



*B***BUSINESS***Review*

BUSINESS REVIEW

AT the beginning of 2001 the AGM of the Bank approved the med-term strategy of the bank, covering the 2001–2005 period. The main targets of this strategy is to enhance shareholders' value, through high and sustainable ROE generation. By the end of the strategic period the Bank's size, profitability and quality of service should correspond to the requirements which shall be set by the entrance of the country to the European Union, and the changes in the economic environment which it will generate.

In line with these aims, the Bank initiated several IT Project in 2001, which shall come to a conclusion and bring results during the coming years.

In order to retain the Bank's competitiveness in 2001, preparations began for the creation of a data warehouse. In connection with the data warehouse, it will become possible to identify the customers consistently throughout all the systems.

In order to ensure that a uniform, integrated IT system supporting the administrative processes is in place, the introduction of a complex corporate management system is underway. In the framework of the SAP project that was launched in 2001, the accounting and controlling systems will be upgraded, and the mandatory reports will be generated faster and automatically. The IT support systems needed for efficient tangible asset and inventory management, customer acquisition and treasury back office activities will be implemented. As a part of the SAP project, an integrated management information system will also be created.

The installation of the SUBA system throughout the branch network was commenced in 2001 and will be completed this year. This new, state-of-the-art branch system is capable of fully replacing the current system and of accessing the IT systems of the Bank's other businesses on one screen.

The development of OTP's sales channels continued in 2001. After the Budapest branch offices, the Bank also began refurbishing the county-seat branches. Special mention should be made of the project aimed at replacing the branch façade logo systems of 50 high-priority branch offices, which began in the second half of 2001. As of year-end 2001, OTP was serving its customers from a total of 424 branch offices throughout Hungary (in 74 of which customs cashier services were also available), 26 customs branches and 55 automated customs branch offices.

The Bank continues to play a dominant role in the development of electronic distribution channels. Electronic sales channels, which had until then been separated from each other also in terms of business policy, were united in the middle of 2001 under one uniform brand, with OTPdirekt being introduced as a trademark name.

In the area of electronic sales channels, the Bank continues to play a dominant role in the market. Estimates put the Bank's market share with respect to all of the electronic sales channels between 60–80%. By the end of 2001, the number of customers with a TeleBank Center contract had reached 345,000; up 92% from the previous year. The services offered by HÁZIB@NK were being used by 133,000 customers (a growth of 120%) and Mobil TeleBANK by 97,000 customers (a growth of 177%).



BUSINESS REVIEW

In 2001, the range of electronic services expanded with respect to all the electronic channels, and the quality parameters of the services improved further. The Junior website of the Bank won the “Website of the Year” award, and OTP was awarded the title “Internet Bank of 2001” for its internet-based service, OTPdirekt. In 2001, the range of services offered via the internet was extended to include the management of foreign currency accounts. It became possible to give on-line instructions for the re-transfer of time deposits to the current account, as well as to initiate transfers from a securities account. Since October 2001, customers have been able to initiate transactions in respect of their savings accounts and mobile deposits via the telephone-based and internet channels of OTPdirekt. Since November, it has also been possible for customers to change their bankcard purchase limit via the telephone or mobile phone.

In 2001 independent sub-portals were set up on the internet for Junior customers and for small and medium-sized companies.

In 2001 the range of services other than cash withdrawals that may be accessed via ATMs was expanded to include the requesting of account balances, the changing of the PIN code, and transfer services.

BUSINESS LINE RESULTS

RETAIL BANKING

OTP Bank has retained its dominant position in Hungary’s retail banking market. It manages 39% of household savings and 31% of household loans.¹

RETAIL DEPOSITS

By year-end 2001 the volume of retail deposits managed by the Bank had reached HUF 1,406 billion, representing a 7.5% increase over last year’s figure. The Bank’s share of the HUF deposit market was 39.1%, and its share of the foreign currency deposit market 36.3%.

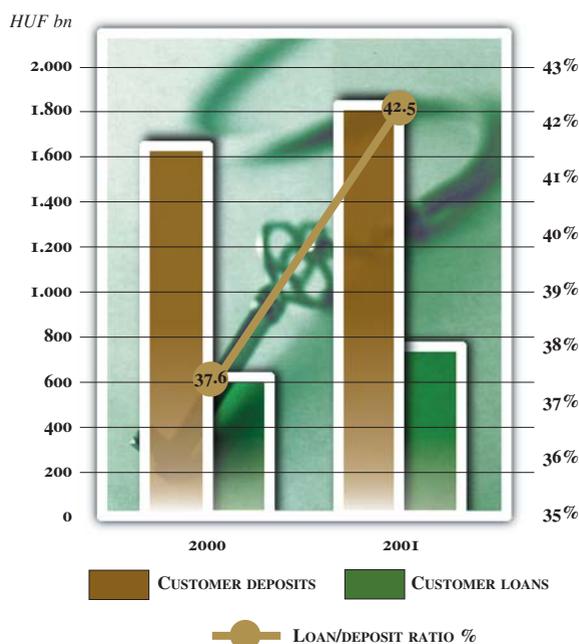
Retail deposits grew by 10.8% and reached HUF 1,076.8 billion by the end of the year. Within HUF deposits, the balance of retail current account deposits increased the most significantly – by HUF 109.5 billion, or 21.0% – and their share of total retail HUF deposits increased from

¹Due to the change in statistical methodology introduced on 31 May 2001, these data are not comparable with those to be found in the Annual reports of earlier years.

53.6% to 58.5%. The volume of time deposits held on current accounts was 19.2% higher than a year earlier.

Volume of deposits on interest bearing pass books declined slightly (by 0.3%) and was HUF 327.3 billion at the end of 2001. Premium deposit accounts grew dynamically to HUF 8 billion.

By year-end 2001, the number of retail current accounts had grown 3.6%, reaching 2.6 million. This growth occurred in spite of the closing of a large number of dormant accounts and accounts with a negative balance, primarily due to the fact that in April of 2001 the Junior account product was extended to include those aged 7 to 14 and, in November, also those under the age of 7.



