
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 2001. Shareholders' equity increased from HUF 127.5 billion on 31 December 2000 to HUF 158.5 billion, i.e. by 24.3%; a substantially higher rate of growth than that of the balance sheet total. As a result, the ratio of shareholders' equity to total assets increased from 6.60% at the end of 2000 to 7.45% by year-end 2001.

SHAREHOLDERS' EQUITY

	31 Dec. 2000		31 Dec. 2001		Change	
	HUF mn	distr.	HUF mn	distr.	HUF mn	%
Subscribed capital	28,000	22.0%	28,000	17.7%	0	0.0%
Capital reserve	52	0.0%	52	0.0%	0	0.0%
Profit reserve	40,790	32.0%	55,981	35.3%	15,191	37.2%
Tied-down reserve	9,067	7.1%	17,750	11.2%	8,683	95.8%
General reserve	25,610	20.1%	29,450	18.6%	3,840	15.0%
Balance sheet profit	23,983	18.8%	27,283	17.2%	3,300	13.8%
Shareholder's Equity	**127,502**	**100.0%**	**158,516**	**100.0%**	**31,014**	**24.3%**

Of the various components of shareholders' equity, subscribed capital remained unchanged in 2001. 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 31.0 billion growth in shareholders' equity, HUF 27.3 billion originates from the Bank's balance sheet profit and HUF 3.8 billion from the increase in the general reserve. The Bank completed the accumulation of the general reserves, provided for by Hungarian accounting regulations, back in 1994, and fully complied with its statutory reserve obligation in 2001 too.

Based on its after-tax profit, the Bank decided to pay a dividend of HUF 27.5 per share, corresponding to a total of HUF 7.3 billion in dividends. Thus the 2001 balance sheet profit reached HUF 27.3 billion, which represents a 13.8% increase over 2000.

The Bank's capital adequacy ratio decreased from 15.45% at the end of 2000 to 14.11% on 31 December 2001, although this value is still well in excess of the 8% ratio prescribed by the Credit Institutions Act.

The main reason for the above decrease was a substantial growth in the Bank's lending and off-balance-sheet activities. This is reflected by the 27.6% expansion in the risk-weighted total assets, which exceeded the 16.5% growth in guarantee capital. Of the various elements taken into account in the calculation of the numerator of the capital adequacy ratio, the primary capital elements increased by 32.9% in 2001, while the growth of the modifying factors that, according to the regulations, must be taken into account in the primary capital calculation, was higher than that, at 60.4%. Some of the growth in the primary capital elements is attributable to a change in regulations. (With respect to the capital adequacy calculation of 2000, the general risk reserve was not an element of the primary capital. If this factor were left out of account in 2001 too, the growth in the primary capital would be 24.3%). The most important component of the modifying factors that must be taken into account in the primary capital calculation is the HUF 8.7 billion growth in the volume of repurchased own shares. Thus, the Bank's primary

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

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.

capital grew 27.9% in 2001, while the secondary capital decreased 18.6% due to the strengthening of the Forint and the amortisation (in terms of the capital adequacy ratio calculation) of subordinated loan capital. As of year-end 2001, the guarantee capital to be modified was HUF 150.2 billion, which represents an increase of 22.1% over the previous year. Of the various modifying factors, in 2001 investments in financial institutions, insurance companies and investor companies grew by HUF 3.1 billion, corresponding to an increase of 27.5%, while that part of the breaches of limits that is defined by the Credit Institutions Act, and of the sovereign risk that must be covered with capital grew by HUF 5.4 billion, or 87.9%. Thus the guarantee capital guaranteeing the financial and investment services had reached HUF 124.2 billion by the end of 2001 (up 17.7% on the previous year), of which HUF 1,320 million served as a cover for trading book and foreign currency exchange rate risk. By year-end 2001, the guarantee capital that could be taken into account for calculating the Bank's capital adequacy ratio had reached HUF 122.9 billion, which represents an increase of HUF 17.4 billion (16.5%) over the previous year.

CALCULATION OF THE CAPITAL ADEQUACY RATIO*

		31 Dec. 2000 HUF mn	31 Dec. 2001 HUF mn	Change HUF mn	%
I.	Primary capital elements	127,502	169,446	41,944	32.9%
	A) subscribed capital	28,000	28,000	0	0.0%
	B) capital reserve	52	52	0	0.0%
	C) profit reserve	40,790	55,981	15,191	37.2%
	D) tied-down reserve	9,067	17,750	8,683	95.8%
	E) general reserve	25,610	29,450	3,840	15.0%
	F) general risk reserve	–	10,930	–	–
	G) balance sheet profit	23,983	27,283	3,300	13.8%
II.	Modification of primary capital	19,691	31,583	11,892	60.4%
	A) capital subscribed not yet paid	–	–	–	–
	B) deductible part of intangible assets excluding lease rights	10,624	11,866	1,242	11.7%
	C) repurchased own shares	9,067	17,750	8,683	95.8%
	D) tax component of the general risk reserve	–	1,967	1,967	–
III.	Primary capital (I-II.)	107,811	137,863	30,052	27.9%
IV.	Secondary capital	15,208	12,376	–2,832	–18.6%
V.	Guarantee capital to be adjusted (III+IV.)	123,019	150,239	27,220	22.1%
VI.	Capital adjusment due to investment in financial institutions, insurance and investment companies	11,416	14,555	3,139	27.5%
VII.	Guarantee capital according to the rules of prudence (V-VI.)	111,603	135,684	24,081	21.6%
VIII.	Capital requirement of limit breaches and sovereign risk	6,107	11,475	5,368	87.9%
IX.	Guarantee capital for financial and investment services (VII–VIII.)	105,496	124,209	18,713	17.7%
X.	Capital for the trading book and foreign currency exchange rate	–	1,320	1,320	–
XI.	Guarantee capital for calculating the capital adequacy ratio (IX-X.)	105,496	122,889	17,393	16.5%
XII.	Risk-weighted total assets	682,798	870,968	188,170	27.6%
XIII.	**Capital adequacy ratio**	**15,45%**	**14,11%**		

* The steps whereby the capital adequacy ratio for 2000 has been calculated were changed so as to comply with the rules for 2001.

Of the increase in the volume of risk-weighted assets (the adjusted balance sheet total), 59.7% is attributable to the change in the risk-weighted value of assets and 40.3% to the change in risk-weighted off-balance sheet items.

By year-end 2001, the risk-weighted value of assets had reached HUF 742.3 billion, which represents an increase of HUF 112.3 billion (17.8%) over the previous year, while the volume of total assets grew 10.1%. This is attributable to the fact that, due to the increase in the share of customer placements, there has been a slight shift towards placements with a higher risk weighting. The risk-weighted value of off-balance-sheet items and contingent and future liabilities used for calculating the risk-weighted balance sheet total increased by HUF 75.8 billion, or by nearly 150% compared with the previous year. This change is explained by the increase in contingent liabilities (primarily the unused part of credit lines and assumed guarantees).

INCOME STRUCTURE, PROFITABILITY

The Bank's pre-tax profit increased from the previous year's HUF 40.2 billion to HUF 47.4 billion, or by 17.8%. Total revenue reached HUF 141.1 billion in 2001, corresponding to a 12.2% increase over the previous year. This was achieved under circumstances of a 13.2% increase in net interest income and a 9.8% increase in non-interest income. The 9.7% growth in non-interest expenses, which was lower than the increase in total revenue, resulted in a 16.1% increase in the operating income. Due to the HUF 7.8 billion (16.1%) increase in operating income, as well as the fact that total risk provisioning, value losses and loan losses were HUF 0.6 billion (7.6%) higher than in the previous year, pre-tax profit was HUF 7.2 billion (17.8%) higher than in the previous year.

