



*B***BUSINESS***Review*

REPORTS OF THE DIVISIONS

OTP Bank closed another successful year in 2000, the last year of its 3-year strategic period. In line with its strategic objectives, the Bank's main tasks, besides achieving a further reduction in costs, included the improvement of customer service (i.e. the enhancement of accessibility and the safety of operations) as well as the development and extension of other services, with particular emphasis on the stabilisation of lending, in order to improve profitability, retain our market position and enhance the service-providing aspect of our business.

Besides a smooth date changeover to the year 2000, one of the most important achievements of our IT development projects was that no downtimes resulting from program failures occurred in the integrated system in 2000, i.e. the operation of the integrated system became stable. The capacity upgrade of the IT system also contributed to the improvement of operating safety. In December 2000, the system was managing almost 3.7 million accounts for more than 4.6 million clients and the total number of transactions for the year was over 390 million. The development of OTP Bank's sales network continued. Several of our key branches that transact a large volume of business were redesigned in 2000, and three new branches were opened in shopping malls. By the end of the year, a network of 455 units was available to the Bank's customers. Our customers were able to take advantage of the Customs Cashier services at 24 bank branches and 35 Automated

Customs Cashier Systems. In these newly designed branches, 24-hour automated zones were also installed, enabling our customers to use our banking facilities beyond opening hours. The new look reflects the Bank's openness and customer orientation, while the furnishings support a sales-oriented approach to customer service.

As a next step in the branch network reorganisation process, four regions were created in Budapest through the reorganisation of the former Budapest regions and the takeover of commercial banks. The Buda, Downtown, South Pest and North Pest regions have been in operation since 1 May 2000, with scopes of responsibility

and authority similar to those of the regions outside Budapest. In terms of both headcount and the number of branches, this reorganisation allows for a better-balanced operation and an even more efficient and customer-oriented provision of services.

In order to improve the level of customer service, the Bank focused on enhancing the accessibility of its services, with special attention paid to the improvement of electronic banking channels.

OTP HÁZI@NK, the Bank's website, was redesigned, and the TeleBANK and Mobil TeleBANK services were extended. The Electronic Account Package was introduced, which provides a safe background for internet-based purchases using a webCARD and the related card account.



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The bank launched a redesigned website in December 2000. The new site has a more dynamic design and is more focused on the selling of products. It offers up-to-date information on the Bank's products, services and terms and conditions. In addition to the latest news, customers as well as investors will find detailed information on the Bank and the Bank Group. On the occasion of the launch of the new site, the Bank held a pilot forum on the website where members of the Bank's management team answered visitors' questions. In order to attract the junior age group, a stock exchange game was organised where the player who made the highest profit was awarded with an OTP Junior card credited with HUF 250,000 (and also benefited from the stock exchange-related knowledge gained during the course of the game).

The OTP Credit Line was added to the existing range of OTP TeleBANK services. The new service enables customers to inquire about the various loan facilities offered by OTP and order the necessary loan application forms.

From April 2000 onward, the TeleBANK Center services were made available to customers with retail foreign exchange accounts as well. B-type and C-type credit accounts and securities custody accounts were added to the range of available accounts. The recharging of Pannon Praktikum mobile phone cards, the execution of VIBER transfer orders and card account insurance were newly launched services. In addition, since December last year customers have been able at the TeleBANK Center to give buying and selling instructions in relation to OTP Optima investment fund shares and government securities. The number of customers who had signed agreements for the use of the TeleBANK Center service grew from 59,000 in the previous year to 179,000 by the end of 2000.

A service called Mobil KártyaKONTROLL was introduced at the beginning of 2000. By sending SMS messages to the customers' mobile phones, Mobil KártyaKONTROLL makes the use of bankcards safer. The Mobil teleBANK service was extended to Vodafone subscribers as well. New Mobil TeleBANK service packages were launched for Junior customers and the Electronic Account Package. The number of Mobil TeleBANK customers grew more than tenfold in 2000 – the number of customer using this service was 35,000 at the end of December.

B-type and C-type credit accounts and securities custody accounts were added to the set of accounts manageable by

OTP HáziB@NK. In addition, the execution of VIBER transfers and the purchase and sale of OPTIMA investment fund shares were added as new services. The number of HáziB@nk customers was rising extremely dynamically throughout the year, reaching 60,000 by the end of 2000. OTP Bank's share in the market of Internet banking services exceeded 80%.

RETAIL DIVISION

At the end of 2000, OTP, the largest bank on the retail market, was managing 41% of total retail bank savings and 34% of total retail loans.

RETAIL DEPOSITS

Compared with the previous year, the volume of **retail deposits** managed by the Bank increased by 7.8% to HUF 1,308.1 billion. The Bank's market share of HUF deposits was 42%, while on the foreign-exchange deposit market its share had reached 38% by the end of 2000.