Customer assets and liabilities

On 1 October 2001 the Bank introduced the Retail Savings Account, which represents a flexibly accessible facility for customers with relatively large savings (at least HUF 2 million). The success of the product is indicated by the fact that by year-end customers had deposited a total of HUF 5.6 billion on 2,295 of these accounts.

The volume of foreign currency deposits grew by 2.1%, to HUF 328.9 billion, while at the same time there was a marked decrease, of 24.7%, in the number of accounts, which

BUSINESS REVIEW

meant that, in line with the Bank's objectives, the average account balance continued to increase. The main reason for the fall in the number of foreign currency accounts was the automatic conversion of accounts into euro due to the pending withdrawal of the "in-currencies", while the strengthening of the Forint also played a role in the decrease.

As of year-end 2001 the volume of **securities and deposit certificates** was HUF 14.9 billion, down 24.2% from the previous year. Of the CDs issued by the Bank, Deposit Notes represented the largest share (96.3%), with the volume of these Notes standing at HUF 14.3 billion as at year-end, down 23.0% from the previous year.

The number of bankassurance products sold grew by over 3-fold in 2001 and approached 275,000 mainly as a result of the success of bank card insurance introduced in 2001. Insurance fee income declined by 2.2% to HUF 13.3 billion mainly related to the fall in single payment life insurance products, following the decline in yields as a result of falling equity prices.

RETAIL LOANS

2001 saw a continuation of the dynamic expansion of the retail loan market. As a result of changes in the home finance subsidy system at the beginning of 2000, the volume of housing loans, stagnation for many years, grew by 72.5%, surpassing the growth rate of 2000. The volume of new housing loans issued by credit institutions reached HUF 329.1 billion, growing from HUF 190.8 billion at the end of 2000. In consumer lending the tendency of earlier years continued, and the volumes grew by 35.4% (some easing of the growth rate), from HUF 409.1 billion to HUF 553.8 billion.

In the **housing loans market**, where a multitude of players had appeared, OTP's most important objective was to re-

tain its leading position in spite of fierce competition. As at year-end 2001, the combined value of *Lakáshitelek 2000* (Housing Loans 2000) and of *Forrás-hitelek* (Source Loans) was HUF 88.5 billion, which represents a growth of 200.1% compared with the HUF 29.5 billion of the previous year. Due to the dynamic growth in volume, the Bank was able to check the previous downward trend in the volume of the older-type housing loans, more than compensating this decline with the new loan placements. Total housing loans of the Bank reached HUF 150.8 billion securing a market share of 46.7%.

On 1 August 2001 the Bank added two new, favourable-interest-rate facilities to its range of housing loan products; the subsidised and the non-subsidised *Forrás-hitel* (Source Loan), which could be applied for with a simplified income test. As of 1 November 2001 the interest rate on subsidised housing loans was reduced to 2.75%, which gave a further impetus to the growth in the volume of housing loans.

By 31 December 2001, the volume of **consumer loans** had reached HUF 107.4 billion, representing an increase of HUF 31.4 billion, or 41.3%, over the previous year. Based on this substantial increase in volume, the Bank succeeded in retain-

ing its market share, which remained at 21% in 2001 too.

The growth in the volume of consumer loans was in large part attributable to the fact that – due to a continuous product development effort – mortgage loans retained their competitiveness. As of 31 December 2001, the volume of mortgage loans was HUF 46.3 billion; up 72.4% on the HUF 26.9 billion of the previous year.

Loans connected to retail current accounts, i.e. those of an overdraft type, continue to be very popular with the Bank's



BUSINESS REVIEW

customers due to their attractively low interest rate, their accessibility with a bankcard and to their “revolving” nature. While at year-end 2000 the volume of these loans was HUF 41.9 billion, by the end of December 2001 this figure had reached HUF 56.6 billion, representing an increase of 35.2%.

The number of retail overdraft facility contracts increased substantially during 2001. While at the start of 2001 the Bank was managing 700,000 overdraft accounts, by the end of the year this figure had reached nearly 940,000 (a growth of 34%). Partly due to the Spring DM campaign related to the A-Loan, the number of A-Loan contracts grew from 477,000 to 638,000, while that of C-Loan contracts grew from 23,000 to 73,000. In line with the Bank’s plans, in 2001 the number of B-Loan contracts grew at a more modest rate (from 203,000 to 229,000).

INVESTMENT SERVICES

The Bank’s investment services business was set up, as an independent area, in July 2001, and includes (an expanded range of) securities trading and private banking activities.

SECURITIES TRADING AND SECURITIES ACCOUNT MANAGEMENT

The number of securities and capital accounts managed by the Bank did not change significantly compared with the previous year, while with respect to the investment volume managed on the accounts, a substantial growth of some 30% occurred in 2001.

Compared with the previous year, commission revenue from securities services showed a modest growth, and within this revenue the proportion of revenue coming from custody services increased, while that from agency-type activity decreased. The main reasons for this are the low turnover on the Stock Exchange, the decreasing number of orders and the relatively high account management fees.

The range of securities distributed by the Bank was extended by several new products in 2001:

