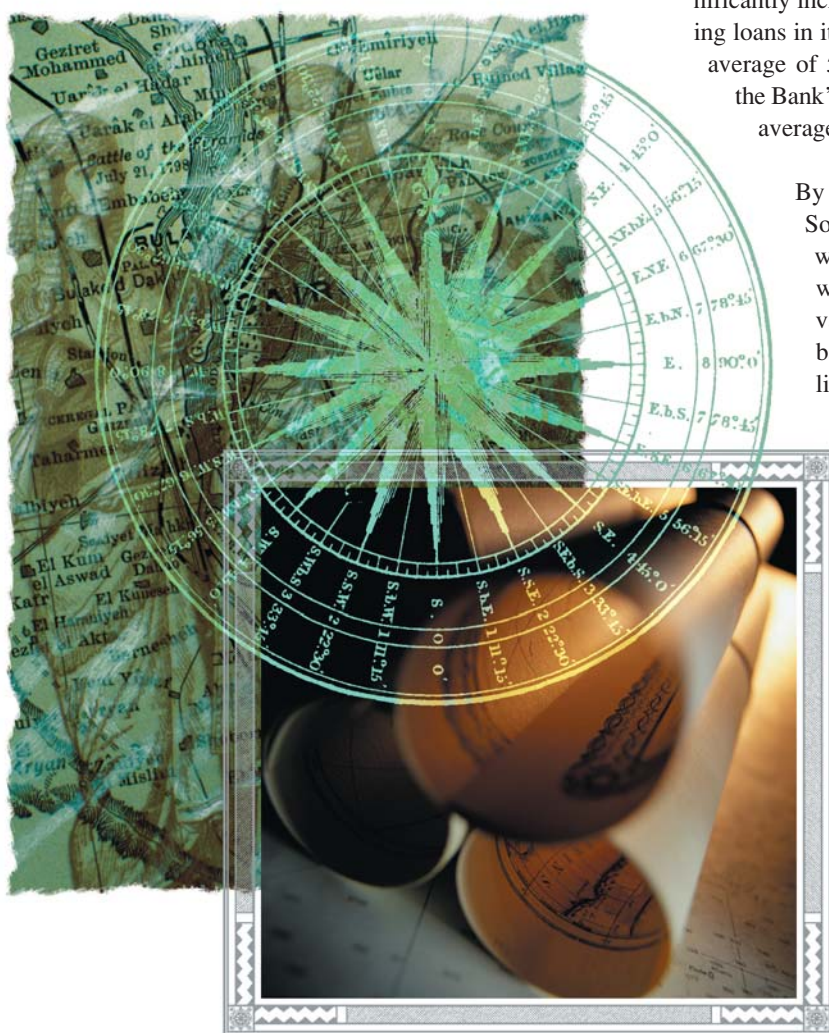
Exploiting the new opportunities offered by the change in the law, the Bank's product developments have also contributed to the improvement in the servicing of customer needs: the range of products expanded in 2002 to include a fixed-income (5 year interest-period) facility and a life-insurance-linked home loan product offered together with OTP-Garancia Insurance, and in order to facilitate the financing of homes built for sale, the Bank made it possible for subsidised loans to be disbursed in several instalments.

In response to the rapid growth in demand, the Bank significantly increased the number of staff dealing with housing loans in its network. In the second half of last year, an average of 5,500 housing loans were approved through the Bank's branch network each month, representing an average monthly volume of some HUF 25 billion.

By 31 December 2002, the volume of approved Source Loans had reached HUF 288 billion, of which loans in a value of HUF 189.4 billion were transferred to OTP Mortgage Bank. The value of housing loans in OTP Bank's own balance sheet by year-end was HUF 212.4 billion, giving the Bank a 27.3% share of the housing loans market at the end of 2002, while the total market share held by the OTP Bank Group – including the loans of OTP Mortgage Bank and OTP Building Society – exceeded 52%.

In the consumer loans market, the trends of the previous years continued, with the total loans of the banking sector growing dynamically, albeit at a more modest rate than the previous year, to exceed HUF 695 billion by the end of 2002. The value of OTP Bank's consumer loan portfolio grew by 9.3%, to HUF 117.4 billion, and consequently, the Bank had an 18.3% share of the consumer loans market as of 31 December 2002.

Within consumer loans the volume of mortgage-backed loans decreased slightly,



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by 1.9%, which can be attributed to a growth in demand for housing loans and a broadening of the range of loan purposes that can be financed through subsidised housing loans. In contrast to this, the volume of "A", "B", and "C" retail current account overdraft facilities grew dynamically, by 23.3%, to approximately HUF 70 billion.

At the end of 2002, the Bank launched its improved consumer credit service. In addition to updating its related IT system, it introduced more sophisticated and efficient credit appraisal methods and collection procedures, and since November, has been offering new, more flexible facilities to its customers. As a result of these developments, the Bank expects to see a significant expansion in business in 2003.

### INVESTMENT SERVICES

#### *SECURITIES TRADING AND ACCOUNT MANAGEMENT*

In 2002, OTP Bank managed about 30% of household securities investments and served more than 300,000 customers.

In the course of the year, the Bank traded investment fund units in a total value of HUF 101 billion (amounting to 89.6% of the total turnover), government securities totalling HUF 11.1 billion and shares worth HUF 625 million.