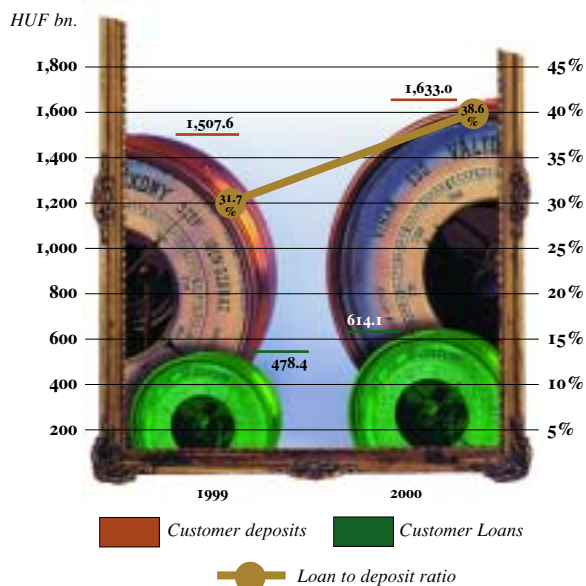
Compared with the previous year, the volume of **retail HUF deposits** was up 7.4%, to HUF 972.2 billion, by the end of 2000. Within the total of HUF deposits the balance of retail **current account deposits** increased by 13.4% to HUF 520.8 billion by the end of the year, and its share within the total of retail HUF deposits continued to grow, from last year's 50.8% to 53.6%.

The number of retail current accounts rose by more than 177,000, to 2,749,000. More than three-fourths of the increase in the number of accounts was due to accounts opened in the provincial branches. The nearly 7% increase in the volume of new accounts is a result of the increasing popularity of wage transfers and the success of the DM promotions aimed at encouraging the opening of Junior accounts, and also the joint campaign organised by the Bank and OTP Private Pension Fund.

With a growth of 2.4%, the volume of interest bearing passbooks exceeded HUF 328.3 billion by the end of the year. Within the total passbook deposits, the volume of premium savings passbooks (which offer the holder the chance to win a car) saw the largest increase – 20.3% – reaching HUF 6.0 billion by the end of the year. In order to reduce costs, from 2000 onward the Bank will be in charge of managing the savings notes, premium savings passbooks and junior savings deposits that were formerly managed by the savings co-operatives under contract.

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Simultaneously with a 28.0% drop in the number of foreign exchange accounts, the total amount of **foreign exchange deposits** rose substantially, by 8.7%, to HUF 336.0 billion and, as a result, the average deposit balance per account continued to increase.



Customer assets and liabilities

In 2000, the TeleBANK Center service was extended to those foreign exchange account holders who also have retail HUF current accounts. In addition, the Bank introduced foreign exchange clearing in December, as a further step in the improvement process of the integrated account management system. This clearing system simplifies the processing of bank transfers, reduces processing time and allows for automatic bookkeeping.

In accordance with the Bank's intentions, the volume of **securities** and **deposit certificates** issued by the Bank continued to decline and reached HUF 19.6 billion by year-end, down by 14.2% compared to the end of the previous year. Among the deposit certificates issued by the Bank, only the volume of Deposit Notes increased, totalling HUF 18.6 billion, equivalent to a growth of 16.0% on the previous year's level.

With a balance of HUF 21.4 billion as at December 31, 2000, the Mobil deposit coupons that were issued by Merkantil Bank and marketed through OTP Bank's branch network accounted for 83.9% of the total Mobil deposit coupon balance.

In 2000, the **Bankassurance** business was expanding dynamically. The number of insurance products sold during the year increased by almost 88.4% to more than 67,000, while insurance premium revenues were up 120.7% to HUF 13.6 billion. The favourable performance of the bank insurance business substantially contributed to the strengthening of OTP-Garancia Insurance Ltd's market position and to an increase in premium revenues that was higher than average in the insurance market.

The number of clients in the Bank's **Private Banking** business increased by 16.9% to more than 7,000 by the end of the year, while the volume of client assets managed by the Bank rose by 21.5% to HUF 91.0 billion. The average amount of assets per customer account rose to near HUF 13 million by the end of December.

RETAIL LENDING

The dynamic growth in retail lending continued in 2000. The balance of retail loans increased from HUF 150.8 billion in December 1999 to HUF 180.2 billion. Substantially higher than in the previous year, the rate of increase was nearly 20% but – partly due to the decline in the volume of older housing loans – it was still lower than the overall growth in the market.

After a declining trend in previous years, the volume of housing loans rose by almost 9% in 2000. The housing support scheme that took effect on the 1st of February and was extended in July resulted in a substantial growth in demand for housing loans. Consequently, the new loan placements compensated for a faster decline in the volume of older-type housing loans. Housing loans that were subject to the new terms and conditions introduced in 2000 amounted to HUF 29.5 billion by year-end, and the total volume of housing loans was HUF 104.1 billion. The Bank achieved a share of 55% in the market of housing loans.

Following the launch of the new housing support scheme, the Bank was the first to offer loans with subsidised interest rates. Besides this, the Bank adapted the conditions of other housing loans to market requirements in a flexible manner during the year. In order to enhance the accessibility of housing loans and enhance the level of related services, several improvements were made by the Bank in 2000. The Bank's Credit Line was put into operation in April 2000, offering detailed information by phone on the terms and conditions of the various loan products. An IT system supporting the appraisal and disbursement of loans was installed in the second half of the year.

