MANAGEMENT'S Analysis

MANAGEMENT'S ANALYSIS OF THE BANK'S FINANCIAL POSITION AND THE RESULTS OF OPERATION*

CAPITALISATION, CAPITAL ADEQUACY

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

SHAREHOLDERS' EQUITY

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

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

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

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

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

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

CALCULATION OF THE CAPITAL ADEQUACY RATIO*

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

* In a format comparable based on 2003 regulations

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

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

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

Income Structure, Profitability

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

The table below contains a detailed breakdown of total income:

INCOME*

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

* In a break down slightly different from HAR.

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

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

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

THE SOURCES AND STRUCTURE OF INTEREST INCOME AND EXPENSE

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

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

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

AVERAGE INTEREST RATES ON ASSETS AND LIABILITIES

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

The table below shows in detail the extent to which the change in the net interest income is attributable to changes in interest rates or to changes in volumes.

INCREASE (DECREASE) IN THE NET INTEREST INCOME*

	Total net change HUF mn	Effect of interest rate change HUF mn	Effect of volume change HUF mn
Interest-bearing assets			
Interbank placements	– 5,781	4,993	– 10,774
Retail placements	– 2,937	– 2,888	– 49
Corporate placements	– 2,617	– 8,070	5,453
Municipal placements	4,058	– 836	4,894
Securities	21,040	– 4,360	25,400
Statutory reserves	3,091	3,276	– 185
Total interest-bearing assets	**16,854**	**– 7,885**	**24,739**

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

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

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

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

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

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

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

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

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

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

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

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

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

INCOME ELEMENTS AS A PERCENTAGE OF AVERAGE TOTAL ASSETS*

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

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

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

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

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

Cost Management

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

NON-INTEREST EXPENSES

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

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

STAFF LEVEL OF THE OTP BANK LTD. (PERSONS)

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

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

1 Calculation method: ROAE – inflation (%)

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

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

EMPLOYEE PRODUCTIVITY INDICATORS

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

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

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

ASSET-LIABILITY STRUCTURE

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

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

THE DISTRIBUTION OF ASSET-LIABILITY COMPONENTS*

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

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

* The asset-liability items are analysed in a structure stightly different from that of the balance sheet.
** Includes short-term placements and those over one year to financial institutions and placements over one year to NBH.

ASSETS

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

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

STRUCTURE OF GOVERNMENT SECURITIES

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

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

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

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

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

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

Customer loans. Owing to the fact that the majority of retail housing mortgage loans were transferred to the Mortgage Bank, the rate of growth in the volume of customer placements was slightly lower than the rate of growth in the total assets. In 2003, customer placements increased by 14.3% by HUF 136.5 billion, thereby changing their share of total assets from 39.8% to 39.5%. Within customer placements, loans to municipalities and legal entities displayed significantly above-average growth, while the volume of retail loans decreased slightly. The volume of retail loans fell by HUF 11.7 billion, to HUF 318.2 billion at year-end 2003, which represents a 3.5% decrease against the previous year. This reduction was exclusively attributable to the fall in the volume of housing loans remaining in the Bank's portfolio. Loans to the corporate sector grew by 23.7%, to stand at HUF 691.2 billion on December 31, 2003. The volume of loans provided to municipalities increased by 24.6%. Within total customer placements, the share of corporate loans grew from 58.7% to 63.5%, while that of retail loans dropped from 34.7% to 29.2%. As at year-end 2003, municipality loans accounted for 7.3% of total customer placements.