Two new products were added to the range of securities sold through the branch network. As a result of a cooperative agreement between OTP Bank and the Swiss UBS, one of the largest investment banks and securities distributors in the world, the "OTP International Equities – UBS Fund of Funds" was created through the transformation of the already existing OTP Platinum International Equities Fund. Instead of making direct equity investments, the new fund invests in the various international equity funds managed by UBS's fund management arm, UBS Global Asset Management. Consequently, risk will be distributed across approximately 600 different securities registered in the equity markets of OECD countries through a total of 15-20 investment funds, instead of just 80-90 individual shares as had been the case before. The cooperation between the two companies is expected to result in improved performance and higher yields due to the benefits gained from the experience and expertise of the international partner. The distribution of the investment fund units began in the Bank's approximately 200 branches in January 2003.

The other new product is the "OTP Real Estate Investment Fund", which is a public, open-end fund that pays yields on an annual basis and invests in real estate. The purpose of the fund is to offer an alternative to investments in the stock market and direct real estate investments, and to benefit from the rise in real estate prices that are expected to approximate western European levels as we approach EU membership, and from rental fees which consistently exceed inflation and provide competitive yields for real estate investment funds. The distribution of investment fund units began on 10 December 2002 with the assistance of OTP Bank's branch network.

#### *PRIVATE BANKING*

In the course of 2002, OTP Bank repositioned its private banking services, offering its customers more clearly defined services and a more attractive overall value proposition, significant aspects of which are personalised investment advice, standardised portfolio reports, and model portfolios created by the Bank's analysts. Thanks to the new package, at the end of 2002, the Bank was serving almost 7,500 private banking customers, which represents a rise of 9.7% over the previous year's figure. At the same time, total private banking customer assets managed by the Bank grew by 26%, and assets per customer rose by approximately 15%.

Private banking customers held 50% of their assets in traditional banking products, while the remaining 50% was held in securities-type investments, with 45% of this latter amount in investment funds and 30% in government securities.

Since November 2002 the Bank, besides restructuring its private banking services, has been offering preferential private banking services to customers who invest at least HUF 50 million through the Bank. In addition to this private banking offer, this service addresses individual customer needs, for example by offering advice regarding art, real estate and taxes, by creating individualised investment portfolios and strategies, and by offering personalised fee packages in order to fully meet customer requirements.

### BANKCARD BUSINESS

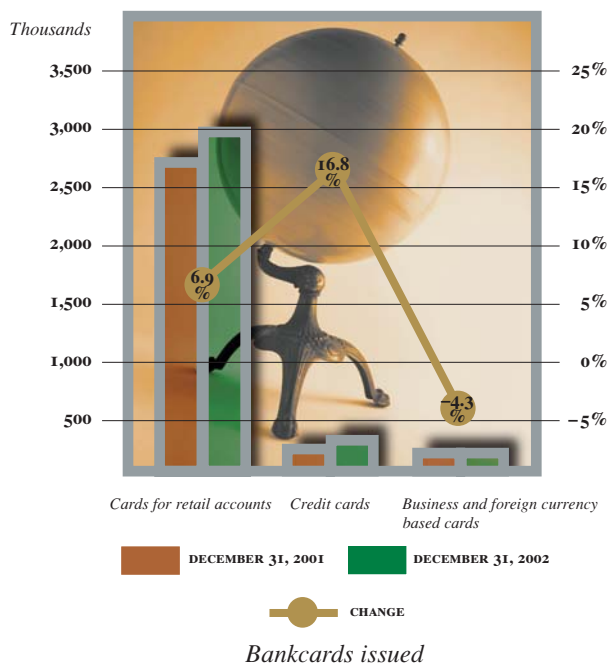
At year-end 2002, the number of bankcards issued by the Bank was 3.3 million, a 7.4% increase over the previous year. The Bank's estimated market share in terms of bankcards issued exceeded 60%. Compared to 3.0 million cards



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at the end of 2001, the number of bankcards issued in conjunction with retail current accounts exceeded 3.2 million as of year-end 2002. Of this total, by the end of 2002 the number of cards used purely for customer identification purposes, issued to current-account holders, had fallen to 73,000, the number of "B" overdraft-facility cards was 177,000 and the number of cards associated with "C" overdraft facilities was 109,000. The number of cards issued for company or institutional customer accounts was 74,000.

In 2002 the Bank introduced the prepaid Surprise Card with the intention of offering a gift idea to its customers. The number of Surprise Cards sold by the end of the year was 580. The card can be used in precisely the same way as traditional bankcards and can be "filled" with a balance



of up to HUF 250,000. The card fee includes the cost of issuing the card and the related transaction fees, and therefore no additional fee is charged by the Bank for transactions carried out. The card is valid until the expiry date indicated on the card or until the amount on the card has been spent.

Compared to the previous year, by year-end 2002 the number of OTP-operated ATMs increased from 1,091 to 1,168, which means that OTP Bank now owns more than 40% of all the ATMs operating in Hungary and nearly 50% of the ATMs operated by banks. The number of transactions carried out on OTP Bank's own ATMs was 67.7 million in

2002, and the transacted volume was HUF 1,530.1 billion, respectively 8.1% and 22.7% more than in 2001.

By 31 December 2002, the number of POS terminals had reached 18,041, representing an increase of 1,711 compared to the previous year. The Bank operated 2,657 of these terminals in its own branch offices, and 10,647 were operated at retail and other commercial outlets. In 2002 the number of cash withdrawal transactions made through OTP Bank's own POS network was 2.9 million, and the total transacted volume was close to HUF 813.6 billion. Turnover at commercial-outlet POS terminals continued to grow dynamically in 2002, with 31.9 million purchases transacted (a 43.7% increase), worth a total of some HUF 262 billion. These purchases accounted for 10.4% of the Bank's total card-acceptance turnover in 2002.

More than 70% of the volume of cash withdrawals in Hungary and nearly half the card-initiated turnover at retail and other commercial outlets was transacted through OTP Bank's network.