The distribution and details of total income are shown in the table below:

INCOME*

	2000		2001		Change	
	HUF mn	prop.	HUF mn	prop.	HUF mn	%
Net interest income	**86,853**	**69.0%**	**98,342**	**69.7%**	**11,489**	**13.2%**
Total interest income	187,099		193,802		6,703	3.6%
Total interest expense	100,246		95,460		–4,786	–4.8%
Non-interest income	**38,965**	**31.0%**	**42,775**	**30.3%**	**3,810**	**9.8%**
Net fees and commissions	32,048	25.4%	40,022	28.4%	7,974	24.9%
Net income from securities trading	2,081	1.7%	–1,642	–1.2%	–3,723	–178.9%
Net income from foreign currency trading	3,123	2.5%	2,999	2.1%	–124	–4.0%
Net income from real estate transactions	–391	–0.3%	–168	–0.1%	223	57.0%
Other non-interest income	2,104	1.7%	1,564	1.1%	–540	–25.7%
Total income	**125,818**	**100.0%**	**141,117**	**100.0%**	**15,299**	**12.2%**
Non-interest expense	**77,669**	**61.7%**	**85,214**	**60.4%**	**7,545**	**9.7%**
Operating income	**48,149**	**38.3%**	**55,903**	**39.6%**	**7,754**	**16.1%**
Provisions and loan losses	7,933	6.3%	8,534	6.0%	601	7.6%
Profit before taxation	**40,216**	**32.0%**	**47,369**	**33.6%**	**7,153**	**17.8%**
Taxes	7,733	6.2%	8,971	6.4%	1,238	16.0%
Profit after taxation	**32,483**	**25.8%**	**38,398**	**27.2%**	**5,915**	**18.2%**

* In a break-down that is somewhat different from HAS.

Helped by a tax rate of 18.9%, which was lower than in 2000, the Bank's after-tax profit grew from HUF 32.5 billion to HUF 38.4 billion in 2001, representing an 18.2% increase over the previous year.

Within the increase in total revenue, the various elements of income changed differently over the course of the year. The proportion of net interest income within the total income increased slightly, from 69.0% to 69.7%, while the proportion of non-interest income changed from 31.0% to 30.3%.

The Bank's net interest income was HUF 98.3 billion in 2001; the HUF 11.5 billion increase was the aggregate result of HUF 193.8 billion in interest income (up 3.6%) and HUF 95.5 billion in interest expense (down 4.8%).

THE SOURCES AND STRUCTURE OF INTEREST INCOME AND EXPENSE

	2000		2001		Change	
	HUF mn	prop.	HUF mn	prop.	HUF mn	%
Interest income from						
interbank accounts	55,017	29.4%	46,885	24.2%	–8,132	–14.8%
retail accounts	37,830	20.2%	43,488	22.4%	5,658	15.0%
corporate accounts	37,673	20.1%	42,960	22.2%	5,287	14.0%
municipal accounts	5,572	3.0%	5,830	3.0%	258	4.6%
securities	41,736	22.3%	50,189	25.9%	8,453	20.3%
statutory reserves	9,271	5.0%	4,450	2.3%	–4,821	–52.0%
Total interest income	**187,099**	**100.0%**	**193,802**	**100.0%**	**6,703**	**3.6%**
Interest expenses on						
interbank accounts	3,037	3.0%	3,456	3.6%	419	13.8%
retail accounts	77,209	77.0%	74,780	78.3%	–2,429	–3.1%
corporate accounts	9,733	9.7%	8,397	8.8%	–1,336	–13.7%
municipal accounts	5,795	5.8%	5,959	6.2%	164	2.8%
securities	2,881	2.9%	1,476	1.5%	–1,405	–48.8%
subordinated capital	1,591	1.6%	1,392	1.5%	–199	–12.5%
Total interest expense	**100,246**	**100.0%**	**95,460**	**100.0%**	**–4,786**	**–4.8%**
Net interest income	**86,853**		**98,342**		**11,489**	**13.2%**

In the year 2001, the Bank placed on average 26% of its liquid assets on the interbank market and with the National Bank of Hungary (NBH). With the average value of interbank placements decreasing by 13.3% and with a slight fall in the interest rate on these placements – which was nonetheless a smaller decline than that of the interest rates on other forms of placements – the net interest income from interbank placements dropped by 14.8%. As a consequence, the ratio of interbank **interest income** within total interest income dropped to 24.2%. Due to the 27.4% increase in the average volume of retail deposits, and despite the significant, 2-percentage-point, drop in the interest margin, the net interest income realised on retail accounts increased 15.0%, reaching a proportion of 22.4% of the total interest income. As a consequence of the increase in corporate and municipal lending, the interest income realised on these accounts grew by 14.0% and 4.6% respectively, and accounted for 22.2% and 3.0% of the total interest income. Compared with 2000, the interest earned from securities increased by 20.3%, or HUF 8.5 billion, reflecting the substantial, more than 30%, growth in the portfolio on the one hand and the effects of declining yields on government securities on the other. Interest on securities represented 25.9% of total interest income. In 2001, the yields on total average interest-bearing assets in Forint and foreign currency reached 10.93%, which is 24 basis points lower than in 2000.

Despite the increase in volumes, **interest expenses** decreased in all the account groups, with the exception of municipality and interbank accounts. Interest paid on municipality accounts increased by 2.8% due to a significant, more than 20% increase in the average total balance of these accounts. The 13.8% increase in the interest paid on interbank accounts in spite of the significant, close to 40% drop in the average balance, reflects the impact of rising funding costs. Interest paid on securities and on corporate accounts fell by the largest margin (by 48.8% and 13.7% respectively). Interest expense related to retail funding dropped by 3.1%, while the average balance of retail funds increased by 6.2%. The share of interest paid on retail funds within the total of interest expense was 78.3%, which is in harmony with the Bank's funding structure. In 2001, the cost of funds calculated on average interest-bearing Forint and foreign currency funding amounted to 5.53%, or 62 basis points down from the 2000 figure.

In 2001, the **interest spread calculated** on average total interest-bearing assets and liabilities was 5.39%, or 38 basis points higher than in 2000, while the **interest margin** computed on the average balance sheet total was 5.08%, or 30 basis points higher than in 2000.

AVERAGE INTERST RATES ON ASSETS AND LIABILITIES

	2000 Average balance	2000 Rates	2001 Average balance	2001 Rates
Assets:				
Interbank placements	585,770	9,39%	508,061	9,23%
Retail placements	161,188	23,47%	205,376	21,17%
Corporate placements	351,185	10.73%	420,201	10.22%
Municipal placements	44,130	12.63%	48,481	12.03%
Securities	369,916	11.28%	482,703	10.40%
Statutory reserves	162,802	5.69%	108,580	4.10%
Total interest-bearing assets	*1,674,991*	*11.17%*	*1,773,402*	*10.93%*
Non-interest-bearing assets	142,463	0,00%	163,501	0,00%
Total assets	**1,817,454**	**10,29%**	**1,936,903**	**10,01%**
Liabilities:				
Interbank liabilities	61,914	4.91%	37,303	9.26%
Retail liabilities	1,249,648	6.18%	1,327,197	5.63%
Corporate liabilities	203,044	4.79%	234,584	3.58%
Municipal liabilities	75,713	7.65%	91,181	6.54%
Securities	20,799	13.85%	17,187	8.59%
Subordinated loans	17,611	9.03%	17,681	7.87%
Total interest-bearing liabilities	*1,628,729*	*6.15%*	*1,725,133*	*5.53%*
Non-interest-bearing laibilities	188,725	0.00%	211,770	0.00%
Total liabilities:	**1,817,454**	**5.52%**	**1,936,903**	**4.93%**
Interest spread		**5.02%**		**5.39%**
Net interest margin		**4.78%**		**5.08%**

The table below shows in detail how much of the change in the net interest income is attributable to changes in interest rates and how much 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-earning assets			
Interbank placements	–8,132	–946	–7,186
Retail placements	5,658	–3,965	9,623
Corporate placements	5,287	–1,836	7,123
Municipal placements	258	–274	532
Securities	8,453	–3,478	11,931
Statutory reserves	–4,821	–2,203	–2,618
Total interest-earning assets:	**6,703**	**–12,704**	**19,406**

* The effect of the change in the structure is proportionately divided between the two components.