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

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

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

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

CUSTOMER PLACEMENTS BY MATURITY (BASED ON GROSS LOAN RECEIVABLES)

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

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

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

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

CHANGES IN INVESTMENTS*

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

* Gross book-value

LIABILITIES

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

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

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

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

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

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

CUSTOMER LIABILITIES BY MATURITY

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

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

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

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

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

CHANGES IN PROVISIONS

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

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

OFF-BALANCE SHEET LIABILITIES

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

OFF-BALANCE SHEET LIABILITIES

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

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

LOAN PORTFOLIO QUALITY, PROVISIONING

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

OTP BANK LTD.'S QUALIFIED LOAN PORTFOLIO

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

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

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

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

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

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

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

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

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

QUALIFIED LOANS BY BUSINESS LINES

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

(continued from page 43)	Dec. 31, 2002 HUF mn	proportion	Dec. 31, 2003 HUF mn	proportion	Change HUF mn	%
Total						
Problem-free	1,183,374	95.8%	1,216,685	95.6%	33,311	2.8%
Qualified	51,398	4.2%	55,757	4.4%	4,359	8.5%
To be monitored	17,939	1.5%	14,015	1.1%	– 3,924	– 21.9%
NPL	33,459	2.7%	41,742	3.3%	8,283	24.8%
Total	**1,234,772**	**100.0%**	**1,272,442**	**100.0%**	**37,670**	**3.1%**

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

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

THE STRUCTURE OF QUALIFIED LOANS

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

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

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

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

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

VALUE LOSS AND RISK PROVISIONS BY BUSINESS LINE

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

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

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

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

CONSOLIDATED FINANCIAL STATEMENTS

CONSOLIDATED BALANCE SHEET

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

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

The most significant change to the asset side of the consolidated balance sheet was the 53.2%, or HUF 703 billion, increase in receivables from customers, with the result that their share within the total assets rose from 48.4% in 2002 to 57.8% in 2003. Some 58.1% of customer loans were retail loans, the volume of which reached HUF 1,208 billion. Corporate loans accounted for 38.0% of the portfolio, with a volume of HUF 791 billion, while municipality loans amounted to HUF 80 billion, giving them a 3.9% share of the portfolio. This was accompanied by a decrease in the volume of receivables from credit institutions, government securities and liquid assets. The total of liquid assets decreased by 21.9%, from HUF 354 billion at the end of 2002 to HUF 277 billion. Receivables from credit institutions decreased less sharply, by HUF 29 billion or 10.3%, and their year-end volume was HUF 252 billion. Owing to a volume increase of 18.6%, government securities accounted for 18.0% of total assets at year-end 2003, while their volume amounted to HUF 631 billion. Almost 61% of government securities were investment securities.

CONSOLIDATED PROFIT

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

INCOME*

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

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

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

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

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

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

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

RESULTS OF THE MOST IMPORTANT SUBSIDIARIES

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

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

KEY FINANCIAL DATA OF MERKANTIL BANK LTD.

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

[4] The method for calculating undiluted earnings per share: profit after tax (ordinary shares – own shares).
[5] Calculation method: after-tax profit/ordinary shares.
[6] Calculation method: ROAE – inflation (%).
[7] Q4 profits, since the Bank purchased DSK Group on October 1, 2003.

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

KEY FINANCIAL DATA OF MERKANTIL CAR LTD.

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

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

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

KEY FINANCIAL DATA OF OTP BUILDING SOCIETY LTD.

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

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

KEY FINANCIAL DATA OF OTP MORTGAGE BANK LTD.

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

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

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

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

OTP Banka Slovensko (OBS) achieved impressive results in its first full financial year as a member of OTP Group.
The volume of OBS customer deposits grew from HUF 69.2 billion in 2002 to HUF 112.2 billion at year-end 2003. Within this figure, the volume of retail deposits increased to HUF 61.6 billion, while corporate deposits rose to HUF 39.2 billion. Municipality deposits increased at an exceptionally dynamic rate, to HUF 11.4 billion.

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

KEY FINANCIAL DATA OF OTP BANKA SLOVENSKO, A. S

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

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

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

KEY FINANCIAL DATA OF OTP-GARANCIA INSURANCE LTD.

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

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

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

KEY FINANCIAL DATA OF OTP FUND MANAGEMENT LTD.

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

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

KEY FINANCIAL DATA OF OTP FUND SERVICES LTD.

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

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

KEY FINANCIAL DATA OF OTP REAL ESTATE LTD.