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By 31 December 2000, the volume of **consumer loans** increased by nearly 38%, to HUF 76.1 billion. Thus the Bank's share of the consumer loan market rose to 22%, and the Bank Group's share, including Merkantil Bank's loans for car purchases, exceeded 29%. The most spectacular growth was in home equity loans: their volume almost doubled, reaching HUF 26.9 billion by the end of the year. The popularity of these type of loans is attributable to the flexibility of their terms and conditions and also to the fact that eligibility criteria for these loans are less strict.

The balance of other consumer loans totalled HUF 49.2 billion on 31 December 2000 – an increase of 14.5% compared to the previous year. The loans associated with retail current accounts were the most popular of all, with the volume of A-type loans increasing by more than 19% and that of B-type loans rising by 39% over the year. The volume of C-type loans, which were launched on 1 July 2000 and are now also available to clients without OTP retail current accounts, reached HUF 3.9 billion by the end of the year. Consequently, the share of loans actually drawn down from the available credit limits increased to 85% of other consumer loans.

BANKCARDS

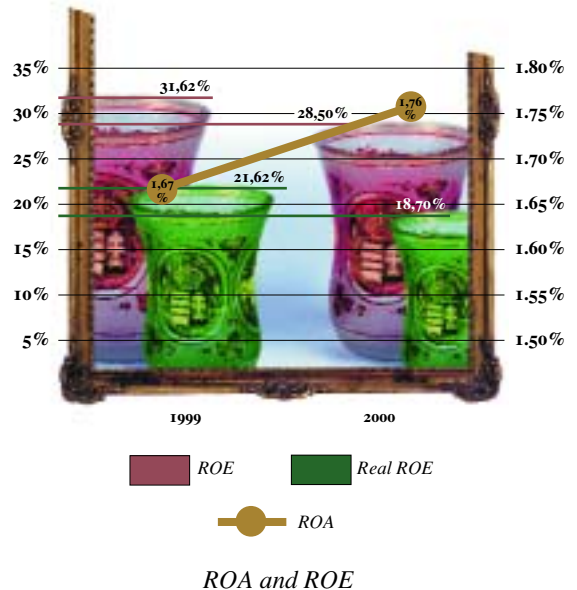
The number of bankcards issued by the Bank rose by 7.4%, to more than 2,881,000, by the end of December 2000, resulting in a market share of more than 64% for the Bank.

The total number of cards issued for retail accounts increased by 6.5%, to 2,387,000, by year-end. Of these, the number of HUF-based bankcards was 2,736,000, and the number of foreign currency based cards was almost 5,000 as of the end of 2000. The number of cards that are only used for customer identification fell to 97,000, in line with the declining trend of the previous years.

The number of cards issued for commercial banking customers more than doubled, reaching a total of 44,000.

Launched in 2000, WebKÁRTYA (WebCARD) is a new credit card facility that offers enhanced safety for purchases via the internet, thanks to the card accounts. The OTP Bank – METRO co-branded card is another new facility, the unique feature of which is that it may be linked to 4 different accounts simultaneously.

With the launch of the C-type loan, the first revolving credit cards were also introduced. The fact that the Bank sold nearly 23,000 of these cards by year-end is clear evidence of the success of this new product.



The Bank continued to expand its network of card acceptance outlets. The number of ATMs increased from 1,019 a year ago to 1,065, which means that 43% of the total number of ATMs in Hungary belong to the Bank. The number of transactions effected on the Bank's own ATMs was 61.0 million (of which 86.0% were made with cards issued by the Bank), involving a turnover of HUF 1,092.6 billion, and these figures correspond to market shares of 66% and 47%, respectively, of the total bankcard turnover in Hungary.

The number of **POS** terminals grew by 8.0%, to 15,197, by the end of the year. Of these, 2,378 terminals are located in the Bank's own branch offices, 4,452 at Post Offices, and a further 8,367 are operated by the Bank at commercial outlets, with the latter number corresponding to a market share of 38%.

The number of cash withdrawal transactions within OTP Bank's own POS network was 2.4 million, 90.6% of which were effected with cards issued by the Bank. The turnover reached HUF 489.0 billion, an increase of 46% compared with the previous year.

In 2000, the number of transactions handled through the Bank's POS terminals installed at Post Offices was

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3.2 million, 60.4% of which were effected with cards issued by the Bank. The corresponding turnover totalled HUF 90.8 billion.

The volume of purchases at commercial outlets equipped with POS terminals grew dynamically in 2000. The number of purchases grew by around 50.1%, reaching a total of 15.8 million transactions, 59.1% of which were effected with cards issued by the Bank. The volume involved amounted to HUF 130.9 billion, which represents an increase of 65.1% over the previous year. This number of transactions corresponds to a 72% market share for the Bank, while the above transaction volume corresponds to a market share of 59%.