(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	419	1,958	–1,539
Retail liabilities	–2,429	–7,046	4,617
Corporate liabilities	–1,336	–2,702	1,366
Municipal liabilities	164	–919	1,083
Securities	–1,405	–964	–441
Subordinated loan	–199	–205	6
Total interest-bearing liabilities:	**–4,786**	**–9,879**	**5,093**
Change in net interest income	**11,489**	**–2,823**	**14,312**

Changed interest rates reduced the net interest income by HUF 2.8 billion. While the change in the interest rates reduced both interest income and interest expenses, the reduction of income due to the change in interest levels was higher than that of interest expenses. The change in volume substantially increased both income and expenses, and in its aggregate it increased the net interest revenue by HUF 14.3 billion. Changes in interest rates reduced the interest margin by 15 basis points, while the increase in volume increased it by 74 basis points.

In 2001 **non-interest income** increased by 9.8%, or HUF 3.8 billion, and its proportion within total income decreased by 0.7 percentage points. A role was played in the more modest growth in 2001 of non-interest income by the loss generated by securities trading, the largest part of which is attributable to the one-off result of accounting changes. From among the various types of non-interest income, **net commission and fee income** increased by HUF 8,0 billion, from HUF 32.0 billion to HUF 40.0 billion. As a consequence of a 24.9% (HUF 8.0 billion) increase, the proportion of net fee and commission income within total revenue was 28.4%, while the corresponding figure for 2000 was 25.5%. Commissions and fees received were 21.5% higher than in 2000, while paid fees and commissions were 3.9% higher than in the previous year. Among the commissions and fees received, income from the bankcard business rose by a significant 44.1%, amounting to more than HUF 13 billion. Over 55% of the HUF 4.0-billion increase in card revenues originated from ATM cash withdrawal transaction fees, while 20% and 21% respectively was attributable to the increase in commission revenues from merchants and from the increase in card-fee revenues. Fee revenues in connection with Forint transactions grew 24.2% in 2001. Within this figure, commission revenues on HUF loans revealed a particularly high increase (37.5%). The increase in commissions on current account transactions was 9.5%. Commission revenues on retail current accounts, which contribute nearly 90% of total commission revenues on deposits, increased 17.1% during 2001. Fee and commission revenue on foreign currency transactions decreased 5.4% in 2001. The **net result of securities trading** showed a loss of HUF 1.6 billion. The net gain from **foreign exchange trading** was HUF 3.0 billion, 4.0% lower than that of the previous year.

In 2001, non-interest income covered 50.2% of non-interest expenses, and this ratio was the same as in 2000.

The Bank's **total income** in 2001 amounted to HUF 141.1 billion, which represents an increase of HUF 15.3 billion, or 12.2%, over the previous year. The change in net interest income contributed HUF 11.5 billion, while the change in non-interest income contributed HUF 3.8 billion to the income increase.

The structure **of the use of total income** improved further in 2001. Non-interest expenses grew 9.7%, which was higher than the average annual inflation rate, but significantly lower than the rate of increase in total income. Non-interest expenses compared with total income, i.e., the expense/income ratio, decreased by 1.3 percentage points, to 60.4%. The combined amount of provisions, value losses and lending losses grew 7.6% compared with the previous year, and their proportion within total income dropped from 6.3% to 6.0%.

Due to the combined effect of the increase in non-interest expenses (which lagged behind the increase in total income), the modest increase in the total of provisions, value losses and lending losses and the drop in its relative proportion, the ratio of pre-tax profits to total income increased by 1.6 percentage points, amounting to 33.6% of total income in 2001.

The ratio of the various income components to the average balance sheet total, as well the results of these components, is shown in the table below:

INCOME ELEMENTS AS A PERCENTAGE OF AVERAGE TOTAL ASSETS*

	2000		2001	
	HUF mn	%	HUF mn	%
Net interest income	86,853	4.78%	98,342	5.08%
Net fee and commission income	32,048	1.76%	40,022	2.07%
Operating expense	77,669	4.27%	85,214	4.40%
Provision	7,933	0.44%	8,534	0.44%
Pre-tax profit	40,216	2.21%	47,369	2.45%

* Average balance sheet total in 2000: HUF 1,817.5 billion, in 2001: HUF 1,936.9 billion

In the year 2001 the interest differential (i.e. the net interest margin) computed on the average balance sheet total was 5.08%, or 30 basis points higher than in 2000. The increase in the ratio of net commission revenue compared with the average balance sheet total continued, while with regard to provisions, value loss and lending losses this ratio did not change. The ratio of non-interest expenses compared with the average balance sheet total slightly increased as a result of the Bank's ambitious development projects and the one-off effect of changes in accounting. Due to the combined effect of these changes, the ratio of pre-tax profit to the average balance sheet total increased substantially.

The Bank's average return on assets **(ROAA)** in 2001 was **1.89%,** while the average return on equity **(ROAE)** was **26.9%** (in 2000: 1.76% and 28.5% respectively). The ROAE in real terms was 17.7%, as opposed to 18.7% in 2000. This decrease is attributable to the sharp, 25.4%, increase in average equity, as well as to an inflation rate (9.2%) that was higher than expected.

COST MANAGEMENT

The Bank's non-interest expenses amounted to HUF 85.2 billion, representing an increase of 9.7% over the previous year. Up until last year, the annual growth of non-interest expenses had been lower than the inflation rate for several years, but last year's growth was higher than the inflation rate. Notwithstanding the effect of the continuation of cost and process rationalisation, this is attributable to the increased expenses stemming from various development projects and to the change in accounting methods.

NON-INTEREST EXPENSES

	2000		2001		Change	
	HUF mn	share	HUF mn	share	HUF mn	%
Personnel costs	27,066	34.8%	32,551	38.2%	5,485	20.3%
Depreciation	10,371	13.4%	11,129	13.1%	758	7.3%
Other administration expenses	23,545	30.3%	27,512	32.3%	3,967	16.8%
Other non-interest expenses	16,687	21.5%	14,022	16.4%	–2,665	–16.0%
Total non-interest expenses	**77,669**	**100.0%**	**85,214**	**100.0%**	**7,545**	**9.7%**

The largest item among non-interest type expenses, representing a share of 38.2%, was **personnel costs.** In 2001 the Bank's personnel costs increased 20.3%, which means that the share of these costs within the total of non-interest type expenses grew

[1] Calculation method: ROAE – infation (%)

by 3.4 percentage points. This was caused, among other things, by an average salary increase of 10% at the beginning of the year and also by the change in the accounting rules related to option and bonus programmes, as a result of which the Bank's 2001 expenses also include the costs of the option and bonus programmes for two years. The proportion of personnel costs to the total income was 23,1% in 2001 (2000: 21,5%). Within personnel costs, salary costs grew 22.8%, while other payments to personnel grew by 12.5%. The social security contribution paid on salaries grew 18.1% in 2001.

STAFF LEVEL OF OTP BANK LTD. (PERSONS)

	Closing		Average		Change			
					closing		average	
	2000	2001	2000	2001	persons	%	persons	%
Full-time employee	7,735	7,895	8,094	7,792	160	2.1%	–302	–3.7%
Part-time employee	402	398	341	396	–4	–1.0%	55	16.1%
Total	**8,137**	**8,293**	**8,435**	**8,188**	**156**	**1.9%**	**–247**	**–2.9%**

At the end of 2001, the Bank's total headcount was 8,293, i.e. 156, or 1.9%, more than in 2000. Of this, 24 of the new employees consisted of those taken over from OTP Securities Ltd. due the integration of securities trading into the Bank's activities. The average headcount for the period, however, fell by 247 persons, or by 2.9%.