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

Asset-Liability Management

LIQUIDITY AND MARKET RISK MANAGEMENT

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

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

TRENDS IN THE LIQUIDITY POSITION OF OTP BANK LTD.

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

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

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

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

OTP BANK LTD.'S INTEREST RATE RISK EXPOSURE

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

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

OTP BANK LTD.'S INTEREST RATE RISK EXPOSURE

In 2003 the statutory limitation of the potential maximum (gross) open position to 30% of adjusted capital, in the interest of preventing potential losses due to unfavourable exchange rate movements, was lifted. This did not result in any significant changes from the Bank's point of view, since it already possesses detailed internal regulations on exchange rate risk management, which are reviewed on an annual basis. The level of exposure is restricted by the limit set by the Asset-Liability Committee (ALCO) for the total open position, which is defined in the Trading Book Decree as the aggregate net foreign currency position, as well as other position (overnight and intraday) stop-loss limits set by ALCO. Individual position limits have also been determined for each currency.

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

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

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

THE MARKET RISK EXPOSURE OF THE OTP GROUP

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

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

FINANCIAL SUMMARY*

BALANCE SHEET

(HUF bn)

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

PROFIT AND LOSS ACCOUNT

(HUF bn)

For the year ended December 31	1999	2000	2001	2002	2003
Net interest income	84.0	86.9	98.3	102.7	118.2
Non-interest income	30.1	38.8	42.7	63.6	85.6
of which: Net fee and commission income	24.0	32.0	40.0	56.8	85.1
Total income	114.1	125.6	141.0	166.3	203.8
Non-interest expenses	74.6	77.7	85.2	95.6	110.3
Operating income/profit	39.5	47.9	55.8	70.7	93.5
Dividend received	0.2	0.2	0.1	0.3	7.7
Provisions	10,2	7.9	8.5	13.5	13.3
Accounting for acquisition goodwill	–	–	–	0.6	– 1.2
Profit before taxation	**33.3**	**40.2**	**47.4**	**58.1**	**86.7**
Profit after taxation	**28.3**	**32.5**	**38.4**	**47.2**	**71.6**
Earnings per share (EPS) *** (HUF, undiluted)***	107.13	124.13	145.77	178.98	269.21

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

* Unconsolidated, based on HAR

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

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

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

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

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

(Figures in HUF million)

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

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

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

Creation of general risk provisions

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

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

Amortisation of the premiums and discounts on investment securities

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

Adjustments implemented under IFRS are as follows:	HUF
– reversal of last year's IFRS accrual:	+ 48 million
– reversal of the HAR accrual as at December 31, 2003:	+ 41 million
– IFRS accrual as at December 31, 2003:	– 389 million
	– 300 million

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

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

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

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

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

RELEASE OF PROVISIONS FOR CONTINGENT AND FUTURE LIABILITIES

As a part of its business operations, the Bank financed and constructed residential properties for sale, and in relation to this it was obliged to guarantee against possible construction errors for a period of 10 years. The Bank's guarantee liability related to the properties will stand until 2007.
In the previous years, HUF 1,500 million in provisions were set aside for possible future losses arising from housing-guarantee claims.

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

ACCOUNTING OF FINANCIAL LEASING

Contracts related to tangible assets

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

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

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

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

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

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

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

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

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

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

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

Valuation of financial instruments according to IAS 39

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

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

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

Securities held for trading and for sale, as well as equity investments that are disclosed under financial assets held for sale, must be presented at the fair market value in the balance sheet.
The combined impact of the marked-to-market revaluation of securities:
- As a result of the write-back of the market-value difference of HUF 3,481 million relating to the previous period, to December 31, 2002, and
- the accounting of HUF 4,973 million in negative fair value adjustment relating to December 31, 2003,

the profit of the reporting year, i.e. 2003, **was reduced by HUF 8,454 million**.