Net revenues from bankcard-based transactions exceeded HUF 7.8 billion in 2000, with the highest revenues (HUF 3.9 billion) realised on ATM-based transactions, annual card fees (HUF 2.0 billion) and merchant fees (HUF 1.6 billion).

CORPORATE BANKING

As a result of increasingly intense competition in the corporate banking sector, the market share of OTP Bank decreased slightly in 2000 as well. The volume of corporate deposits managed by the Bank was HUF 210.8 billion, corresponding to a 12% market share, while the balance of corporate loans was HUF 393.2 billion, representing an 11% market share.

The volume of loans granted to corporations grew by almost 25% over the year, largely due to a 31.6% rise in foreign exchange loans and a 26.2% increase in working capital loans. The volume of capital project loans grew by almost 18%. Within a period of one year, the volume of loans granted to small enterprises rose by 7.8%, while that of loans granted to non-profit organisations grew by HUF 10.4 billion.

A look at the distribution of corporate loans per sector reveals that the processing industry (25.2%), the financial sector (19.3%) and the commercial sector (13.3%) had the highest shares in the total volume of corporate loans in 2000, just as in previous years. Agricultural loans had a share of 10.1%. Apart from the leading sectors, the most significant increase in 2000 took place in the volume of loans placed in the construction industry (HUF 13.2 billion) and the petroleum processing and chemical industry (HUF 12.3 billion).

In addition to a favourable economic environment, the financing services for customers acquired as a result of the successful efforts of our customer relationship managers also contributed to the upturn in the lending business. Launched in 2000, the FOCUS system, which is capable of modelling the profitability of individual customers, also supported our effective customer relationship activities.

With regard to the financing of enterprises involved in the construction of housing units for the purpose of sale, the Corporate Banking division was also positively affected by the new housing support scheme. The total volume of loans placed with such enterprises doubled within a year.

In addition, the Bank was also involved in financing activity related to the energy efficiency program initiated by the Ministry of Economics.

In 2000 OTP Bank continued to treat the extension of its service range and the qualitative improvement of these services as high priority issues. New functionalities were added to the Customer Terminal, a system that was developed for our largest and strategically most important customers and which has become very popular. These new functionalities allow customers to activate VIBER items, query the analytical records of blocked accounts



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and initiate the opening of time deposits. Further services to enhance security and convenience have also been added to the system.

Our cash-pool service, which serves to bring in new customers and at the same time provides a wide range of high-quality services to existing clients, was also enhanced for our key customers.

A new card facility called OTP Bank – METRO card has been added to the existing set of business cards. Partly due to the technical improvements that had begun to be implemented in the previous year, the number of corporate cards issued by the Bank virtually doubled in 2000, to 38,600. Of the various services available to card holders, Mobil TeleBANK is highly popular, most notably among private entrepreneurs, and, within the services of Mobil TeleBANK, the Mobil CardKONTROLL service has been particularly well received.

CUSTOMS SERVICES BUSINESS

In the area of customs services, OTP Bank became market leader in 2000, both in terms of the availability of services and transacted volume.

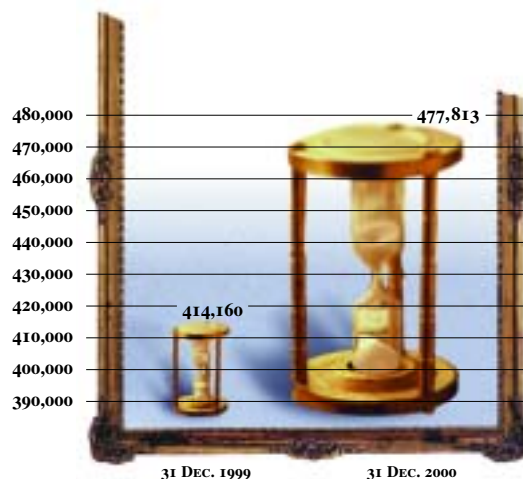
In 2000 the Bank continued to expand its customs cashier service network to assure nationwide coverage, as a result of which, by year-end the Bank's 21,000 customers were able to access customs cashier services at a total of 129 places around the country.

The Bank's Customs Card increased further in popularity in 2000: close to 40% of the total customs payments turnover was transacted with the card, while the number of issued Customs Cards reached 1,430 – twice the figure of the previous year.

At the same time, public awareness and usage of the Bank's Automatic Customs Cashier System (AVR) service grew in 2000. This is well indicated by the fact that network units of this type more than doubled over the year and the total volume of customs duties and customs deposits paid through them approached HUF 13 billion.

In response to changes in the law, in the course of 2000 the division updated the texts and registration of the bank guarantees related to customs clearance procedures, which, in addition to a total monitoring of customers and

transactions, allows for a significant increase in the volume of bank guarantees that can be issued by the Bank.



Customer for electronic services

MUNICIPALITY BANKING

Over 87% of all the municipalities had their accounts managed by the Bank in 2000, which corresponds to an average of 43,000 deposit-type accounts for the year.