EMPLOYEE PRODUCTIVITY INDICATORS

	2000	2001	Change
	HUF mn		%
Per capita			
Total assets at 31 December	237.3	256.5	8.1%
Average total assets	215.5	236.6	9.8%
After-tax profit	3.9	4.7	21.8%
Total income	14.9	17.2	15.5%
Personnel expenses	3.2	4.0	23.9%

The improvement in staff efficiency continued in 2001. Per capita after-tax profits increased 21.8%, while the per capita average balance sheet total increased 9.8% and per capita income was 15.5% higher in 2001 than in the previous year. However, per capita personnel costs increased at a much higher rate, of 35.7%, caused, among other factors, by a switchover to new accounting methods.

Depreciation – due to continuous IT investments – was HUF 0.8 billion, or 7.3% higher than in 2000. Other administration expenses (material and material-type expenses) increased 16.8% in 2001, while other non-interest expenses decreased by 16.0%.

ASSET-LIABILITIES STRUCTURE

On 31 December 2001, the total assets of OTP Bank Ltd. amounted to HUF 2,127.2 billion, 10.1%, or HUF 195.9 billion higher than the HUF 1,931.3 billion figure of 31 December 2000. OTP Bank Ltd. had the largest balance sheet total within the Hungarian banking sector, and its market share amounted to 22.3%.

THE DISTRIBUTION OF ASSET-LIABILITY COMPONENTS*

	31 Dec. 2000 HUF mn	prop.	31 Dec. 2001 HUF mn	prop.	Change HUF mn	%
Cash and Bank	**482,350**	**25.0%**	**372,593**	**17.5%**	**–109,757**	**–22.8%**
NBH clearing account	148,670	7.7%	104,931	4.9%	–43,739	–29.4%
NBH short-term placements	293,153	15.2%	212,500	10.0%	–80,653	–27.5%
Other	40,527	2.1%	55,162	2.6%	14,635	36.1%
Government securities	**440,201**	**22.8%**	**481,079**	**22.6%**	**40,878**	**9.3%**
Trading securities	184,275	9.5%	136,325	6.4%	–47,950	–26.0%
Investment securities	255,926	13.2%	344,754	16.2%	88,828	34.7%
Interbank placements**	**233,922**	**12.1%**	**329,948**	**15.5%**	**96,026**	**41.1%**
Customer placement	**614,055**	**31.8%**	**769,782**	**36.2%**	**155,727**	**25.4%**
Retail	180,178	9.3%	258,246	12.1%	78,068	43.3%
Corporate	393,218	20.4%	464,818	21.9%	71,600	18.2%
Municipal	40,659	2.1%	46,718	2.2%	6,059	14.9%
Other	**79,394**	**4.1%**	**87,981**	**4.1%**	**8,587**	**10.8%**
Intangible and tangible assets	**52,690**	**2.7%**	**54,246**	**2.6%**	**1,556**	**3.0%**
Accrued and deferred items	**28,660**	**1.5%**	**31,529**	**1.5%**	**2,869**	**10.0%**
TOTAL ASSETS	**1,931,272**	**100.0%**	**2,127,158**	**100.0%**	**195,886**	**10.1%**
Interbank liabilities	**44,415**	**2.3%**	**25,133**	**1.2%**	**–19,282**	**–43.4%**
Customer liabilities	**1,632,978**	**84.6%**	**1,811,221**	**85.1%**	**178,243**	**10.9%**
Retail	1,308,141	67.8%	1,405,642	66.1%	97,501	7.5%
Corporate	210,875	10.9%	253,568	11.9%	42,693	20.2%
Municipal	113,962	5.9%	152,011	7.1%	38,049	33.4%
Securities	**19,607**	**1.0%**	**14,864**	**0.7%**	**–4,743**	**–24.2%**
Provisions	**11,317**	**0.6%**	**14,598**	**0.7%**	**3,281**	**29.0%**
Accrued and deferred items	**16,130**	**0.8%**	**22,288**	**1.0%**	**6,158**	**38.2%**
Other	**79,323**	**4.1%**	**80,538**	**3.8%**	**1,215**	**1.5%**
Shareholder's equity	**127,502**	**6.6%**	**158,516**	**7.5%**	**31,014**	**24.3%**
TOTAL LIABILITIES	**1,931,272**	**100.0%**	**2,127,158**	**100.0%**	**195,886**	**10.1%**

* The assets-liability itmes are analysed in a structure somewhat 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. In connection with the change in the mandatory reserves, on 31 December 2001 the volume of the Bank's cash and bank was nearly HUF 110 billion less than in the previous year, and thus the proportion of cash and bank in total assets decreased from 25.0% to 17.5%. Of the various liquid assets, short-term placements at the National Bank decreased by more than HUF 80 billion and thus their proportion within total assets fell from 15.2% to 10.0%. The balance on the NBH clearing account was 29.4%, or HUF 43.7 billion less than the balance on 31 December 2000. The increase in other liquid assets was 36.1%, or HUF 14.6 billion.

Government securities. On 31 December 2001, the proportion of government securities within the Bank's portfolio stood at 22.6%; down negligibly from 22.8% a year earlier. The value of the portfolio increased 9.3%, from HUF 440.2 billion in 31 December 2000 to HUF 481.1 billion by 31 December 2001. Within the total of government securities, trading securities decreased 26.0%, to HUF 136.3 billion, while investment securities increased by a substantial 34.7%, to HUF 344.8 billion. This means that the proportion of investment securities within the total government securities portfolio increased to 71.7%, from the 58.1% of a year earlier.

STRUCTURE OF GOVERNMENT SECURITIES

	31 Dec. 2000		31 Dec. 2001		Change	
	HUF mn	prop.	HUF mn	prop.	HUF mn	%
Trading securities						
Discounted T-Bills	17,648	4.0%	26,589	5.5%	8,941	50.7%
Hungarian Government Bonds	50,345	11.4%	87,342	18.2%	36,997	73.5%
Interest-bearing T-bills	278	0.1%	1,318	0.3%	1,040	374.1%
Bonds issued by NBH	61,569	14.0%	7,597	1.6%	–53,972	–87.7%
Foreign Government Bonds	1,167	0.3%	4,962	1.0%	3,795	325.2%
Foreign currency bonds issued by the Hungarian Republic	0	0.0%	4,548	0.9%	4,548	–
Treasury Government Bonds	53,268	12.1%	3,969	0.8%	–49,299	–92.5%
Total	**184,275**	**41.9%**	**136,325**	**28.3%**	**–47,950**	**–26.0%**
Investment securities						
Home fund financing bond	948	0.2%	711	0.1%	–237	–25.0%
Hungarian Government Bonds, Social Security Bonds	221,607	50.3%	254,413	52.9%	32,806	14.8%
Loan Consolidation State Bonds	17,171	3.9%	17,287	3.6%	116	0.7%
NBH foreign currency bonds	13,371	3.0%	5,320	1.1%	–8,051	–60.2%
NBH interest-bearing bonds	0	0.0%	9,816	2.0%	9,816	–
Foreign currency bonds issued by the Hungarian Republic	2,829	0.6%	2,772	0.6%	–57	–2.0%
Treasury Government Bonds	0	0.0%	46,123	9.6%	46,123	–
Foreign Government Bonds	0	0.0%	8,312	1.7%	8,312	–
Total	**255,926**	**58.1%**	**344,754**	**71.7%**	**88,828**	**34.7%**
Total government securities	**440,201**	**100.0%**	**481,079**	**100.0%**	**40,878**	**9.3%**

The HUF 48.0 billion drop in the trading securities portfolio is due to the combined effect of the significant – HUF 54.0 billion – drop in NBH-issued bonds, the HUF 49.3 billion decrease in Treasury Bonds and the increase in Hungarian Government Bonds and Discounted T-Bills. Within the investment securities of the portfolio, Treasury Bonds increased by HUF 46.1 billion, while the volume of Hungarian Government and Social Security Bonds increased by HUF 32.8 billion. The volume of foreign government bonds reached HUF 8.3 billion within the investment portfolio.