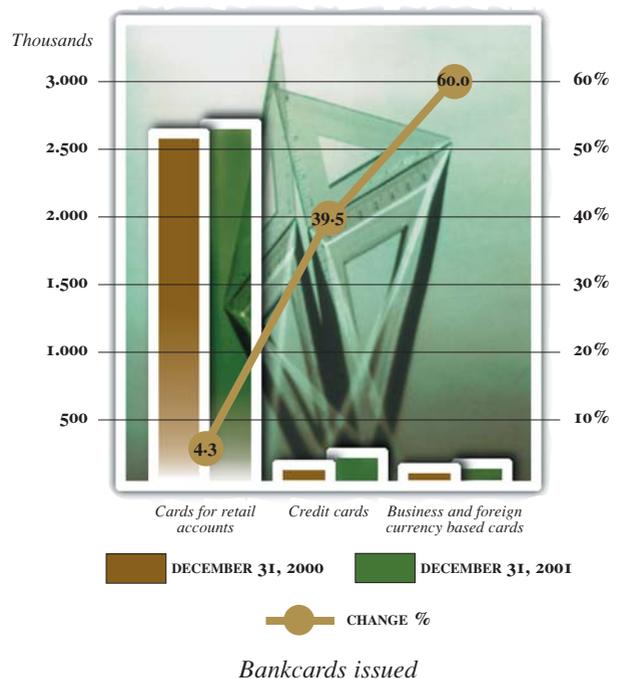
- As at year-end 2001, the recorded volume on customer accounts of government bonds issued by OECD member states was close to HUF 700 million.
- The range of securities products sold through the branch network was extended in mid-2001, with the

introduction of auction orders. Although there was a growing interest in auction orders, this did not dampen the demand for *Kamatózó Kincstárjegyek* (Interest-Bearing Treasury Bonds).

- During the last days of 2001, OTP Fund Management Ltd. began the distribution of two foreign currency-based investment funds via the internet.

PRIVATE BANKING SERVICES

In 2001, the number of private banking clients dropped to 6,807, from 7,067 at year-end 2000. The assets of private banking clients grew by 5.7%, reaching close to HUF 100 billion and offsetting the effect of the 3.7% drop in client numbers. As a result, the average asset portfolio size per client increased by 9.7% over the year.



The change in the asset structure of the clients’ portfolios continued. In addition to the traditional banking products (retail current account, foreign currency), the clients increasingly chose securities-type investments.

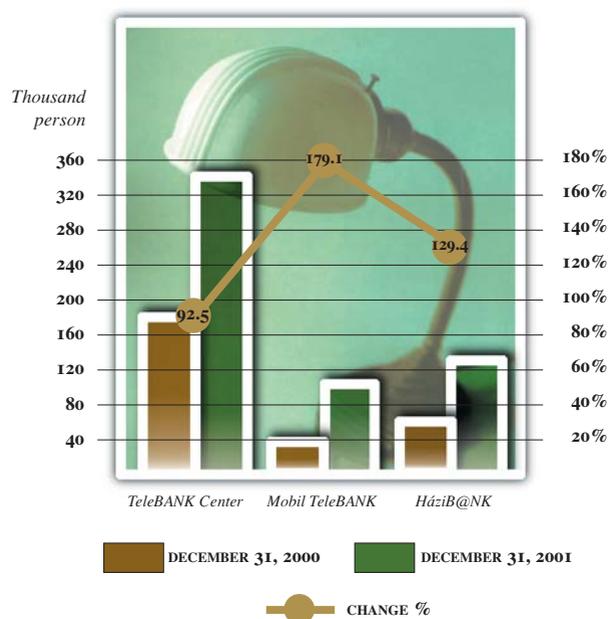
In the second half of 2001, the Bank’s management decided that the entire concept underlying the investment services business would have to be reviewed. Consequently, in the first half of 2002 private banking services will be repositioned (i.e. a new value proposition; new products;

BUSINESS REVIEW

new pricing policy; strengthening of the advisory side of the service; consistent, high-quality service developed and instituted).

BANKCARD BUSINESS

With a growth of 7.4%, the number of bankcards issued by the Bank reached 3,095 thousand by 31 December 2001, enabling the Bank to retain its market share of more than 60%.



Usage of electronic banking services

The number of bankcards issued in conjunction with retail accounts grew by 6.4% in 2001, a similar rate to that of the previous year, reaching 3,016 thousand by year-end. Within the category of retail bankcards, the number of Forint-based cards grew 7.4% in 2001, reaching 2,937 thousand; the number of foreign currency cards was in excess of 4,000; while the number of cards used purely for customer identification purposes, decreasing at a similar rate to that of previous years, fell to close to 75,000 by the end of the year.

The change in the number of cards issued for non-retail customers was characterised in 2001 by the same, dynamic growth rate of the previous years. As of 31 December 2001, the number of these cards stood at 79,000, which represents a 66.8% increase over the previous year.

In October 2001, Multipont, the Bank's new co-branded card, was introduced. The success of this product is indicated by the fact that the number of cards issued during the last two months of 2001 was in excess of 14,000. Further developments in 2001 included the transformation of the range of products developed for the Junior age-group, as well as the extension of the number of services that may be accessed via ATMs, which meant that customers could use ATMs to initiate transfer orders, inquire about the latest balance on their accounts, or to change their PIN code.

By year-end 2001, the number of ATMs owned by the Bank had reached 1,094 (up 2.4%), and this means that the Bank now owns 43% of all the ATMs operated in Hungary. The number of transactions carried out on ATMs was 62.6 million in 2001, and the transacted volume was HUF 1,246.1 billion, representing an increase of 11.2% and 24.6% respectively over the previous year, increasing the market share by number of transactions to 67% and by volume of transactions to 49%.

By 31 December 2001, the number of POS terminals had reached 16,330, representing an increase of 7.5%. The Bank operated 2,467 of these terminals in its own branch offices, and 9,356 were operated at commercial outlets, with this latter representing a market share of 50%.

In 2001 the number of cash withdrawal transactions made in OTP Bank's own POS network was 2.7 million, and the transacted volume was close to HUF 605 billion, with the latter being an increase of 23.7% over the previous year. The number of transactions through the POS network of the postal system – operated by OTP Bank – reached 3.5 million, of which almost 60% was generated by cards issued by the Bank, and volume reached HUF 113.3 billion an increase of 24.6% over 2000.

In 2001 the turnover transacted on commercial POS terminals continued to grow dynamically. By the end of 2001, the number of purchases had reached 22.4 million, up 41% over the previous year, and the transacted volume was HUF 183.5 billion, which represents an increase of 40.2% over the previous year. The market share of the Bank increased, by number of transactions to 74% and by volume of transactions to 63%.

BUSINESS REVIEW

Net income from card transactions grew by 49.6% in 2001 and reached HUF 10.7 billion. Largest volume came from ATM transactions (HUF 5.6 billion), card issuance fees (HUF 2.8 billion) and merchant fees (HUF 2.1 billion).