At the end of 2000 the balance of deposits of municipalities and their various institutions was HUF 114.0 billion, 9.9% higher than in the previous year, which represents an 81% market share for the Bank. The balance of loans – owing to an increase of HUF 4.5 billion during the year – was HUF 40.7 billion, securing a market share of 72% for the Bank. The highest increase was seen in the area of development and investment loans with maturities of over one year.

A further growth in demand for more up-to-date and convenient services is indicated by the steady increase in the number of customers using the client terminal, and also by the 40% increase in the use of municipal and institutional bank cards. At the end of December 2000 the Bank's municipal clients were using a total of some 3,260 cards (treasury cards included), which means that the number of cards in use had doubled since the end of 1999.

In 2000 the Bank introduced as a new service the municipality lombard loan facility, which enables municipalities

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to apply for loans using securities as collateral in order to meet their financing needs.

OTP Bank won the public tender issued by the Ministry of Finance for the financing of its year 2000 Energy Saving Programme and Energy Saving Loan Programme. Under these schemes, a credit line of HUF 775 million on preferential terms may be used for the purpose of investments aimed at reducing energy consumption at the municipality institutions.

TREASURY AND STRUCTURED FINANCE

In the year 2000 OTP Bank retained its role as market-maker on the domestic markets, despite the fact that on the spot market the pegging of the forint to the Euro resulted in a decrease in volume and a sudden advance on the part of banks that have major foreign contacts. On the international FX market the Bank increased both its sales volume and profitability, due in no small part to an increase in the volume of client futures deals transacted by OTP Securities Ltd.

The year 2000 saw a relatively moderate sales volume on the futures market. Although OTP Bank continued to play an important role on this market, the value of contracts concluded remained at about the same level as in 1999. With regard to derivative products, the Bank began to participate in international options trading.

On the interbank HUF market OTP Bank's share decreased slightly in 2000. The reason for this is that, due to profitability expectations, HUF placements were divided among various forms of short-term investment (interbank market, NBH deposits, DKJs, NBH bonds). There was no significant change in FX activity. Due to a dynamic growth in lending activity there were fewer resources available for Treasury, and therefore the amount of foreign exchange placed domestically, especially the balance of deposits at the NBH, decreased.

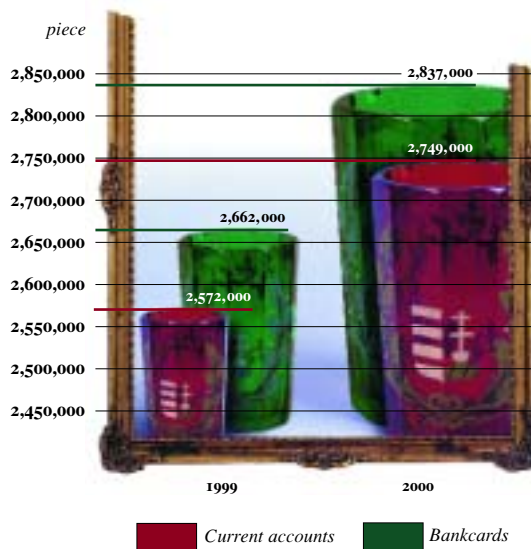
Treasury's securities portfolio grew significantly in 2000. The division of the portfolio into trading book and investment book took place as of 15 July 2000. In the course of the year the Bank started distributing OECD government securities through its branch network, keeping four different government bonds in stock. Following a decision made in the second half of the year, preparations for merg-

ing the government securities operation of OTP Securities Ltd. into Treasury were begun.

Of the Treasury products, securities repo deals were the most popular among clients. In the area of FX and derivative deals for clients there was a slight growth compared to the previous year.

SYNDICATED LENDING

Last year, with the stabilisation of the international economic and political situation and the dynamic growth of the Hungarian economy, the market for syndicated loans also developed strongly. Taking advantage of the favourable economic environment, OTP Bank increased its syndicated lending activity, maintaining its leading position on the



Retail current accounts and bankcards

Hungarian market. The Bank acted as lead manager/arranger in several major syndicated loan transactions in Hungary (e.g.: Általános Értékforgalmi Bank Rt. [the General Banking & Trust Co. Ltd.], Paksi Atomerőmű Rt. [Paks Nuclear Power Plant Ltd.], Kőolaj és Kőolajtermék Készletező Szövetség, [Association of Stockpiling Companies of Crude Oil and Crude Oil Products], MOL Rt.).

Abroad, the Bank, primarily with respect to the East Central European region, which it considers its target market, assumed the risk of state bank and leading financial institution. On several occasions, the Bank successfully participated in several transactions as arranger (e.g. Zagrebacka Banka, Yukos Oil Co). The Bank also intends to continue

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what have until now also been successful and relatively safe structured trade finance deals in Russia involving raw material transports as collateral.

In the year 2000 OTP Bank's activity on the secondary market saw no decline either. The Bank's agency activity related to syndicated loans expanded, and it began to develop individual, investment-type derivative treasury products. General contractual conditions were elaborated for such deals, and the related organisational conditions were also put in place.