On 31 December 2001, Hungarian Government and Social Security Bonds represented the highest proportion in the total government securities portfolio (71.0%), which is 9.2 percentage points more than at the end of 2000. 10.4% of the total government securities portfolio were Treasury Bonds, which is a share 1.7 percentage points smaller than at the end of 2000. The share of NBH bonds within the total of government securities portfolio decreased substantially, by 12.3 percentage points due to a 70% decline in volume. The share of Discounted T-Bills within the total of government bonds increased by 1.5 percentage points, and it amounted to 5.5% at the end of the year. The share of foreign government bonds increased from 0.3% to 2.7%, due to a dynamic increase in volume, while the share of foreign currency bonds issued by the Hungarian Republic within the portfolio was a mere 1.5% despite a more than 250% increase in their volume.

Interbank Placements. Interbank placements represented 15.5% of total assets on 31 December 2001, only 3.4 percentage points more than in 2000. Their volume grew by HUF 96.0 billion, or 41.1%. At the end of 2001, the decisive majority of placements (93.9%) were placements maturing within one year, compared to 90.4% a year earlier. The increase in the proportion of placements with a maturity of less than one year in the total of interbank placements is due to the 46.5% increase in volume, exceeding HUF 98 billion. The volume of interbank placements maturing over one year decreased by 10.4%, and thus their proportion within total interbank placements decreased (to 6.1%). Within the total of interbank placements, the volume of HUF placements dropped 10.3%, and thus their share within the total of placements dropped to 23.7%, while the volume of foreign currency placements grew significantly, by 71.6%, and their share within the total of placements increased to HUF 76.3%. In 2001, the Bank remained a net lender on the interbank market, which can be attributed to the Bank's liquidity resulting from its traditionally high retail deposits. The volume of interbank placements exceeded interbank liabilities by over HUF 304 billion.

Customer loans. In line with the Bank's business policy, the portfolio of customer loans increased 25.4% in 2001, substantially exceeding the rate of increase of the balance sheet total, and thus their share within the total of assets increased from 31.8% to 36.2%. A decisive role in this was played by the 43.8%, or HUF 78.1 billion, increase in retail lending, which accounted for more than half of the increase in customer lending. The volume of corporate loans increased by 18.2% during the year, while the volume of municipality loans was 14.9% higher than in the previous year. Within customer loans, the share of corporate loans dropped from 64.0% to 60.4%, while the share of retail loans increased from 29.3% to 33.5%. As of year-end, the share of corporate loans within the total of customer placements was 6.1%.

Within corporate loans, which increased 18.2%, reaching HUF 464.8 billion by year-end, the share of loans given to financial and investment companies, insurance companies and special money and capital market institutions (PBBS) was HUF 35.2 billion. The total of loans granted to other business organisations grew 17.0%, reaching HUF 429.6 billion. Within the loans granted to business organisations, the volume of investment loans grew 69.0%, overdraft loans grew 43.7%, working capital loans grew by 6.9%, other loans increased by 75.1%, while the volume of foreign currency loans was 8.7% less than in the previous year. The volume of loans granted to small businesses grew 18.2%, while loans to non-profit organisations decreased very slightly, by 1.1%. Within the corporate loan portfolio, the share of loans granted to business enterprises increased 83.0%, while the share of small business loans was 3.4%, that of non-profit organisations 6.0% and that of PBBS loans 7.6%.

The rate of growth of the retail loan portfolio, that started in the previous years, accelerated in 2001, and by the end of the year the retail portfolio grew 43.3% due to the 44.8% expansion in housing loans and the 41.2% expansion in other retail loans. As of 31 December 2001, the balance of housing loans was HUF 150.8 billion, representing an increase of HUF 46.7 billion over the previous year. As of year-end, the combined balance of consumption and mortgage loans was HUF 107.4 billion, within which, in line with the Bank's strategy, overdraft loans linked to retail current accounts increased substantially, by 35.2%, with their volume amounting to more than HUF 56 billion. Due to an outstanding growth of 70%, the volume of mortgage loans reached HUF 46.3 billion by the end of the year.

The volume of municipality loans increased by HUF 6.1 billion, or 14.9% in 2001. The Bank thus retained its dominant position in the municipality lending market.

Examining the maturity structure of the customer loan portfolio, it can be concluded that, due to a growth in 2001 of 33.2%, which was above the average growth in customer loan volumes, the share of receivables with a maturity of over one year within the total of receivables had reached 70.3% by the end of the year. Within the total of placements with a maturity of over one year, the most dynamic growth – 46.0% – was attained in retail placements. Placements with a maturity of less than one year grew 10.0%, and their share within the total of receivables dropped to 29.7% from 33.9%.

CUSTOMER PLACEMENTS BY MATURITY (BASED ON GROSS LOAN RECEIVABLES)

	31 Dec. 2000		31 Dec. 2001		Change	
	HUF mn	**prop.**	**HUF mn**	**prop.**	**HUF mn**	**%**
Shorter than one year						
retail	43,764	7.1%	59,029	7.7%	15,265	34.9%
corporate	154,029	25.1%	158,120	20.5%	4,091	2.7%
municipal	10,417	1.7%	11,846	1.5%	1,429	13.7%
Total	**208,210**	**33.9%**	**228,995**	**29.7%**	**20,785**	**10.0%**

(continued from page 37)	31 Dec. 2000 HUF mn	prop.	31 Dec. 2001 HUF mn	prop.	Change HUF mn	%
Over one year						
retail	136,413	22.2%	199,217	25.9%	62,804	46.0%
corporate	239,189	39.0%	306,698	39.8%	67,509	28.2%
municipal	30,243	4.9%	34,872	4.5%	4,629	15.3%
Total	**405,845**	**66.1%**	**540,787**	**70.3%**	**134,942**	**33.2%**
Total customer placements	**614,055**	**100.0%**	**769,782**	**100.0%**	**155,727**	**25.4%**

Of the total growth of HUF 20.8 billion in receivables from customer loans, more than 70%, a growth of HUF 15.3 billion, originated from the increase in retail loans, while close to 20%, or HUF 4.1 billion, originated from the growth in corporate loans. Retail loans with a maturity of less than one year grew 34.9% over the figure of the previous year, and their share within the total of loans with a maturity of less than one year increased to HUF 25.8%. Along with a modest, 2.7% increase in volume, corporate loans accounted for 69.0% of the short-term loan portfolio, and their share in 2001 was 5 percentage points less than in the previous year. Short-term municipality loans grew HUF 1.4 billion, or 13.7%, and their share within the total of short-term placements was just 5.2% as of 31 December 2001.

Within placements with a maturity of over one year, retail loans showed the largest rate of growth – of 46.0%. This means that the volume of retail loans was HUF 62.8 billion higher as at 31 December 2001 than it had been a year earlier, and the share of retail loans within the total of long-term loans grew from 33.6% to 36.8%. Corporate loans accounted for 56.7% of total loans with a maturity of over one year, and this share was 2.2% percentage points less than it had been at the end of 2000, due to a less-than-average growth rate of 28.2%. As of year-end 2001, the volume of municipality loans with a maturity of more than one year was 15.3% more than a year earlier, and their share within total loans of a maturity of over one year dropped to 6.4%.

LIABILITIES

Interbank liabilities: Due to a HUF 20 billion, or 43.4%, decrease in interbank liabilities in 2001, their proportion within total liabilities fell from 2.3% to 1.2%. Although the Bank was a net lender on the interbank HUF market, it remained constantly active as a borrower as well.