CORPORATE BANKING

Partly by taking account of the changes made in 2001 by the NBH in relation to the divisional breakdown of banks' corporate-customer clientele, OTP managed to strengthen its market positions, and by the end of the year, the Bank had attained an 11.7% share of the corporate deposit market, and an 11.8% share of the loans market.

The volume of corporate deposits stood at HUF 253.6 billion at the end of 2001, representing a 20.3% increase over the previous year. The share of foreign currency deposits within the total of corporate deposits was 5.9%. Nearly 50% of the total of deposits came from corporations, 20% from non-profit organisations, 14% from small enterprises, and 10% from homeowners' associations.

The volume of corporate loans at the end of 2001 stood at HUF 464.8 billion, representing an increase of 18.2% over the previous year. The share of FCY loans within the total of corporate loans was 23.7%. As of year-end 2001, FCY loans amounted to HUF 110.2 billion, down 11.7% from the previous year.

At the end of 2001, loans granted to businesses were in excess of HUF 386 billion, up 18.5% over the

previous year. 28% of these loans were in foreign currency. Within loans to businesses, the growth in capital project loans amounted to 69%, while current account (overdraft) loans grew by HUF 8.6 billion, current asset loans by HUF 7.7 billion, and loans for the realisation of commercial housing projects stood at HUF 4.8 billion.

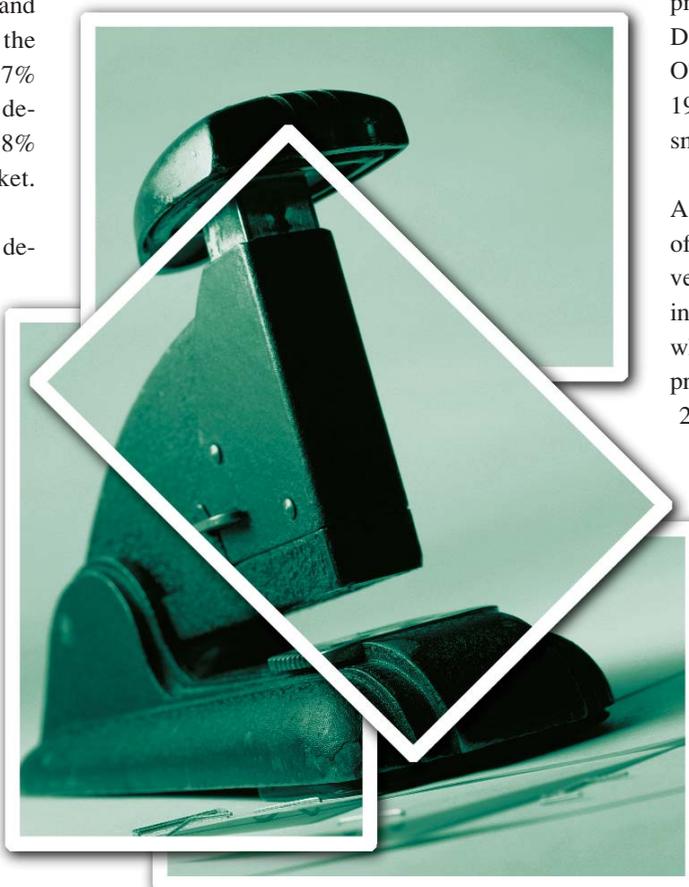
As of year-end 2001, the total value of loans granted to small enterprises was HUF 15.9 billion, up 18.2% over the previous year. 56.7% of this amount was granted to private entrepreneurs. As of 31 December 2001, the volume of OTP's Quick Loans amounted to 19.0% of the loans granted to small enterprises.

As of year-end 2001, the volume of the loans of financial and investment service companies had increased to HUF 35.2 billion, while the loan portfolio of non-profit organisations was HUF 27.7 billion; down 1.1% from the previous year's figure.

As of year-end 2001, 20.0% of the business loans had been granted to companies in the financial services sector, 18.2% to companies in the manufacturing sector and 14.1% to transport and telecommunications companies. By the end of 2001, the share of agriculture within the Bank's

loan portfolio had dropped to 6.7%, although within this amount, the volume of loans secured with what is regarded as first-class collateral public warehouse bonds, had doubled.

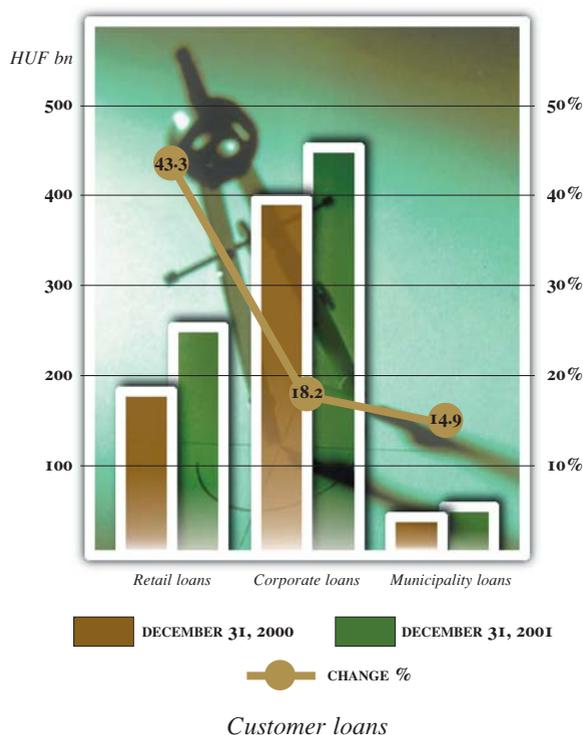
Loan placements increased by the largest extent in the construction industry (by HUF 19.9 billion), in transport and telecommunications (by HUF 18.0 billion) and in financial services (by HUF 15.1 billion).