During the activities of the Bank in 2000 new loan contracts with a total value of nearly HUF 76 billion were concluded.

PROJECT FINANCE

The steady growth in the number of real estate projects continued in 2000, accompanied by a prudent lending policy in accordance with plans. As a result of developments in the telecommunications sector, there was an increased need for funding on the part of cable and telephone service providers, as well as a rising demand for "regular" (i.e. non risk-capital type) financing among businesses in regard to the internet. However, due to changes that had taken place in the telecommunication sector, the Bank, for reasons of risk and margin, did not enter into any further deals of this type.

The HUF 49 billion placement target set in the business plan was significantly exceeded, with the total value of project finance loans standing at more than HUF 58.8 billion as at 31 December 2000. This represents an increase of 53.5% compared to the previous year-end total.

SECURITIES BUSINESS

By the end of 2000, the Bank's Securities Division had generated a total commission revenue for the year of HUF 4.2 billion (an increase of almost 11%), with most of that revenue coming from agency activity (HUF 2.9 billion) and custodial services (HUF 1.1 billion).

The Bank achieved excellent results on the secondary market. Investment ticket sales were 36% higher than in 1999, while sales of government securities were 93% higher than in the previous year. This was partly due to a fall in securities issues on the primary market, which in

turn was a result on the equities side of a virtual cessation of privatisation and on the government securities side a ceasing of the public issuing of the various series of government bonds.

The number of custody accounts and securities accounts managed by the Bank reached 310,000, an increase of 3%, and the nominal value of the securities kept on such accounts was almost HUF 340 billion, representing an increase of 20%. The number of transfer transactions was 750% compared to the previous year, with a ninefold growth in nominal value.

In addition to the bond-based open-end investment tickets introduced earlier (OTP Optima, Platina, Paletta, and Quality), as from the end of the year clients have been able to purchase (through the Bank's branch network) the new OTP Maxima ticket issued by OTP Fund Management Ltd.

Owing to the intensive development of the electronic channels, as from the beginning of December 2000 the Bank has been able to engage in the secondary-market selling of government securities and to distribute Optima investment tickets via the telephone and the internet (HaziB@NK).



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INTERNATIONAL BANKING

The share of OTP Bank in the foreign exchange market had slightly increased by the end of 2000. In the field of FX transfers not related to documentary transactions and in the foreign exchange cheque division the transactions carried out for retail clients remained dominant. In this market segment OTP Bank maintained its leading position.

Payment transactions managed by OTP Bank exclusively (pensions paid from abroad, transfers related to the compensation of Holocaust victims) showed a significant increase over the previous year. In 2000 the Bank transacted the settlement of state debts owed to Hungary against product deliveries, providing a fully comprehensive service.

The most important change affecting the international division was the completion of the fully electronic processing system of payment transactions, a result of the IT developments implemented in 2000.

2000 saw the general international



introduction of the new message type (serving the purpose of transacting client transfers) of the international bank communication network (SWIFT) and the implementation

of the Bank's own related developments, as well as the improvement of IT support for documentary transactions.

In order to become more competitive, OTP Bank concluded special agreements with its most important foreign partners (among them the EBRD, Bank of America, Deutsche Bank/ Bankers Trust and HSBC Bank Plc) for transacting international payments on conditions that are more favourable for the Bank, its clients and its partners.

In 2000 OTP Bank once again won the "US Dollar Funds Transfer Quality Recognition Award", which is awarded by Chase Manhattan Bank N.A. (USA, New York) for excellence in the field of payment transactions to the United States.

RESULTS OF THE OTP GROUP

The business strategy of OTP Bank relies heavily on group members cooperating with it, and their contribution to the performance and results of the Group grows year by year. In 2000 mutual cross-selling did not only increase between the Bank and the subsidiaries but also between the subsidiaries themselves, which have developed a closer and increasingly fruitful co-operation with one another.

In the course of 2000 the book value of investments made by the OTP Group increased from HUF 20.1 billion to HUF 23.0 billion. The growth of the investment portfolio primarily resulted from an increase in the subscribed capital of OTP Fund Management Ltd. and OTP Pension Fund Ltd., and from the change in the ownership structure of OTP-Garancia Insurance Ltd. and OTP Fund Management Ltd., which served the purpose of developing these companies and increasing their market share.

OTP-GARANCIA INSURANCE LTD.

In 2000 the premium income of OTP-Garancia Insurance Ltd. was HUF 38.8 billion, 42.5% more than in the previous year. The contribution of life and bank insurance was

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HUF 21.2 billion, 68.1% more than in 1999. Non-life business generated a total premium income for the year of HUF 17.6 billion. Accordingly, the market share of the company based on premium income, grew from 9% to 10%, and in terms of life insurance, from 11% to 12%.

The total of claims and services was HUF 14.0 billion in 2000. Insurance technical reserves reached HUF 39.5 billion, compared to HUF 23.5 billion a year earlier. The balance sheet total of the company increased by 60.8%, to HUF 46.0 billion, and the pre-tax profit was HUF 874 million.