Customer deposits: On 31 December 2001, customer deposits accounted for 85.1% of the Bank's total liabilities, as opposed to 84.6% a year earlier. As the Bank's primary business line is retail banking, the majority of customer deposits (77.6%) came from retail customers, representing a dominant proportion (66.1% in 2001 and 67.8% in 2000) within total liabilities.

At the same time, the development in the different types of retail deposits within the retail portfolio varied widely. HUF deposits, representing 76.6% of retail deposits, increased by 10.8%, while foreign currency deposits decreased by 2.1% in connection with the strengthening of the Forint. Reflecting a strengthening of the trend that began in previous years, the volume of traditional savings schemes within HUF deposits (interest-bearing passbook deposits, savings notes, premium deposits) grew slightly (by 0.5%); thus, their proportion decreased by 4.3 percentage points, to 37.9%. After the stagnation in the previous year, the volume of savings schemes based on regular savings decreased by 2.1% in 2001, due to the fact that these products will be discontinued. In line with the Bank's intentions, the volume of retail current account deposits showed a prominent growth of 21.0%, increasing from HUF 520.8 billion to HUF 630.2 billion, and its proportion within total retail deposits reached 58.5% at the end of 2001.

Corporate deposits rose by 20.2%, that is, at a significantly higher rate than that of customer liabilities, and their proportion within total customer liabilities reached 14.0%. Within corporate deposits, HUF deposits grew at a more dynamic rate of 20.8%, while the growth in foreign currency deposits was 12.4%.

The volume of corporate deposits increased 33.4%, and its share within customer liabilities reached 8.4% at the end of the year.

CUSTOMER LIABILITIES BY MATURITY

	31 Dec. 2000 HUF mn	prop.	31 Dec. 2001 HUF mn	prop.	Change HUF mn	%
Shorter than one year						
retail	1,193,541	73.1%	1,297,240	71.6%	103,699	8.7%
corporate	210,652	12.9%	253,316	14.0%	42,664	20.3%
municipal	113,509	6.9%	151,302	8.4%	37,793	33.3%
Total	**1,517,702**	**92.9%**	**1,701,858**	**94.0%**	**184,156**	**12.1%**
Over one year						
retail	114,600	7.0%	108,402	6.0%	–6,198	–5.4%
corporate	223	0.0%	252	0.0%	29	13.1%
municipal	453	0.0%	709	0.0%	256	56.5%
Total	**115,276**	**7.1%**	**109,363**	**6.0%**	**–5,913**	**–5.1%**
Total customer liabilities	**1,632,978**	**100.0%**	**1,811,221**	**100.0%**	**178,243**	**10.9%**

Within customer deposits, deposits with a maturity of less than one year increased 12.1%, while those with a maturity of more than one year decreased by 5.1%, and thus the share of liabilities with a maturity of less than one year within the total of customer liabilities increased further, reaching 94.0% by year-end. The more than HUF 178 billion increase in total customer liabilities resulted from an increase of more than HUF 184 billion in short-term liabilities and a decrease of close to HUF 6 billion in long-term liabilities. More than 60% of the increase in short-term liabilities resulted from an increase in retail liabilities, while nearly all the reduction of long-term liabilities resulted from the reduction of retail liabilities with a maturity longer than one year.

Securities and deposit certificates: The volume of securities and deposit certificates issued by the Bank amounted to HUF 14.9 billion as of 31 December 2001, 24.2% lower than in 2000 – in line with the Bank's business policy objectives. Their proportion within liabilities fell from 1.0% to 0.7%. Deposit notes, accounting for 96.3% of the total volume of securities and deposit certificates, decreased by HUF 4.3 billion, and dropped to HUF 14.3 billion by the end of the year. The combined volume of the securities and deposit certificates issued by the Bank fell by close to 50%, to HUF 0.6 billion.

Equity: On 31 December 2001 the Bank's equity was HUF 158.5 billion, and the share of equity within the total of liabilities and equity increased from 6.6% in 2000 to 7.5% in 2001. From the HUF 31.0 billion increase in equity, HUF 27.3 billion can be attributed to the Bank's balance sheet profit and HUF 3.8 billion to the increase in general reserves. The Bank's equity calculated on one share of HUF 1,000 nominal value was HUF 5,661, corresponding to an increase of 24.3% over the previous year.

Provisions: Within the Bank's liabilities, the volume of provisions increased from HUF 11.3 billion to HUF 14.6 billion.

CHANGES IN PROVISIONS

	31 Dec. 2000 HUF mn	31 Dec. 2001 HUF mn	Change HUF mn	%
Provisions for contingent and future liabilities	1,192	2,032	840	70.5%
Provision for exchange rate risk	70	0	–70	–100.0%
General risk provision	8,550	10,930	2,380	27.8%
Sovereign risk provision	580	0	–580	–100.0%
Other provisions	925	1,636	711	76.9%
Total provisions	**11,317**	**14,598**	**3,281**	**29.0%**

By 31 December 2001, the Bank had entirely completed the generation of general risk reserve (prescribed by the Credit Institutions Act), representing 1.25% of the risk-weighted total assets (the 2001 generation amounted to HUF 2.4 billion), and, as a result, the volume of general risk reserves increased to HUF 10.9 billion. The volume of reserves set aside for

contingent and future liabilities increased by HUF 0.8 billion, reaching HUF 2 billion, and other provisions reached HUF 1.6 billion on 31 December 2001. The Bank eliminated the sovereign risk and exchange rate risks provisions in 2001 due to the change in regulations.

OFF-BALANCE SHEET LIABILITIES

The 2001 year-end volume of off-balance sheet liabilities increased more than twofold, from HUF 235.1 billion to HUF 507.8 billion. This change is attributable to the HUF 130.9 billion, or 69.7%, increase in contingent liabilities and the HUF 141.8 billion increase in future liabilities, representing a more than fourfold rise over the previous year. Due to this, the share of contingent liabilities within the total of off-balance sheet liabilities decreased slightly, to 62.8%. The most significant item of contingent liabilities, amounting to more than 50% of the Bank's off-balance sheet liabilities, is the volume of commitments originating from loan facility contracts, which increased by HUF 98.2 billion, or 62.4%. The value of guarantees assumed in the course of bank activities grew more than twofold.

OFF-BALANCE SHEET LIABILITIES

	31 Dec. 2000		31 Dec. 2001		Change	
	HUF mn	prop.	HUF mn	prop.	HUF mn	%
Contingent liabilities						
Guarantees from bank activities	15,892	6.8%	36,487	7.2%	20,595	129.6%
Confirmed L/C	988	0.4%	3,798	0.7%	2,810	284.4%
Non-used part of credit line	157,403	66.9%	255,630	50.3%	98,227	62.4%
Options	12,555	5.3%	19,310	3.8%	6,755	53.8%
Liabilities expected from pending lawsuits	995	0.4%	3,487	0.7%	2,492	250.4%
Liabilities due to Multipont card	–	–	1	0.0%	1	–
Total	**187,833**	**79.9%**	**318,713**	**62.8%**	**130,880**	**69.7%**
Absolutely certain (future) liabilities						
Forward foreign currency purchase	47,289	20.1%	189,087	37.2%	141,798	299.9%
Repurchase value of claims sold under repurchase commitment	15	0.0%	0	0.0%	–15	–100.0%
Total	**47,304**	**20.1%**	**189,087**	**37.2%**	**141,783**	**299.7%**
Total off-balance sheet liabilities	**235,137**	**100.0%**	**507,800**	**100.0%**	**272,663**	**116.0%**

The growth in future liabilities originated completely from the growth in the volume of forward foreign exchange purchases. As of year-end, the volume of commitments due to forward foreign exchange purchases was HUF 189.1 billion, corresponding to 37.2% of the whole of off-balance sheet commitments.