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

DIFFERENCES IN ACCOUNTING FOR OFF-BALANCE SHEET FINANCIAL ASSETS

As IAS 39 calls for the measurement of off-balance sheet financial instruments at their market value, the items listed below that are recognised under HAR must be removed from the IFRS report, and then the result of the market valuation must be recognised:
- provisions set aside for non-hedged forward transactions
- the accrual of the revaluation result of the spot leg of swap deals
- the interest revenue and interest expense accrued in connection with swap deals.

		HUF	
1. Adjustments under HAR:			
1. Reversal of last year's accruals (on swap transactions):	+	8,004	million
2. Write-back of last year's provisions on forward transactions:	–	1,460	million
3. Write-back of provisions under HAR for non-hedged forward transactions reported at the end of the reporting year	+	751	million
3.a) on forwards	+	685	million
3.b) on futures	+	66	million
3.c) on options		–	
4. Reversal of the revaluation loss accounted for on the spot leg of swap transactions, and reversal of the accrued exchange rate gains on futures transactions	+	765	million
5. Reversal of the accrued interest revenue and interest expense on swap deals	–	1,228	million
Total	+	**6,832**	**million**
2. Impact on the profit of the reporting period resulting from fair market valuation according to IFRS:	**–**	**2,889**	**million**
3. Impact on the profit of the different treatment of off-balance sheet financial instruments under Hungarian and under internationals tandards:	+	**3,943**	**million**

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

Price loss on repurchased own shares and the exchange value difference paid on the transformation of preference shares into ordinary shares

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

Negative Goodwill

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

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

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

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

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

Adjustment to cost price of equity stakes recorded in foreing currency

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

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

ADJUSTMENT IN COMPANY VALUE DUE TO TRANSFORMATION

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

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

ADJUSTMENT DUE TO DELIVERY REPO TRANSACTIONS (IAS 39)

Delivery repo transactions are treated differently under IFRS and HAR.
Due to the settlement rules related to repo transactions, the IFRS profit increased by a total of **HUF 89 million**.

ITEMS CHARGED DIRECTLY TO RESERVES – SELF-AUDIT

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

DEFERRED TAX

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

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

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

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

Reconciliation of consolidated profit before tax

Data in HUF million

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

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

I. DIFFERENCES ARISING UPON CONSOLIDATION OF THE REPORTS

OTP Bank Ltd.

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

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

Merkantil Group

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

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

OTP Banka Slovensko, a. s. and DSK Group

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

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

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

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

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

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

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

DSK Group

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

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

OTP-Garancia Insurance Ltd.

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

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

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

OTP Mérleg Ltd.

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

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

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

II. DIFFERENCES IN THE EFFECTS OF CONSOLIDATION

Effect of the equity method

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

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

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

Effect of capital consolidation

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

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

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

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

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

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

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

Effect of avoiding intra-group double reporting

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

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

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

In the balance sheet prepared according to IFRS, securities held for trading and for sale as well as interests that qualify as saleable financial assets must be disclosed at their market value. The cancellation of the fair market valuation, increasing the previous year's profit, of securities held for trading and for sale has reduced the profit by HUF 496 million in total, while the marked-to-market valuation of the reporting period has reduced the profit by a total of HUF 4,424 million.
The marked-to-market valuation as at December 31, 2003 modified the profit most notably in the case of OTP-Garancia Insurance Ltd. (HUF – 723 million), OTP Mortgage Bank Ltd. (HUF – 3,407 million), OTP LTP Ltd. (HUF – 536 million), OTP Fund Management Ltd. (HUF +82 million), DSK (HUF +187 million) and OBS (HUF – 27 million).
The IFRS profit is reduced by HUF 4,920 million as a result of the above.

The fair market valuation of mortgage bonds issued by OTP Mortgage Bank Ltd. and recorded in the Bank's books reduced the profit in the individual IFRS reports. As a result of the elimination of intra-group transactions, the devaluation was also cancelled in the consolidated report. The cancellation of the impact of elimination, which had reduced the previous year's profit, increased the profit by HUF 2,928 million in the reporting year, while the elimination of the valuation increased the profit by HUF 4,277 million.
The IFRS profit is increased by HUF 7,205 million due to the above.

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