BUSINESS REVIEW

In 2001 the range of products offered to OTP's corporate customers expanded further. The small business mortgage loan was introduced primarily for small and medium-sized enterprises, and the Bank also took part in lending and the provision of bank guarantees in relation to the Széchenyi programme. At the same time, a number of corporate loan products were redesigned and enhanced (e.g. the small business "Quick" Loan, the Lombard Loan, loans for financing commercial housing projects, agricultural loans and EXIM loans).

In order to speed up and to simplify the loan application appraisal process, a corporate creditworthiness scoring system was developed, and is expected to be introduced in the first half of 2002.



With respect to its corporate clientele, the Bank is also placing considerable emphasis on the development of electronic banking channels, including the development of the products offered on these channels: in 2001 we introduced the "OTP e-Forint" electronic bank account, and the SME website linked to OTP's website was greatly enhanced, and now contains several new, customer-friendly services.

CUSTOMS SERVICES

In 2001 OTP's customs services division strengthened its market-leading position. By year-end, the division's services were available at 155 locations throughout Hungary, with the number of its outlets growing by 20% in the course of 2001.

In 2001, more than 29,000 customers settled a total volume of HUF 120 billion in customs duties/customs guarantee payments via the Bank, the commission revenue reached HUF 260.9 million. Compared with the previous year, the total turnover grew by 37.9% and commission revenue by 38.9%.

The use of Customs Cards spread further. By year-end 2001, their number had grown by 37.7%, to nearly 2,000, and during 2001, 44.2% of the total payment turnover was transacted with the cards, compared to a figure for the previous year of 38%.

By year-end 2001, the number of Automated Cashier System (AVR) units had grown by 57%, to 55, and during the year more than HUF 21 billion in payment turnover was transacted via the AVR units – 64% more than in the previous year.

The bank guarantees and the assumption of liabilities in connection with customs clearance procedures was HUF 7.7 billion, and the related commission revenue was close to HUF 82 million.

MUNICIPALITY BANKING

OTP once again retained its leading role in municipality banking in 2001. During the year, close to 85% of this customer group, i.e. 2,694 municipalities, together with the institutions that are financed by them, kept their current accounts with OTP Bank.

At year-end 2001, the volume of the deposits of the municipalities and their institutions was HUF 152 billion, up 33.4% over the previous year. The size of this increase is attributable to non-typical increases in central-budget settlements and to the exceptionally high growth in FCY deposits. By year-end 2001, the balance of municipality loans had reached HUF 47 billion, up close to 15% on the

BUSINESS REVIEW

previous year. The Bank's market share of municipality deposits was 78%, while it had 65% of the market of municipality loans.

Of the available electronic services, a growing number of customers from among the municipalities and their institutions are using the client terminal system for transacting payments, as well as the Cash Management and the Treasury systems for preparing municipality budgets. The use of cash-substitute payment instruments is also becoming more common among our municipality customers, and this is reflected by the fact that the number of cards issued to the municipalities increased by 28% in 2001.

In 2001 the Bank did not introduce any new deposit products specifically for municipality customers, but it did extend the range of loans offered to them with a number of new financing facilities related to the Széchenyi project, including loans for housing, energy saving and tourism development.

The importance of the municipality banking division is increasing with the growing emphasis that is being placed on the utilisation of synergies within the Bank and the bank group. Through its municipality customers, the Bank has been able to make substantial progress in expanding both its retail and corporate clientele and also in the cross-selling of products offered by certain members of the group (such as OTP Building Society Ltd., OTP Fund Services Ltd. and OTP-Garancia Insurance Ltd.)

TREASURY AND STRUCTURED FINANCE

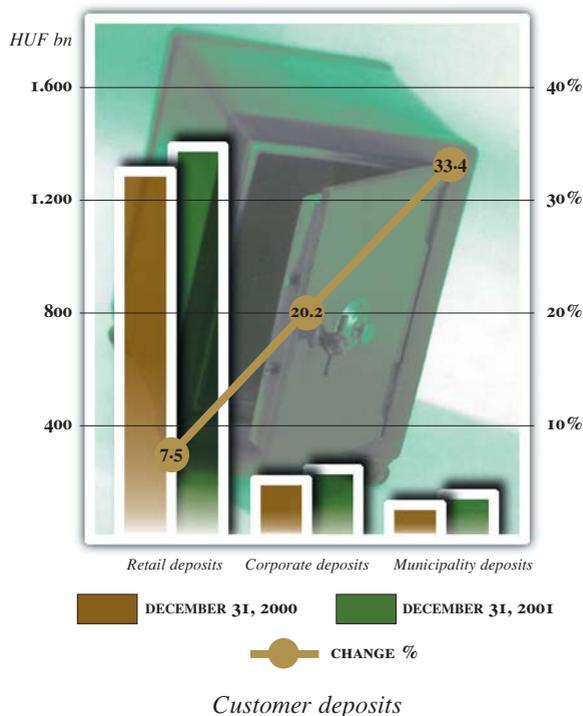
TRADING

The Bank successfully dealt with the challenges of 2001. The exchange rate system was changed, which meant an increase in exposure and the loss of a stable source of revenue. The liberalisation of FX regulations brought a number foreign banks, which are powerful competitors, to the Forint market. 2001 saw the integration of the securities trading activities of OTP Securities Ltd., together with the related organisational changes, and an expansion in the product range.

In 2001 Treasury's profit from FX trading was HUF 630 million. The profit from securities trading was HUF 122 million and, of these two results, treasury sales acco-

unted for HUF 140 million. The profit from money market deals was HUF 388 million.

In 2001 the Bank succeeded – in the face of what was also increasingly strong international competition – in retaining its market-leading position in the Hungarian FX market. OTP Bank is currently among the 10 largest



traders (with seven of them foreign companies) in the Hungarian spot FX market. OTP Bank was the first of Hungary's banks to have entered the international HUF options market, and it continues to be the largest player in the forward section.