## ELECTRONIC SERVICES

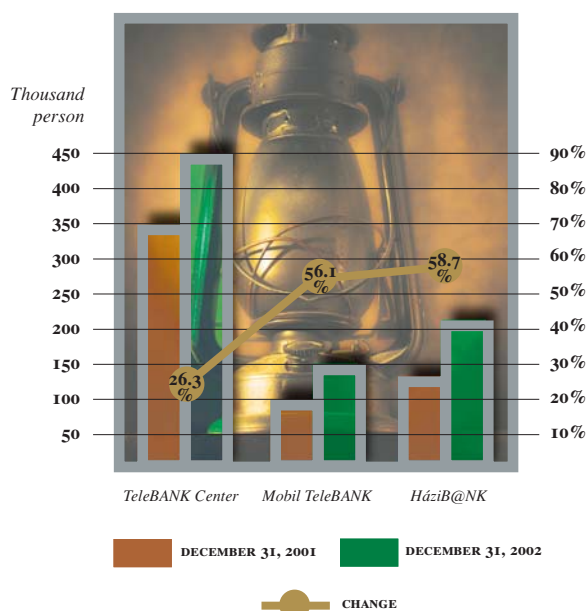
In 2002 the Bank again retained its market-leading position with respect to electronic channels and the number of users of electronic services. Over the course of the year, the number of customers who had signed contracts for the use of the OTPdirekt internet service increased 60%, the number of those with contracts to use the OTPdirekt Mobil Telebank service rose by 55%, while the number of customers using the OTPdirekt TeleBank service increased by 26%. By year-end 2002, 435,000 customers were using the OTPdirekt telephone-based service, and had together made a total of over 841,000 calls during the year. The 210,000 users of the OTPdirekt Házibank service initiated 4.8 million transactions, while the mobile phone-based service was used by 152,000 customers.

In 2002 the number of commercial-bank clients using customer terminals also increased, with 10,900 corporate clients and 3,638 municipality clients using the customer terminal system to initiate their account transactions during the year.

A fundamental change was brought about in the operation of the electronic channels in 2002 by the introduction of middleware technology, which accelerates the flow of information and allows new, more up-to-date services to be introduced.

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On the basis of the middleware system, the Bank successfully renewed and upgraded the OTPdirekt internet service. The outstanding achievement of the year was the newly introduced, "active" SMS and WAP mobile phone service, a first both in the Hungarian and the international market, and which enables customers to carry out active



Usage of electronic banking services

banking operations through all the distribution channels. These services allow for routine transactions to be performed via a mobile phone. The WAP service is based on the internet service, and the majority of transactions that can be conducted on the internet can now also be carried out on WAP. Transactions performed on WAP are covered by full and customised security. The Bank launched the active SMS service, which enables customers to perform transfers, open time deposits, and recharge phone cards, in cooperation with Westel, although the Bank intends to involve other mobile-phone service providers in the near future. The launch of these services contributed to the Bank's being awarded the title of "Mobile Bank of the Year" in 2002. Currently in Hungary, OTP Bank offers the widest range of services available via mobile phone.

### CORPORATE BANKING DIVISION

In 2002, OTP Bank further strengthened its position in the corporate banking market. Taking into account the new sector-breakdown guidelines introduced by the National

Bank of Hungary in 2001, the Bank's share of the market for corporate deposits grew by 1.6 percentage points, to 13.3%, while its share of the corporate loans market increased by 0.9 percentage points, to 12.7%.

Total corporate deposits stood at HUF 341.9 billion at the end of 2002, representing a 34.8% increase over the previous year. The share of foreign currency deposits within total corporate deposits was 6%. Of the corporate deposit total, 42% came from corporations with a legal personality, 12.8% from small, privately held businesses, 14.7% from non-profit organisations, and 10.7% from the investment-fund deposit portfolio. The volume of deposits from "private entrepreneurs" (sole traders) increased by 20.7% to exceed HUF 20.6 billion.

Total corporate loans stood at HUF 558.6 billion at the end of 2002, representing an increase of 20.2% over the previous year. The share of foreign-currency loans within the total was 36%, with the volume of these loans increasing 44.5% over the previous year's figure. Total loans to corporations with a legal personality rose by 17.9%, to stand at HUF 455 billion, and within this total, foreign-currency loans grew 32.2% over the year, current account loans (overdrafts) by 39.4%, and loans for constructing homes for sale by 25.6%. Loans to small businesses amounted to HUF 16.7 billion, increased over 5%. Within this figure, loans to sole traders attained a volume of HUF 9.2 billion, corresponding to an increase of 4.2%. As of year-end 2002, loan placements to financial, investment and insurance service providers exceeded HUF 64 billion, representing an increase of 81.9%, while loan placements to non-profit organisations amounted to HUF 22.7 billion.

As of year-end 2002, the highest percentage of the corporate loan portfolio, 18.4%, had been extended to companies from the real estate and business services sector, 18.1% had gone to companies in the manufacturing sector and 17% to construction firms. The share of the agricultural sector in the corporate portfolio amounted to 5.1%. In the course of 2002, the most dynamic growth in loan placements was seen in the construction industry (HUF 35.8 billion), but there was also a notable increase in loans to the electricity, gas, heat and water supply sector, as well as to companies in the manufacturing sector (HUF 20.5 billion and 12 billion respectively).