INVESTMENT, OTP GROUP

The management of the Group and the realisation of strategic investments continued to play a dominant role in the investment operations of OTP Bank in 2001. At the end of 2001, the book value of the Bank's investments amounted to HUF 40.5 billion, representing a HUF 5.7 billion, or 16.5% increase over the previous year. HUF 2.9 billion of this increase in the investment portfolio was due to a growth in the volume of permanent financial investments, and the change in OTP Group's permanent investments was higher than HUF 10 billion. Compared to HUF 50 million in the previous year, as of 31 December 2001 the volume of non-permanent investments was HUF 5.5 billion, which includes those of the shares of Zagrabecka Banka that were purchased in the interests of realising a price gain. (This transaction was successfully concluded in the first quarter of 2002.) In the course of the year, the volume of forced investments dropped to zero due to the sale of Hajdú-Bét Ltd.'s shares. In 2001 the dividends on investments amounted to HUF 127 million.

CHANGES IN INVESTMENTS

	31 Dec. 2000 HUF mn	31 Dec. 2001 HUF mn	Change HUF mn	Change %
Permanent financial investments	31,986	34,918	2,932	9.2%
of this: OTP Group	23,049	33,394	10,345	44.9%
Trading investments	50	5,537	5,487	10,974.0%
Forced investments	2,695	0	–2,695	–100.0%
Total investments:	**34,731**	**40,455**	**5,724**	**16.5%**

The aggregate registered capital of the companies within the OTP Group rose by more than HUF 3.7 billion, from HUF 28.2 billion at the end of 2000 to HUF 31.9 billion. The 13.3% increase in the Group's combined equity primarily resulted from the expansion of the Bank Group, i.e., the entry into the OTP Group of the new members (OTP Mortgage Bank Ltd., OTP Pension Fund Ltd.) and the increase in the share capital of existing Group members. Of the various book members, the net book-value of Hungarian International Finance Ltd. decreased by approximately HUF 60 million due to the change in the GBP exchange rate.

The changes implemented in the Group members' equity and ownership structure were on the one hand aimed at creating the conditions for further growth, and at ensuring compliance with the legal regulations on the other.

In 2001, the combined pre-tax profits of the Bank Group amounted to HUF 9.4 billion, or HUF 1.6 billion higher than in the previous year. From among the subsidiaries, OTP Fund Management Ltd., OTP Building Society Ltd., Mekantil Bank Ltd. and OTP Garancia Insurance Ltd. made the largest contribution to the combined pre-tax profit of OTP Group.

KEY FINANCIAL DATA OF OTP GROUP MEMBERS*

	31 Dec. 2000				31 Dec. 2001			
	OTP Bank Ltd.'s share ownership direct %	OTP Bank Ltd.'s share ownership indirect %	Reg. capital HUF mn	Pre-tax profit HUF mn	OTP Bank Ltd.'s share ownership direct %	OTP Bank Ltd.'s share ownership indirect %	Reg. capital HUF mn	Pre-tax profit HUF mn
Bankcsoport								
OTP Garancia Insurance Ltd.	99.98	0.02	5,851	874	99.98	0.02	5,851	1,254
Merkantil Bank Ltd.	100.00	–	1,500	1,697	100.00	–	1,500	1,925
Merkantil Car Ltd.	–	100.00	20	281	–	100.00	20	462
Merkant-Ház Ltd.	–	100.00	3	90	–	100.00	3	64
OTP Fund Management Ltd.	5.00	95.00	900	1,655	5.00	95.00	900	2,413
OTP Pension Fund Ltd.	–	–	–	–	93.44	6.56	305	77
OTP Building Society Ltd.	100.00	–	1,000	953	100.00	–	1,500	1,652
OTP Mortgage Bank Ltd.	–	–	–	–	100.00	–	3,000	146
HIF Ltd.	100.00	–	1,191	199	100.00	–	1,131	184
OTP Securities Ltd.	100.00	–	1,000	19	100.00	–	1,000	–428
OTP Real Estate Ltd.	70.38	29.62	1,670	758	70.38	29.62	1,670	856
OTP Factoring Ltd.	50.00	50.00	300	530	50.00	50.00	300	635
OTP Real Estate Management Ltd.	–	100.00	61	103	–	100.00	61	273
Bank Center No. 1. Ltd.	100.00	–	5,956	409	100.00	–	5,956	–237
Inga Egy Ltd.	100.00	–	391	157	100.00	–	391	28
Inga Kettő Ltd.	100.00	–	5,665	46	100.00	–	5,665	101
Concordia-Info Ltd.	–	100,00	2,695	4	–	100,00	2,695	12
Total			**28,203**	**7,775**			**31,948**	**9,417**

* Az 2001. december 31-i állapot szerint.

OTP-Garancia Insurance Ltd.'s insurance premium income grew by 8.8%, increasing to HUF 42.3 billion. The share of the life and bank insurance business within total premium income was HUF 21.5 billion. The premium income of the non-life business reached HUF 20.7 billion, representing an increase of 17.9% over 2000. The gross value of damage claims amounted to HUF 20.4 billion in 2001. The company had a HUF 1,254 million pre-tax profit, representing a close to 150% increase over the previous year, and, at the same time, it increased its insurance reserves considerably – by more than HUF 12.5 billion. The Company's balance sheet total increased by 34.1%, and its equity reached HUF 5.6 billion as at 31 December 2001.

Merkantil Bank Ltd. expanded its activities dynamically in 2001. Its balance sheet total, which was HUF 59.4 billion at the end of 2002, grew 11.6%. Within the company's assets, car loans had a share of 80.0%, while the share of dealer financing was 9.5%. Merkantil Bank closed the year with a pre-tax profit of HUF 1,925 million, representing an increase of HUF 228 million over the previous year. The Bank's financial performance ratios were favourable. Return on average assets (ROAA) reached 2.8% and return on average equity (ROAE) reached 24.3%. The Company's equity increased by close to 30%, from HUF 5.4 billion to HUF 7.0 billion, while the ratio of equity to the balance sheet total increased from 10.2% in 2000 to 11.7%.

Merkantil Car Ltd.'s balance sheet total increased by HUF 11 billion during 2001, representing a HUF 47.8% growth in total assets compared with 2000. The volume of financial leasing increased from HUF 19.2 billion to HUF 31.9 billion. By year-end, the volume of production equipment financing deals had more than doubled, surpassing HUF 3.7 billion. The Company's pre-tax profit reached HUF 462 million in 2001. The balance sheet total of Merkant-Ház Ltd. increased by 24.6% to HUF 6.6 billion in 2001. On 31 December 2001, the volume of long-term vehicle leasing amounted to HUF 1,965 million. The Company's pre-tax profits reached HUF 64 million in 2001.

In the course of 2001, **OTP Building Society Ltd.** concluded a total of 77 thousand new contracts at a value of close to HUF 50 billion. As of year-end, the volume of customer deposits was HUF 48.1 billion, while on 31 December 2001 the volume of customer deposits was HUF 54.1 billion, reflecting an increase in excess of 45%. The equity of the Building Society reached HUF 3.3 billion, and this is 6.1% of the balance sheet total. The company achieved a pre-tax profit of HUF 1,652 million in 2001, representing a 73.3% increase over that of the previous year.

Compared with the previous year, **OTP Fund Management Ltd.'s** pre-tax profit increased by HUF 758 million, reaching HUF 2,413 million, a reflection of the dynamic increase – from HUF 273.4 billion to HUF 367.3 billion – in the net asset value of the funds under the Company's management. With this increase, the Company's market share rose from 48.5% to more than 52%. On 31 December 2001, the value of pension funds under the Company's management reached HUF 101.7 billion, and as a result, the total value of assets under the Company's management reached HUF 470 billion.