Even after liberalisation, OTP Bank managed to retain its market-leading position in the Forint interbank market, and substantially increased its FX swap volume following the entry of the foreign banks. On the Forint market the most important event of 2001 was the introduction of the full liberalisation of the Forint and the resultant substantial increase in the number of OTP's (foreign) counter parties, despite conditions of a continuous decline in attainable Forint interest rates. Due to the combined effect of a fall in volume and in market interest rates, the annual interest revenue of 2001 decreased to HUF

BUSINESS REVIEW

34.7 billion, from HUF 42.8 billion in the previous year, and the interest margin dropped from 1.14% in 2000 to 1.12% in 2001.

STRUCTURED FINANCE

In spite of a recession in the world economy (including in European markets) and the adverse impact that the September 11th terror attacks had on the global economy, the growth-oriented economic policy implemented in Hungary, and an increased number of infrastructure projects, had a beneficial effect on the syndicated lending market, as there was an increased need for funding among the market players. By capitalising on the favourable circumstances afforded by the economic environment, the Bank greatly increased its activities on the syndicated loans market.

The Bank again retained its market-leading position in 2001. OTP Bank acted as the lead arranger of syndicated lending projects for ÁÉB Rt. (General Banking and Trust Co. Ltd.), Pannon GSM Ltd., Kőolaj és Kőolajtermék Készletező Szövetség (The Association for the Storage of Petrol and Petrochemical Products), Budapesti Közlekedési Vállalat (Budapest Transport Company). The Bank was also the lead arranger of the Hungarian market's largest ever, HUF 180-billion, syndicated loan, given to Nemzeti Autópálya Rt. (National Highways Ltd.) in the framework of Hungary's 15-year highway construction programme.

Taking into account the trends in international financial markets, abroad it was primarily in the target market of the East-Central European region that the Bank chose to assume state-guaranteed as well as leading-financial-insti-

tution risks. OTP bank participated as co-arranger in the syndicated loan given to Nova Ljubljanska Banka, and it also participated in the consortium loan granted to HBOR and Hanvit Bank.

As a result of the activities of 2001, the commission revenue of the structured finance division was HUF 520 billion, and the volume of newly concluded deals was HUF 111.3 billion. Own-portfolio funds managed and drawn down amounted to HUF 101.7 billion, and contributed HUF 42.6 billion to the regional profit centres' corporate loan placements in the course of 2001. In 2001 the net interest revenue on the Bank's own portfolio was HUF 1.5 billion, while with respect to the volume transferred to regional profit centres it was HUF 420 million.

As the first step in integrating the activities of OTP Securities Ltd. into the Bank, the Department of Capital Market Products was formed on 1 October 2001. The two most important tasks of the department are the arrangement of securities issues on the capital markets for both domestic and international issuers wishing to enter the capital markets, and the elaboration of new bond programmes that are perceived by the market as innovative and that will also satisfy investors' individual and special needs.

In the course of 2001, OTP's structured finance division, acting as lead manager, successfully elaborated MOL's bond issue programme aimed at raising a total of HUF 50 billion in funding. As a part of the overall programme, the first bond series of HUF 15 billion was issued, and OTP was not only the lead manager of the issue, but was also the primary distributor of the bonds.



BUSINESS REVIEW

The success of the transaction is indicated by the fact that the final subscription price was twice as high as the original offer.

PROJECT FINANCING

In the course of 2001, the number of project financing deals increased considerably, with 14 new projects in all. In 2001 the contractual (signed) volume increased from HUF 82.2 billion to HUF 122.7 billion, which represents an increase of 49.2%. In the same period, outstanding loans from project financing grew 46.9%, from HUF 58.8 billion to HUF 86.4 billion.

In 2001 the project financing division realised HUF 391 million in commission, fee and other revenues. Commission, fee and other revenues realised in 2001 are more than HUF 85 million higher than the revenue of HUF 305.7 billion realised in 2000. In 2001 the net interest revenue realised from deals was HUF 1,032 million, while in 2000 it was HUF 783.6 million. Within net interest revenue, interest revenue from FCY loans amounted to three-quarters of the total net interest revenue.

With regard to HUF loans, the average net interest margin, i.e. the difference between the fixed interest rate of a given interest period and the internal interest rate, was 1.4%, which is virtually the same as the average interest margin of 2000.

INTERNATIONAL BANKING

In 2001 OTP Bank transacted international payments in a total value of HUF 823.4 billion, or 21.1% higher than in the previous year. The volume of commission revenue grew 30.5%, and reached HUF 0.8 billion.

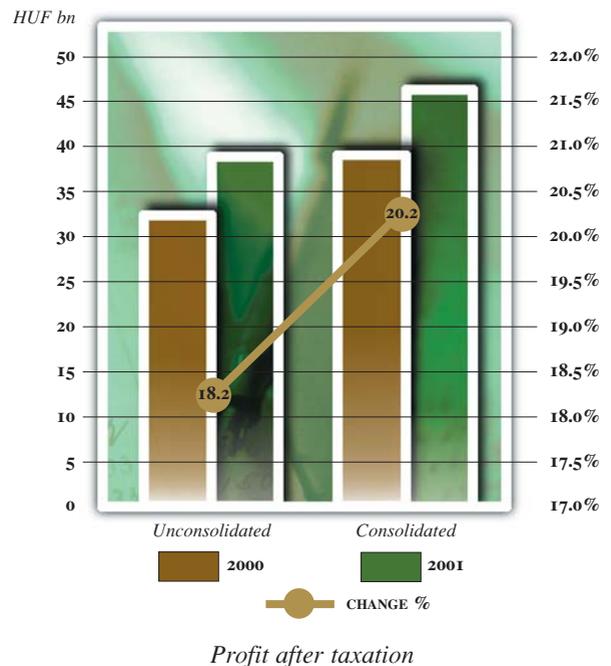
Thanks to the changes in Hungary's FX regulations, the Bank was able to introduce a new product to the international market: in June 2001 the Bank made offers to foreign banks with respect to managing HUF accounts for them and clearing international payments, in response to which a number of the world's largest banks opened accounts with OTP.

The high professional standard of the Bank's services was underlined by the fact that JP Morgan Chase Bank

chose OTP Bank to receive its US Dollar Funds Transfer Quality Recognition Award in 2001.