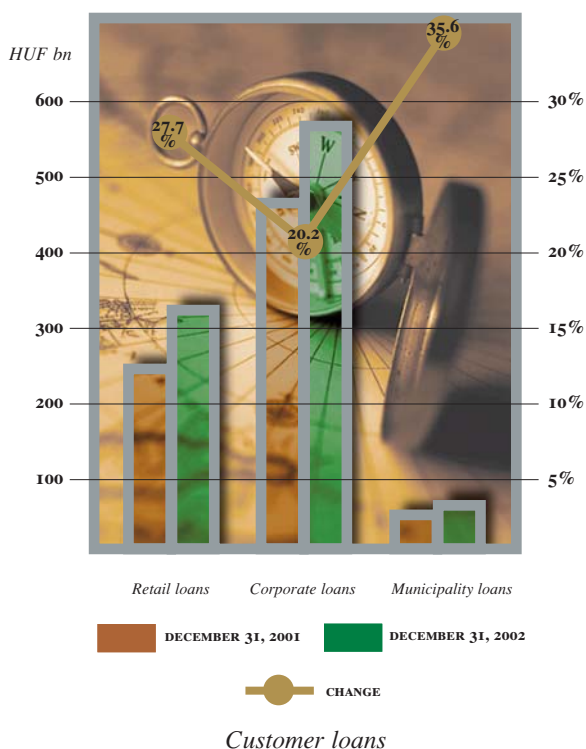
The most successful corporate product of 2002 was the Megtakarítási számla (Savings Account). As of year-end, the number of these accounts exceeded 1,000, and their combined balance was HUF 20 billion.

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Also in 2002 the Bank introduced the Medicin-plusz loan product, which plays an important role in providing the fullest possible range of services to physicians, treated by the Bank as a key customer group.

OTP Bank also participated in the issue of Széchenyi Cards to small enterprises. Outperforming its competitors, by the end of 2002 the Bank had issued more than 700 cards of this type, a result that also provided clear evidence of the

145.4 billion, 4.3% down on the previous year. The Bank's market share of municipality deposits dropped to 66.2%, owing to a decrease in the volume of deposits and intensive market acquisition campaigns by competitors. The Bank's portfolio of municipality loans, which has been continuously increasing since the end of 2001, grew by 35.6% in 2002, reaching HUF 63.3 billion. Although the total volume of placements grew, the Bank's share of the municipality loans market fell to around 55%.



effectiveness of the new small business credit scoring system. This newly introduced scoring system allows for a creditworthiness appraisal that is more suited to the characteristics of small business customers, and that is also faster.

### MUNICIPALITY BANKING

OTP once again retained its leading position in the municipality banking market. In 2002, over 81% of this customer group, i.e. 2,620 municipalities, together with the institutions they finance, held their current accounts at OTP Bank.

At year-end 2002, the total balance of deposits held at the Bank by the municipalities and their institutions was HUF

The year 2002 saw a steady increase in the number of municipality customers using customer terminals, from 3,357 at year-end 2001 to 3,638 at year-end 2002, and this was also accompanied by an increase in the number of customers using the treasury and the cash management systems.

In 2002 the Bank further expanded its range of project loans available to municipality customers. As a part of this effort, the Bank, in co-operation with OTP Building Society Ltd., developed a new project loan for road and pavement construction, as well as a public utility construction loan which, besides support from OTP Building Society Ltd., requires financing from a third party (such as a foundation).

### CUSTOMS SERVICES

OTP Bank's customs services division leads its segment of the market, and continues to strengthen its position through a constant development of its network, products and services. By year-end 2002, the division's services were available at 168 locations throughout Hungary, which represents an 8% increase in the number of network units providing customs cashier services. By the end of the year, the number of Automated Customs Cashier System units had increased by 30.9%, to 72.

In 2002, the Bank realised HUF 312 million in commission revenues on the handling of customs payments and duties totalling some HUF 144.8 billion in value. Compared to the previous year, total turnover increased by 20.6% and commission revenue by 19.7%, which is primarily attributable to increased import activity and a program to train specialised staff to sell customs-related products.

The use of Customs Cards grew in popularity. By the end of 2002 their number had grown by 24.6%, to nearly 2,500, and during 2002, 49.5% of the total payment turnover was transacted using these cards. This is in line with



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the Bank's objective of increasing the frequency of product use and promoting funds transfer turnover as opposed to the use of cash.

### INTERNATIONAL BANKING

In 2002, OTP Bank transacted a total of HUF 3,027.6 billion in international payments, over 3.5 times the previous year's figure. A significant part of the turnover came from international forint payments, which saw a sharp increase due to the fact that in 2002 OTP Bank opened 35 *loro* accounts for its foreign bank partners, for the settlement and clearing of the forint-based transactions of these partners.

In compliance with EU standards, the Bank assigned International Bank Account Numbers (IBAN) to its international payments customers.

For customers engaged in foreign trade, as well as those referred to OTP by its foreign partner banks without a subsidiary or branch office in Hungary, the Bank formulated customised, individual conditions, which it offered to them in conjunction with advisory services.

In 2002, commission revenues from international payment transactions exceeded HUF 828 million.