In 2000 the effectiveness of the company's co-operation with OTP Bank was enhanced. There was a rapid growth in sales of the company's Generation product line by the branches of the Bank on the one side, and an increase in the number of bank accounts, bank cards and loans sold by OTP-Garancia Insurance Ltd. on the other. In addition, the company contributed to the results of the Group by concluding 20,000 OTP Private and Voluntary Pension Fund contracts and 10,000 OTP Building Society contracts.

MERKANTIL BANK LTD.

Merkantil Bank achieved its best results ever in 2000. The company is still a market leader in car financing, its core activity. It further strengthened its business relations with car dealers, and successfully launched a new business line, production-asset financing.

The Bank closed the year with a balance sheet total of HUF 52.7 billion, and a pre-tax profit of HUF 1,697 million, 35.1% more than in the previous year. Gross car loans had a share of 79.1% in the total assets of the company, while the share of dealer financing was 8.9%. Total car loans increased by HUF 5.8 billion in comparison to year-end 1999, reaching 41.7 billion by 31 December 2000.

Within motor vehicle financing, the role of FX-based financial leasing increased, and the proportion of used cars also grew within the portfolio. In the course of 2000 the number of motor vehicle financing deals in the Merkantil Group reached 35 thousand, with approximately 22 thousand of these contracts being for new-car financing, and the proportion of FX-based financial leasing was 36.3%. According to estimated figures, the group is still market leader in motor vehicle financing, with a market share of about 25%.

MERKANTIL CAR LTD.

A significant modification was implemented in the product mix of the company in 2000. Due to lower initial instalments and favourable exchange rate trends the portfolio of FX-based loans began to grow significantly in 2000 and as a result, financial leasing, and thus also the relative weight of Merkantil Car within the Merkantil Group, also increased by a greater extent than had been expected.

The balance sheet total of the company increased by HUF 11.9 billion, representing a doubling of assets year-on-year. The financial leasing portfolio increased from HUF 5.5 billion to HUF 19.2 billion (i.e. by 248%) in 2000.

The books of Merkantil Car reveal a contract volume for production-asset financing of over HUF 1.5 billion, ten times as much as in the year before.

The pre-tax profit of the company was HUF 281 million in 2000.

OTP BUILDING SOCIETY LTD.

In 2000 OTP Building Society Ltd. concluded 79,092 contracts in a total value of HUF 47.5 billion, which assured that it maintained its market-leading position. The main sales channel was the branch network of OTP Bank, but sales through agents, especially through the sales network of OTP-Garancia Insurance Ltd., accounts for an increasing proportion of this business.

The balance of deposits from the clients of the company was HUF 33.1 billion on 31 December 2000, which corresponds to a market share of 48%. The company closed the financial year with a pre-tax profit of HUF 953 million, and its balance sheet total was HUF 37.2 billion, representing an increase of 61% over the previous year.

OTP SECURITIES LTD.

In August 2000 OTP Bank Ltd., the 100% owner of OTP Securities Ltd., decided to restructure capital market services activity within the OTP Group in order to increase efficiency. Within the framework of the rationalisation programme the fund and asset management operations were merged, and thus the management of pension fund assets was taken over by OTP Fund Management Ltd. on 1 October 2000.

BUSINESS REVIEW

Despite the unfavourable tendencies characterising the money and capital markets, OTP Securities Ltd. maintained its leading position in terms of sales volume. 15% of the company's commission-based equity trading was transacted through the branch network of OTP Bank.

OTP Securities Ltd. closed the year 2000 with a pre-tax profit of HUF 19 million, which was primarily attributable to the unfavourable market trends and the negative effects of the restructuring process. The year-end balance sheet total was HUF 9.7 billion.

OTP PENSION FUND LTD.

Despite a heavy market concentration, OTP Pension Fund Ltd. maintained its leading position, both in terms of the number of managed individual accounts and the total assets of funds managed. At the end of 2000, the company was managing 693,000 individual accounts, 81,000 more than a year before, and this gave it a market share of 21%. The assets of the funds managed increased from HUF 37 billion to HUF 67 billion, equivalent to a market share of 16%. The company closed the year with a loss of HUF 134 million and a balance sheet total of HUF 784 million.

Membership of OTP Private Pension Fund increased from 509,000 to 568,000, and its assets from HUF 19 billion to HUF 43 billion. The company's share of the private pension fund market was 27% in terms of member-

ship numbers, and 22% based on assets managed. The number of members of OTP Voluntary Pension Fund grew from 92,000 to 117,000, and its assets increased from HUF 16 billion to HUF 23 billion. Its market share in terms of membership was 12%, while in terms of total assets it was 11%.

Owing to a successful upgrading of the computer systems in 2000, the operation of the private pension fund fully complies with the requirements set by the relevant amendments to the legal regulations. The new IT system of the voluntary pension fund is able to safely manage significantly more accounts than it does at present.

OTP FUND MANAGEMENT LTD.