INVESTMENT

In 2001 the gross book value of the Bank's stakes held in various companies grew from HUF 34.7 billion to HUF 40.5 billion. The growth in the investment portfolio is primarily attributable to the increase in the capital of strategic investments and to the foundation of new companies. The capital made available to these companies was intended for covering the cost of operation, to contribute to their development and to increase the companies' market share.



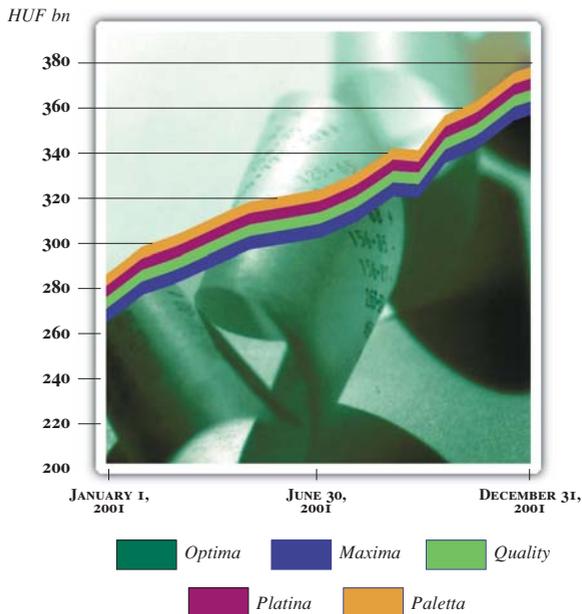
The major proportion of the Bank's strategic investments consists of members of the OTP Group. With the ultimate goal being to satisfy customers' needs to the fullest possible extent, the purpose of these investments was and still is the establishment of subsidiaries for activities that, for regulatory reasons, cannot be carried out within the Bank, and the conducting of these activities in a bank-group framework, and also to offset the effect of disintermediation, i.e. to keep the funds that are flowing out of the banking system and to retain management over those funds within the bank group. The success of this strategy is

BUSINESS REVIEW

clearly demonstrated by the fact that as at year-end 2001 the OTP Group was managing more than 36% of all retail savings excluding cash, government securities and equities. In what follows, we describe the measures that were taken in 2001 in relation to building the group, and we also present brief reports on the operations of the major subsidiaries' in 2001.

OTP BANK GROUP

It is the strategic goal of the OTP Group to be the leading financial service provider in Hungary, and consequently aims to be market leader or dominant player in every segment of those services. To fulfill this an improvement of the performance and cooperation of the Group companies is necessary and requires the utilization of every new opportunity and continuous change in the Group in order to meet customer, market and legal requirements.



Wealth of OTP Investment Funds

During 2001, several new subsidiaries were added to the OTP Bank Group that will be launching their business operations as members of the group in 2002:

- In order to increase its share of the housing lending market, and wishing to capitalise on the new opportunities created by the government housing subsidies,

the Bank decided to establish a mortgage company, which began its operation as **OTP Mortgage Bank Ltd.** in February 2002.

- The organisation of **OTP National Health Fund** has begun, with the aim being to provide and arrange for health and health-protection services that will complement or replace public health services and that are intended for use by fund members. The fund was established in January 2002.
- In 2001, OTP Bank performed due diligence with regard to **Investična a Rozvojová Banka (IRB)** and decided to acquire it. The IRB shareholder's meeting will be held in April 2002, during which the new managing bodies will be elected. Following this, a development project for the bank may be launched and efforts may be made to integrate the bank into the OTP Group.

OTP-GARANCIA INSURANCE LTD.

In 2001 OTP-Garancia Insurance Ltd. earned total premium income of HUF 42.3 billion (up 8.8%), which meant that its market share remained stable, at about 10%. The premium income from the life and bank insurance division amounted to HUF 21.5 billion (up 1.3%), giving the division a market share of 12% and making the Company the third largest life insurer in 2001. The premium income of the non-life division in 2001 was HUF 20.7 billion, or 17.9% higher than in 2000, and this represented a market share of 9%.

Total gross damage claims were HUF 20.4 billion in 2001. The ratio of claim settlements to premium income in the non-life division was 53.2%, while when adjusted for changes in reserves, the damage ratio was 60.9%. The change in the reserves amounted to HUF 12.5 billion.

The Company's balance sheet total increased by 34.1% to HUF 61.7 billion, while pre-tax profits rose 43.5%, amounting to HUF 1,254 million for the year.

MERKANTIL GROUP

Merkantil Group once again retained its leading position in the car financing market. The growth in the total number of vehicle financing contracts, including those concluded within the group, was 13.9%.

MERKANTIL BANK LTD.

In 2001, the Company's balance sheet total reached HUF 59.4 billion and its pre-tax profit was HUF 1,925 million;

BUSINESS REVIEW

13.5% higher than in the previous year. Of the Company's assets, gross car loans represented 80.0%, while dealer financing accounted for 9.5%. The total volume of car loans increased by HUF 5.8 billion compared to the year-end figure of the previous year, and amounted to HUF 47.5 billion as at 31 December. In the car financing business, the demand for Forint-based loans and foreign currency leasing facilities were similar, and the share of loans associated with used cars increased within the portfolio.

The number of car financing transactions within Merkantil Group was 39,000, with more than 22,000 new car financing transactions and 15,000 foreign currency based leasing transactions. According to estimates, the Group has acquired a 25% share in the car financing market.

MERKANTIL CAR LTD.

The relative weight of financial leasing transactions in Merkantil Car Ltd.'s books has continued to increase within the product structure of Merkantil Group. The reason for this is the reduction of interest rates on foreign currency based products and the successful introduction of the well-received CHF-based facility. The balance sheet total of the Company increased by HUF 11 billion in 2001, which means there was a 47.8% increase in assets compared with 2000.

The value of the financial leasing portfolio rose from HUF 19.2 billion to HUF 31.9 billion (i.e. by 66%). According to Merkantil Car's books, the total value of production-asset financing deals concluded by year-end was over HUF 3.7 billion, which represents a doubling of the portfolio. The Company's pre-tax profit in 2001 was HUF 462 million.