### TREASURY

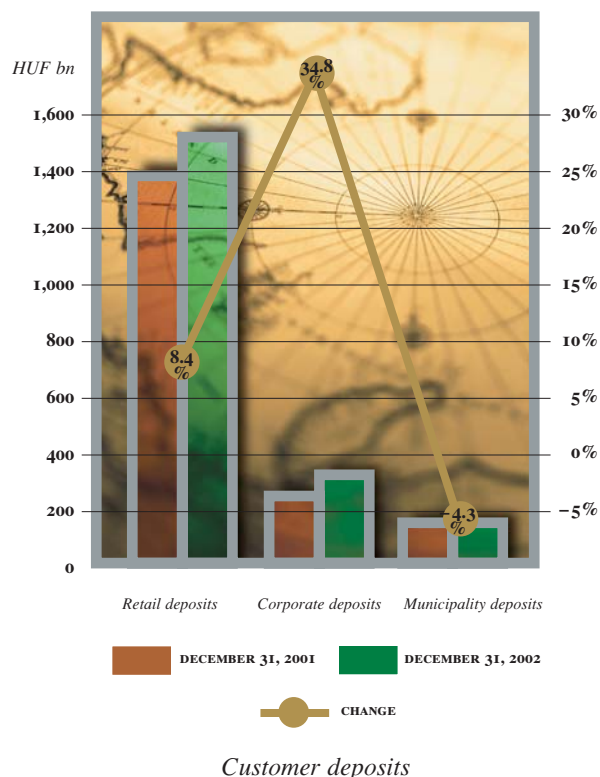
In 2002 the integration of OTP Securities Ltd. into OTP Bank continued and was successfully completed, in the course of which currency futures and equities brokerage transactions were added to the Bank's activities, and in addition to this, the Bank now manages the stock market relations of the Bank Group.

In 2002, the average balance of the investment portfolio managed by Treasury was HUF 516.3 billion, which represents 21.6% of the Bank's total assets. Treasury realised an interest income of HUF 41 billion on its total portfolio. The average 2002 balance of the trading securities portfolio was HUF 26 billion, which represents a decrease of 23.5% compared to 2001. The total in price gains, interest income and commission revenue realised on the trading portfolio was HUF 3.1 billion.

The money market and foreign exchange trading division had a successful year, exceeding its targets in terms of margin and exchange-rate gains. The Bank's profit from

own-account and customer-account derivatives deals (futures and forward deals, FX swap and FX option deals) was HUF 4.6 billion. In 2002, Treasury's profit from FX trading amounted to HUF 781 million, and OTP Bank maintained its position among the 10 largest FX traders in the Hungarian spot FX market.

2002 was the first full year of business for the government securities trading division following the merger. In terms of government securities auction turnover, the Bank was again among the first three distributors in 2002 and at the end of the year was awarded the title of best government securities trader by the State Debt Management Centre (ÁKK), based on the votes of the market participants.



Besides taking orders at its branches, the Bank has, since March 2002, provided its customers with the facility to give instructions directly over the telephone. At present, FX futures orders can only be given in this way.

As a result of the merger and the Bank's own customer acquisition efforts, the number of active customers at the Arbitrage Department increased from 300 in 2001 to over 750 in 2002. Due to the increase in the number of customers and in turnover, the net profit from sales activity was over HUF 400 million.

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### STRUCTURED FINANCE

The Bank retained its market-leading position in the Hungarian syndicated lending market. It participated in 13 syndicated loan transactions (for e.g. Dunafer, GBT and Borsodchem), heading the consortium in seven of these transactions.

In 2002, the Bank's Structured Finance division was the first in Hungary to carry out a bond investment program secured with an international corporate asset portfolio, which it did in a value of USD 30 million.

The volume of new structured finance deals was HUF 46.5 billion in 2002, while net interest income amounted to HUF 2.6 billion, the net interest margin was 1.42% and commission revenue was HUF 609 million.

The Bank's corporate-bond-issue operations achieved outstanding results during the course of 2002. In the corporate finance area, four bond-issue programs (MOL, MFB, OTP Bank, OTP Mortgage Bank) were organised. In 2002 the first capital-protected share-index-linked bond was issued to institutional investors, in a value of HUF 2.1 billion. The volume of mortgage notes issued for OTP Mortgage Bank exceeded HUF 177 billion. Most of these mortgage notes were subscribed by OTP Bank, in a value of HUF 135.9 billion.

### PROJECT FINANCE

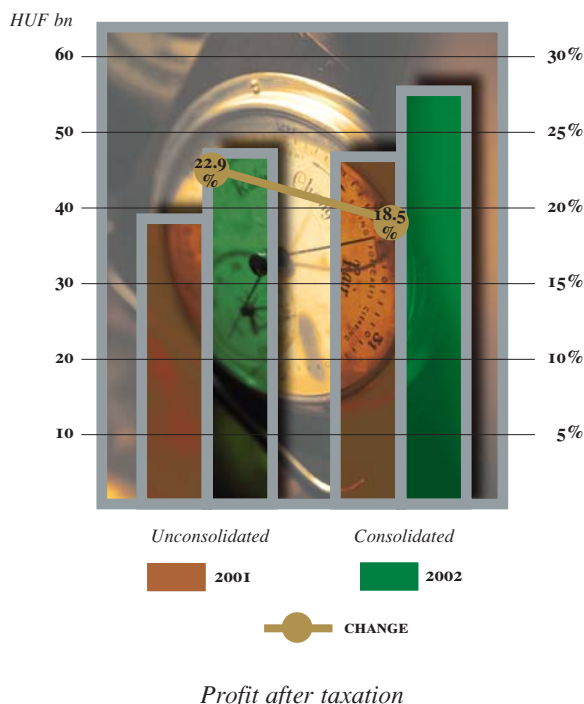
The overall value of project-finance and special deals also rose significantly over the course of 2002. The volume of (signed) contracts increased from HUF 122.7 billion at year-end 2001 to HUF 188.9 billion, which represents a growth of 53.9%. In the same period, the outstanding loan portfolio grew by 46.7%, from HUF 86.4 billion to HUF 126.8 billion.

In 2002 the Bank participated in a number of major project financing deals, including the Cultural Block (Modern Hungarian Art Museum, House of Traditions, National Concert Hall) under construction in the Millennium City Centre, Kispeszt Power Station, the Westend Hilton Hotel and the TVK Power Station.