Despite the unfavourable trends on the capital market, OTP Fund Management Ltd. succeeded in selling a relatively high volume of investment certificates of its funds. The total assets of the investment funds managed by the company increased by 44.8% during 2000 (from HUF 188.9 billion to HUF 273.4 billion), far exceeding the 26.2% growth in the market as a whole. The company's market share grew from 42% to 49%.

In October 2000 OTP Fund Management Ltd. added pension fund asset management to its range of activities, and in December it introduced a domestic bond fund to the

market under the name OTP Maxima. As from the end of 2000, the investment tickets of OTP Optima, the largest and most popular fund, have also been available to customers through the internet or the TeleBANK Center.



BUSINESS REVIEW

The pre-tax profit of the company was HUF 1,655 million in 2000, 24.6% higher than in the year before, and its balance sheet total increased from HUF 3.9 billion to HUF 6.0 billion.

OTP REAL ESTATE LTD.

Besides its main activity of real estate development, OTP Real Estate Ltd. successfully carries out work in the areas of capital project administration, real estate operation, asset management, consulting, property appraisal, independent surveying, as well as real estate trading. In 2000, as in 1999, the Hungarian Association of Real Estate Agents voted OTP Real Estate Ltd. the best Hungarian real-estate development company of the year.

The net sales revenue of the company was HUF 7.9 billion in 2000, with a pre-tax profit of HUF 758 million. One reason for this excellent result was the increasing demand in the real estate market, and the other reason was the company's success in reducing operating costs. The reduction in costs was partly the result of the quality assurance system introduced last year. The contracts concluded in accordance with the requirements of the ISO system, the regular, systematic monitoring of project implementation, the strict keeping of financial schedules and deadlines, have had a positive effect, both on operating costs and the quality of the company's projects. The balance sheet total of the com-

pany increased from HUF 6.6 billion at the end of 1999 to HUF 11 billion at year-end 2000.

OTP REAL ESTATE MANAGEMENT LTD.

The range of activities of OTP Real Estate management Ltd. expanded in 2000: on the one hand, it performs (based on a special procedure) the collection of small-value receivables under commission from OTP Factoring Ltd. and OTP Bank, as well as of home loan repayments collateralised by state guarantee and, on the other hand, it is cooperating with OTP Real Estate International (on the basis of a contract) in the settling of a bank receivable from Hajdú-Bét Ltd.

The balance sheet total of the company was HUF 1.7 billion in 2000, and its pre-tax profit was HUF 103 million.

OTP FACTORING LTD.

The basic activity of OTP Factoring Ltd. is the purchase, management and collection of receivables whose recovery is uncertain, with most of such receivables consisting of the bad loans of OTP Bank. In 2000 the value of purchased receivables increased much more than planned – by close to 100 thousand items, of which nearly 93 thousand loan cases came to the company from OTP branches. Part

of the purchased items were overdue consumer loans, personal loans, bank overdrafts, and terminated home loans disbursed after 1989.



BUSINESS REVIEW

In 2000 the company increased its efforts to buy receivables that were unrelated to OTP Bank. As a result it bought over 4,600 receivables in the framework of successful bids and individual initiatives.

On 31 December 2000 the balance sheet total of OTP Factoring Ltd. was HUF 3.4 billion, a significant increase over the HUF 1.4 billion of the previous year. Owing to the success of its activity, the company's pre-tax profit increased by 70%, to HUF 530 million.

HUNGARIAN INTERNATIONAL FINANCE (HIF) LTD.

The activity of the London-based HIF Ltd. broadened significantly in 2000. Its main target markets remained those of Central and Eastern Europe: 52.6% of its total portfolio of assets, liabilities and guarantees came from these regions. The contracts concluded in the markets of Central and Southern America accounted for 22.7% of the assets of HIF at the end of 2000, while the respective figure for the Far East region was 4.5%. The remaining part of the portfolio came from contracts signed in the Middle East and North Africa (20.2%).

The company managed to increase its sales volume and the size of its portfolio beyond the target figures: the nominal value of its sales in 2000 was GBP 30 million, while the book value of the portfolio was almost GBP 24 million. The revenue was significantly higher (by 34%) than planned. The pre-tax profit of the company was GBP 466 thousand, and the balance sheet total increased from GBP 18.8 million to GBP 24 million.

OTP TRAVEL LTD.

OTP Travel Ltd. maintained its market position among the leading travel agencies in Hungary in 2000. In the air ticket sales market the company maintained its fifth place.

OTP Travel's sales volume increased by 30% in this area, to HUF 2.9 billion, far outstripping the growth in the market as a whole. At the same time, revenue from tour sales, both to and out of Hungary, increased dynamically. The former reached HUF 1.3 billion, an increase of 40%, while the latter was HUF 124 million, representing a growth of 50%.

A new sales office was added to the network of OTP Travel last year, and the company obtained the ISO 9002 Quality Assurance Certificate. In a context of increasingly intense competition, OTP Travel succeeded in winning the tender for serving the official travel requirements of the Ministry of Finance and the National Bank of Hungary.

The pre-tax profit of OTP Travel Ltd. was HUF 39 million in 2000, and the balance sheet total grew to HUF 548 million.