MERKANT-HÁZ LTD.

The balance sheet total of Merkant-Ház Ltd. increased to HUF 6.6 billion (i.e. by 24.6%) in 2001. As of 31 December 2001, the value of long-term car lease contracts taken over from Merkantil Car Ltd., as well as the value of such contracts concluded by Merkant Ház since March 1999, amounted to HUF 1,946 million. The Company's pre-tax profit in 2001 was HUF 64 million.

OTP BUILDING SOCIETY LTD.

In 2001, OTP Building Society Ltd. concluded nearly 77,000 new contracts in the value of HUF 49.4 billion. With these figures, the Company retained its market leading position both in terms of the number and the total value of

contracts. On the whole, OTP Building Society had a successful year. The total value of deposits and the balance sheet total were higher than expected, partly because the retirement of saving deposits took place at a slower rate than expected: of the 4,567 expired contracts, only 2,294 clients had withdrawn their savings by 31 December, while 957 clients had taken advantage of the opportunity to apply for loans.

As of 31 December 2001, the total deposit balance stood at HUF 48.1 billion, which represents a market share of nearly 50%. The Company's balance sheet total was HUF 54.1 billion, and its pre-tax profit amounted to HUF 1,652 million.

OTP FUND SERVICES LTD.

OTP Fund Services Ltd. retained its dominance over the market in terms of the number of individual accounts and the assets of the funds managed. At the end of 2001, the Company was managing 764,000 individual accounts and total fund assets of HUF 100 billion. At the end of 2001, the Company's market share in terms of number of accounts was 22.3%, and 18.7% in terms of fund assets managed. The Company closed the year with a profit of HUF 77 million, and its balance sheet total was HUF 1,510.8 million.

The number of members of OTP Private Pension Fund grew from 567,000 to 609,000, the Fund's assets rising from HUF 43 billion to nearly HUF 67 billion. The Company's market share increased by 27.0% in terms of membership numbers, and 24.6% in terms of assets under management. The number of members of OTP Voluntary Pension Fund grew from 117,000 to 149,000, with its assets rising from HUF 22.5 billion to HUF 31.0 billion. The Company's membership-based market share reached 13%, while its assets-based market share was 11.3%.

OTP FUND MANAGEMENT LTD.

The total value of fund assets managed by OTP Fund Management Ltd. continued to increase at a pace that outstripped the growth of the market, more specifically by 34.3% (from HUF 273.4 billion to HUF 367.3 billion), which is considerably higher than the 23.6% growth in the market.

However, the growth in both the market and in OTP Fund Management's assets was below the growth rates seen in the previous year. The Company increased its market share from 48.5% in 2000 to over 52% in 2001.

BUSINESS REVIEW

The value of the pension fund's assets that have been managed by the firm since October 2000 increased by 44.7% in 2001 (from HUF 70.3 billion to HUF 101.7 billion).

The Company's preliminary pre-tax profit was HUF 2,413 million, which exceeds the HUF 1,655 million of previous year by 45.8%.

OTP REAL ESTATE LTD.

OTP Real Estate's pre-tax profit was HUF 856 million in 2001, which represents a 12.8% increase compared to 2000. The Company's net sales revenues amounted to HUF 10.6 billion, which is 34.2% higher than in the previous year (HUF 7.9 billion). This increase was primarily a result of successful sales activities in the fourth quarter (Budapest, Péterhegy block T.4.; Budapest, Pusztadomb; Miskolc, Ruzsin stages II-III.).

The Company's profit from financial transactions amounted to HUF 34.9 million in 2001, and its balance sheet total had reached HUF 11.5 billion as at the end of the year. From all the successful companies in the real estate business, the Hungarian Real Estate Association once again awarded OTP Real Estate the title of Property Developer of the Year award for 2001.

OTP FACTORING LTD.

OTP Factoring Ltd. concluded assignment contracts for receivables in a gross value of HUF 11,557 million, of which the value of receivables purchased from OTP Bank Ltd. amounted to HUF 8,642 million. OTP Factoring Ltd.'s business operations have retained their high level of profitability.

The increase in the number of successful collections, as well as the income from a number of deals initiated during the last months of the previous year and closed at the start of 2001, contributed to the Company's achieving an income well in excess of target. Owing to this, the Company's pre-tax profit was HUF 635 million in 2001.

OTP REAL ESTATE ASSET MANAGEMENT LTD.

The Company is engaged in the collection of small receivables and housing loans secured with state guarantees, and conducts this activity on the basis of commission from OTP Bank Ltd. and OTP Factoring Ltd.

The portfolio of properties purchased or received as collateral increased by HUF 323 million, and the number of housing loans granted under the old conditions that were taken over for management by the Company from OTP branches was 769. The Company's pre-tax profit for 2001 was HUF 273 million, which is more than two-and-a-half times higher than the previous years' figure.

HUNGARIAN INTERNATIONAL FINANCE LTD.

The performance of the London-based HIF Ltd. in 2001 was in most respects in line with its plan. At the end of December, the Company's equity exceeded HUF 1,841 million (GBP 4.5 million). The Company successfully replaced its maturing assets, increased its portfolio and improved its position in the market. The Company's pre-tax profit amounted to HUF 184 million (GBP 451 thousand).

The Company's business strategy continues to focus primarily on the Central and Eastern European market, with 66.1% of the total asset, liability and guarantee portfolio originating in this region. Of the liability portfolio, the value of transactions concluded in Central and South American markets was over 10.0%, and the value of transactions concluded in the Middle East and North America exceeded 15.5% at the end of the reporting period.

OTP TRAVEL LTD.

The unfavourable influences affecting the tourism industry in general also had a considerable impact on OTP Travel Ltd.'s operations in 2001. OTP Travel's pre-tax profit amounted to HUF 12.1 million, one third of the figure for 2000, and its balance sheet total fell by 4.5%, to HUF 512.3 million.