### CAPITAL INVESTMENTS

In 2002 the gross book value of the Bank's participations in various companies grew from HUF 40.5 billion to HUF

49.4 billion. The growth in the investment portfolio is primarily attributable to capital increases in existing strategic investments and to the founding of new companies. As of 31 December 2002, OTP Bank Group investments, which constitute the bulk of the Bank's strategic investments, totalled HUF 45.7 billion in value.



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 a first step in the implementation of its acquisition strategy, OTP Bank purchased the Slovakian bank, IRB, and incorporated it into the OTP Bank Group under the name OTP Banka Slovensko a. s. In the coming period, OTP Bank plans to acquire other banks in the region, and in December 2002, a special organisational unit was set up to see to the preparation and implementation of these deals.

### THE OTP BANK GROUP

In the course of 2002, significant changes occurred in the composition of the OTP Bank Group, with the following companies being added to the Group:

- OTP Banka Slovensko a. s. (OBS), as the first stage in OTP Bank's international expansion strategy

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- The subsidiaries of OBS – OTP Factoring Slovensko a. s. and OTP Leasing a. s.
- OTP Real Estate Fund Management Ltd., which aims to attain a leading position in the Hungarian real estate fund market
- Merkantil Real Estate Leasing Ltd., which represents the Merkantil Group's debut on the real estate financing market
- OTP Health Care Services Ltd., which supports the activities of the OTP National Health Fund, whose task, in turn, is to implement the OTP Health Program

The operations of the subsidiaries in 2002 essentially met the targets and other requirements set by the Bank and its owners. The aggregate balance sheet total of the fully consolidated OTP Bank Group members was HUF 658 billion and their combined preliminary pre-tax profit was HUF 10 billion in 2002.

### *MERKANTIL BANK LTD.*

The Merkantil Group continues to retain its market-leading position in its core business, car financing, and further strengthened its relationships with dealers in 2002. Merkantil Bank Ltd. closed the year with a balance sheet total of HUF 60.9 billion and a pre-tax profit of HUF 2,375 million; 23.3% higher than in the previous year. Of the Company's assets, vehicle loans accounted for 72.1%, while dealer financing accounted for 9.3%.

In the course of 2002, Merkantil Group concluded more than 49,000 car financing contracts. The number of contracts grew 24% compared to the previous year, while the volume of loan placements also increased, exceeding the total placement portfolio of the previous year by HUF 15 billion. The average loan per car amounted to HUF 1,377,000; 3.6% up on the base year.

According to data estimates, the number of cars financed by the Group amounted to 13.2% of Hungary's total new car sales, which represents a 0.3 percentage-point increase over the previous year. Based on the assumption that 50–60% of all car sales in Hungary are financed, the Group acquired an estimated 25% share of the car financing market.

### *MERKANTIL CAR LTD.*

In 2002, the car market expanded 15%, a rate significantly higher than had been forecast. While car financing was still strictly limited to financial leasing in 2001, the beginning of 2002 saw the introduction of foreign-currency-based

loans which, in less than a year, became the leading product in the market, pushing financial leasing into the background.

As of year-end 2002, the Company's balance sheet total was HUF 62.2 billion, representing an increase of 82.3% in the Company's assets. The volume of receivables grew from HUF 33.2 billion to HUF 61.2 billion. The Company's pre-tax profit in 2002 was HUF 629 million.

By the end of 2002, the total volume of production-tool financing deals recorded in Merkantil Car's books had grown by 185.2%, reaching HUF 5.4 billion.

### *MERKANTIL LEASE LTD.*

Merkantil Lease Ltd., a member of the Merkantil Group, conducts the administration of long-term leasing transactions. The recording of these transactions in a separate company was made necessary by the provisions of the Credit Institutions Act.

### *OTP BUILDING SOCIETY LTD.*

The Company maintained its stable market-leading position in 2002, which it has held for several years now. In the course of 2002, OTP Building Society Ltd. concluded close to 70,000 contracts, and disbursements in a total value of HUF 35.6 billion were made on approximately 41,000 contracts. As a result of these disbursements, OTP Building Society's deposit balance decreased by 11%, to HUF 42.6 billion, while the loan portfolio increased to HUF 8 billion.

As of 31 December 2002, OTP Building Society Ltd. had a 46% share of the building society savings market, while its market share in terms of contract numbers was 41% and in terms of contractual volumes, 38%.

### *OTP MORTGAGE BANK LTD.*

OTP Mortgage Bank Ltd. launched its operations on 1 February 2002, and since 11 April has been granting loans, subsidised on the liabilities side, in the form of a consortium through OTP Bank's branch network. The Bank's aim in founding the Mortgage Bank was to make the full range of home-purchase subsidies available to its customers, and to fully exploit the business opportunities presented by the system of government housing subsidies.

The volume of loans subsidised on the liabilities side ("Source Loans") and placed through OTP Bank's network increased steadily throughout the year, and – thanks to developments in the IT infrastructure – by the end of the year the speed at



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which loans were transferred from OTP Bank to the Mortgage Bank also accelerated. In the course of 2002, the Mortgage Bank took over more than 49,000 loans from OTP Bank, worth a total of HUF 189.4 billion. OTP Mortgage Bank's year-end portfolio of HUF 186.7 billion represented a share of almost 24% of total bank-sector housing loans, and a 60% share of the market for mortgage-bank housing loans.

During the course of the year, the Mortgage Bank – in line with its plans – issued mortgage notes in a total value of HUF 177.1 billion, which represented a 61.4% share of the market and assured it of the number one position in the mortgage-note issuing market as well.

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

As a result of its acquisition activities, in April 2002 the OTP Bank Group gained a new member in the form of Bratislava-based universal bank, Banka Slovensko a. s., in which it acquired a 95.74% stake.

After the privatisation of the Slovakian Bank, OTP Bank, as a strategic investor, carried out substantial changes throughout the rest of the year. As a first step, the now re-named OTP Banka Slovensko (OBS) underwent a corporate logo change, which was followed by the start of the reorganisation of the retail banking division, the launch of new products and the addition of mortgage-based loans to its palette of lending products. The transformation project was finished in November 2002 successfully.

In order to ensure as broad a coverage as possible of the Slovakian financial market, at the end of the year the Bank began to build out the OBS Group. It transformed its fully-owned subsidiary, IRB Credit (new name: OTP Factoring Slovensko a. s.) into a company that specialises exclusively in factoring, and founded OTP Leasing a. s., which specialises in vehicle financing, an activity it performs in cooperation with Merkantil Bank Ltd.

As of 31 December 2002, the balance sheet total of OBS was HUF 110.1 billion, giving it a 2.1% share of the Slovakian market. The Company closed 2002 with a loss of HUF 3,504 million, which was due to one-time costs associated with the takeover, the revaluation of real estate properties and the provisions set aside for customer receivables.

### *OTP-GARANCIA INSURANCE LTD.*

In 2002, OTP Garancia Insurance Ltd. achieved premium revenue of HUF 53.9 billion, 27.7% up on the previous year's

figure. Owing to growth in excess of the overall market, the Company's share of the total insurance premium market grew from 10.2% to 10.9%. Premium revenue from life and bank insurance increased by 25.6%, to HUF 27 billion, raising the Company's share of the life insurance market to 13.3%. Revenue from the non-life insurance business was HUF 26.9 billion, which is the result of an outstanding growth rate of 29.8%. Due to this, the Company's share of the non-life insurance market grew from 8.5% to 9.2% in 2002, making the Company the third largest player in this market.

In 2002, the value of gross damages was HUF 24.8 billion. Damage payments amounted to 49.3% of premium revenues in the non-life insurance business, while together with the change in reserves, the damage ratio was 58.7%. Reserves increased by HUF 16.6 billion, or 31.9%, compared to the previous year, to stand at HUF 68.6 billion as at 31 December 2002.

In 2002 the Insurance Company launched several new products. The Source ("Forrás") mortgage loan insurance, the New Granite ("Új Gránit") mixed life insurance and the Rapid Casco insurance all achieved considerable success. The promotional drive aimed at the restructuring of home insurance agreements and the extra indexing of Granite life insurance policies also proved to be a success. In the course of this promotion, customers had the opportunity to obtain comprehensive insurance protection by increasing the insured value of their home or by purchasing supplementary insurance, which meant a considerable increase, above the rate of inflation, in the Granite life insurance premium.

In 2002, in the context of the cooperation between the Insurance Company and OTP Bank, the revenue from the premiums of bank insurance products exceeded HUF 18 billion, and the Bank sold nearly 49,000 home insurance products due to its increasingly intensive home-financing activities. At the same time, the Insurance Company concluded more than 5,000 pension-fund and nearly 6,000 building-society agreements, in addition to achieving considerable sales of retail current accounts and other bank products.

### *OTP FUND MANAGEMENT LTD.*

As of year-end 2002, the total value of assets under the management of OTP Fund Management Ltd. was HUF 634.1 billion, 35% up on the previous year's figure, giving the Company an estimated 25% share of Hungary's professionally managed assets (investment funds, pension funds, insurance-company reserves and other portfolios). In the course of 2002 assets managed in investment funds

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increased to HUF 474.4 billion (a growth of 28.9%), giving the Company a 51% share of the investment fund market by year-end. Towards the end of 2002, the Company transformed the Platina International Equities Fund – which was already under its management – into a new fund named "OTP International Equities – UBS Fund of Funds." Consequently, this fund no longer invests directly in foreign shares, but in the investment funds managed by UBS Global Asset Management, which in turn invests in the equity markets of OECD countries.

In compliance with the provisions stipulated in the Capital Market Act, all OTP funds were dematerialised in December 2002.

As of year-end 2002, pension fund assets under the management of OTP Fund Management Ltd. amounted to HUF 144.8 billion (an increase of 42.3%), giving the Company an estimated 17-18% share of the pension fund market.

Having obtained the relevant license from the State Financial Supervisory Authority, in the fourth quarter of 2002 OTP Fund Management Ltd. began offering other types of individual portfolio management services. After winning an asset management tender issued by the National Deposit Insurance Fund, OTP Fund Management Ltd.'s largest and most important client, at the end of the year the Company was commissioned to manage 40% of the insurance fund's assets, in a total value of HUF 15 billion. Having obtained this new license, OTP Fund Management Ltd. is authorised to provide fully comprehensive asset management services for investment funds, pension funds and other clients.

### *HUNGARIAN INTERNATIONAL FINANCE LTD.*

The performance of the London-based HIF Ltd. in 2002 was, in most respects, in line with its business plan. Compared to 2001, the total volume of turnover in receivables increased by almost 40%. This means that the Company realised HUF 155 million (GBP 403,000) in profits on purchased receivables, which is 14% up on the previous year's figure. Despite narrowing interest margins, HIF Ltd. attained interest and interest-type revenue of HUF 759 million (GBP 2,053,000) while incurring interest expenses of just HUF 280 million (GBP 756,000), which was 33% lower than in the previous year due to lower costs on borrowed capital and a smaller overall portfolio.

The Company's business activity continues to focus on the markets of Central and Eastern Europe, with 67.7% of total asset and liability assumption transactions and guarantees

originating from this region. Within this, instruments from EU accession candidates accounted for 12% of the portfolio, while deals from Romania accounted for 27.4%. By the end of the period under review, deals concluded in the Middle East and North Africa had increased to 19% of the total portfolio.

### *OTP REAL ESTATE LTD.*

In 2002, the Company's net sales revenue was HUF 10,619 million. Some 30% of the net sales revenue came from the fulfilment of contracts concluded with members of the OTP Group, while 70% came from sales to external markets. The largest share of net sales revenue originated from real estate investments and sales (HUF 5,203.9 million), and from real estate appraisal activities (HUF 2,246.2 million).

The Company places considerable emphasis on the continuous management of new market risk, and aims to stabilise its market share. In accordance with this, and with market demands, the new priority in 2002 was the construction of smaller-sized and less expensive flats. One of the more important branch network investment projects was the construction of a new office building for OTP Bank in Babér street, Budapest.

In 2002, the number of flats built or sold by OTP Real Estate Ltd. amounted to 432 and 360 respectively. Both in the case of construction activities and sales, 24% were in Budapest and 76% in areas outside the capital. Compared to 2001, the number of flats built by the Company decreased by 15.5%, while the number of units sold fell 10.4%.

OTP Real Estate won the FIABCI International Quality Award for the accomplishment of the Szombathely Town Planning and Construction Project, and received the title of "Best Real Estate Enterprise of 2002", awarded by the Hungarian Real Estate Association for its outstanding results in real estate development, valuation and management.

### *OTP FACTORING RECEIVABLES MANAGEMENT LTD.*

During 2002, the processes involved in the purchasing by OTP Factoring Ltd. of receivables from OTP Bank, and their subsequent recovery, changed significantly in response to a survey carried out by consulting firm McKinsey aimed at improving the effectiveness of these activities at group level. In accordance with the recommendations of this survey, overdue and cancelled receivables of less than HUF 10 million are automatically transferred to OTP Factoring Ltd.

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In the course of 2002, the Company bought nearly 113,000 qualified receivables in a value of approximately HUF 21 billion, while the gross value of 12,000 receivables purchased from external organisations approached HUF 4 billion.

Thanks to an increased collection capacity, which was expanded in order to cope with the additional recovery workload, the net 2002 revenue from debt recovery grew by 39.6% year on year.

### *OTP FACTORING ASSET MANAGEMENT LTD.*

In the course of 2002, OTP Factoring Asset Management Ltd. purchased real estate from OTP Bank and its debtors in a value of nearly HUF 350 million. A total of 68% of its portfolio was sold during the year (calculated on the basis of net book value), yielding net revenues of more than HUF 100 million.

In connection with mortgage type lending activities, the Company made more than 900 collateral appraisals for the Bank, and performed nearly 6,500 value estimations and appraisals related to Source loans provided by OTP Mortgage Bank in 2002, in addition to which it regularly performs value estimations for OTP Factoring Liabilities Management Ltd.

In 2002, the liability management activities of the Company primarily consisted of the tasks related to municipality schemes to aid insolvent debtors with housing loans offered under the previous system of mortgage lending. In the framework of these activities, agreements were concluded with more than 9,000 debtors by the end of the year.

### *OTP FUND SERVICES LTD.*

In 2002 OTP Fund Services Ltd. retained its dominant market position in terms of the value of the assets in the funds and the number of individual accounts it managed. At year-end 2002, the Company was managing 772,000 individual accounts and total fund assets of HUF 142.5 billion, which corresponds to an increase of nearly 40% over the previous year.

In 2002 the assets of the OTP Voluntary Private Pension Fund grew 29.1%, from HUF 31 billion to HUF 40 billion, with the number of its members increasing from 149,000 to 162,000. At the end of 2002, the Company's market share in terms of membership reached 13.6%, while its market share in terms of assets was 10.8%. In 2002, the assets under the management of OTP Private Pension Fund saw extremely dynamic growth, of 45.3%, reaching HUF 101.1 billion, while membership dropped from 609,000 to

605,000 persons. This was the result (among other factors) of legislative changes. At year-end 2002, the Company's market share in terms of membership numbers was 27.4%, and 24.4% in terms of managed assets.

### *OTP HEALTH CARE SERVICES LTD.*

OTP Health Care Services Ltd. launched its nationwide activities in April 2002. The Company's task is to organise the health promotion services of the Health Program elaborated by OTP National Health Fund, to control the quality of these services, perform other representation tasks that arise in connection with health fund members, as well as to set up, develop and continuously roll out the service network.

The Company's most important challenge during the year was the setting up of a service system and the development of preventive healthcare programs. Within this framework, the Company commenced development of a service system that differs greatly from other systems currently present in the market, in that the services it offers extend to all the three levels of healthcare.

As of 31 December 2002, OTP Health Care Services had a membership of 7,735, giving the Company an almost 5% share of this market.

### *OTP TRAVEL LTD.*

In 2002, OTP Travel Ltd.'s pre-tax profit amounted to HUF 21.7 million, an increase of close to 67% year on year.

The air ticket sales business fulfilled its target, as set out in the 2002 business plan, of attaining a revenue increase of approximately 20%, which reflects outstandingly good performance considering that national air ticket sales remained at the year-2000 level. The Company's market share in this line of business grew from 5% in the previous year to 6.7% in 2002.

Similarly to previous years, the Company maintained a close relationship with the OTP Bank Group, and a substantial part of the travel insurance policies it sold were products of OTP Garancia Insurance Ltd. The sales of OTP Travel's services through the branch offices of the Bank further strengthened, reaching a volume of close to HUF 135.3 billion in 2002.

In 2002, OTP Travel's revenue per employee was HUF 81.1 million, 16.8% up on the previous year's figure, while profits per employee increased 30.9%, to reach HUF 7.3 million by the end of 2002.