Also in 2001 **OTP Pension Fund Ltd.** led the market both in terms of the number of pension fund accounts and the total value of its portfolio. As at the end of 2001, the Company managed 764 thousand private accounts and the combined value of the assets of the pension funds administered by the Company reached HUF 100 billion. The Company closed the year with a pre-tax income of HUF 77 million, and its balance sheet total was HUF 1,510.8 million.

In 2001 **OTP Real Estate Ltd.'s** pre-tax profit was HUF 856 million, HUF 98 million more than in 2000.

LOAN PORTFOLIO QUALITY, PROVISIONING

As at 31 December 2001, OTP Bank Ltd.'s total loan portfolio to be qualified was HUF 1,489.94 billion, representing an increase of close to HUF 253 billion, or 20.4%, over 2000. The ratio of qualified loans to the total loan portfolio fell in 2001, from 5.6% in 2000 to 4.6%.

OTP BANK LTD'S QUALIFIED LOAN PORTFOLIO

	31 Dec. 2000 HUF mn	prop.	31 Dec. 2001 HUF mn	prop.	Change HUF mn	%
Securities (excluding Hungarian government securities)						
Problem-free	22,116	98.4%	27,784	98.8%	5,668	25.6%
Qualified	354	1.6%	335	1.2%	–19	–5.4%
Total	**22,469**	**100.0%**	**28,119**	**100.0%**	**5,649**	**25.1%**
Loans and interbank transactions (receivables)						
Problem-free	840,991	95.4%	1,074,121	96.0%	233,130	27.7%
Qualified	40,700	4.6%	44,606	4.0%	3,906	9.6%
Total	**881,691**	**100.0%**	**1,118,727**	**100.0%**	**237,036**	**26.9%**
Ownership stakes						
Problem-free	8,739	25.6%	17,650	51.4%	8,911	102.0%
Qualified	25,420	74.4%	16,717	48.6%	–8,703	–34.2%
Total	**34,158**	**100.0%**	**34,367**	**100.0%**	**209**	**0.6%**
Other						
Problem-free	63,720	99.7%	8,328	96.2%	–55,392	–86.9%
Qualified	186	0.3%	328	3.8%	141	75.9%
Total	**63,906**	**100.0%**	**8,656**	**100.0%**	**–55,250**	**–86.5%**
Off-balance sheet items						
Problem-free	232,830	99.0%	293,034	97.7%	60,203	25.9%
Qualified	2,307	1.0%	7,038	2.3%	4,731	205.1%
Total	**235,137**	**100.0%**	**300,072**	**100.0%**	**64,935**	**27.6%**
Grand total						
Problem-free	1,168,395	94.4%	1,420,917	95.4%	252,521	21.6%
Qualified	68,966	5.6%	69,023	4.6%	57	0.1%
Total	**1,237,362**	**100.0%**	**1,489,940**	**100.0%**	**252,578**	**20.4%**

Of the total **portfolio to be qualified** 75.1% consisted of outstandings as at the end of 2001 (31 December 2000: 71.3%), and 64.6% of this portfolio were qualified receivables related to the outstandings. 65.2% of the combined volume of provisions and value losses were connected with qualified receivables.

In 2001, **the total receivables** of OTP Bank increased by 26.9%, reaching HUF 1,118.7 billion by year-end. The share of problem-free receivables increased from 95.4% as at the end of 2000 to 96.0%, reflecting an improvement in the receivables portfolio. The volume of the to be monitored category was 1.6% of the total receivables portfolio as at year-end 2001, as opposed to 0.6% at the end of 2000, while the share of the below average category dropped from 4.0% to 2.4%.

Within the total of receivables, the share of **customer receivables** increased by HUF 144 billion, or 22.3%, reaching HUF 792.5 billion by the end of 2001, within which the share of the qualified portfolio dropped from 6.3% in the previous year to 5.6%, or HUF 44 billion, as at year-end 2001. Portfolio quality improved in the corporate business and deteriorated in the retail and municipality businesses.

In the retail division, under the circumstances of a 40.0% increase in receivables, the qualified volume grew 44.1%, which means that within the total of retail receivables, the share of qualified receivables grew from 5.5% to 5.7%. The increase in the qualified volume was particularly high for receivables with a bad qualification (HUF 4.1 billion, representing a 95.5% increase).

In the corporate division, under the circumstances of a 14.2% increase in receivables, the qualified volume decreased 2.9% and thus, within the total of corporate receivables, the share of qualified receivables fell from 7.5% in 2000 to 6.3% by the end of 2001. Within the qualified portfolio, the volume of the to be monitored category increased by HUF 12.1 billion, and its proportion within the total portfolio of corporate loans grew from 0.7 to 3.2%. Due to a HUF 13.0 billion drop in the volume of problematic loans, their share within the total portfolio of corporate loans decreased significantly, from 6.8% to 3.1%.

In the municipality division, under the circumstances of a 20.8% increase of receivables, the qualified volume experienced a more than threefold increase over the previous year. In spite of this, the share of the qualified volume within the total municipality portfolio was the lowest among the various categories of customer receivables, amounting to 0.5% (year-end 2000: 0.2%).

Receivables from financial institutions grew by 39.7% in 2001, and simultaneously the volume of the qualified portfolio dropped by 7%, while – similarly to the previous year – its share within the total of the financial institutions portfolio was 0.1%.

QUALIFIED LOANS BY BUSINESS LINES

	31 Dec. 2000		31 Dec. 2001		Change	
	HUF mn	prop.	HUF mn	prop.	HUF mn	%
Retail banking						
Problem-free	177,549	94.5%	248,203	94.3%	70,654	39.8%
Qualified	10,360	5.5%	14,926	5.7%	4,566	44.1%
To be monitored	2,561	1.4%	2,830	1.1%	269	10.5%
Bad	7,799	4.2%	12,096	4.6%	4,297	55.1%
Total	**187,909**	**100.0%**	**263,129**	**100.0%**	**75,220**	**40.0%**
Corporate banking						
Problem-free	372,956	92.5%	430,971	93.7%	58,015	15.6%
Qualified	30,067	7.5%	29,184	6.3%	–883	–2.9%
To be monitored	2,724	0.7%	14,857	3.2%	12,133	445.4%
Bad	27,343	6.8%	14,327	3.1%	–13,016	–47.6%
Total	**403,023**	**100.0%**	**460,155**	**100.0%**	**57,132**	**14.2%**
Municipal banking						
Problem-free	57,206	99.8%	68,893	99.5%	11,687	20.4%
Qualified	89	0.2%	326	0.5%	237	267.2%
To be monitored	8	0.0%	6	0.0%	–2	–23.0%
Bad	81	0.1%	320	0.5%	239	295.1%
Total	**57,295**	**100.0%**	**69,219**	**100.0%**	**11,924**	**20.8%**
Financial institutions						
Problem-free	233,280	99.9%	326,054	99.9%	92,774	39.8%
Qualified	183	0.1%	170	0.1%	–13	–7.0%
To be monitored	0	0.0%	0	0.0%		
Bad	183	0.1%	170	0.1%	–13	–7.0%
Total	**233,463**	**100.0%**	**326,224**	**100.0%**	**92,761**	**39.7%**
Total						
Problem-free	840,991	95.4%	1,074,121	96.0%	233,130	27.7%
Qualified	40,700	4.6%	44,606	4.0%	3,906	9.6%
To be monitored	5,293	0.6%	17,693	1.6%	12,400	234.3%
Bad	35,407	4.0%	26,913	2.4%	–8,494	–24.0%
Total	**881,691**	**100.0%**	**1,118,727**	**100.0%**	**237,036**	**26.9%**

The distribution of qualified loans by the various categories of qualification underwent a major transformation during the year. A substantial increase occurred in the to be monitored category which increased more than threefold during the year, and its share within the total of the qualified volume grew from 13.09% to 39.7%. The entire amount of this change is attributable to the growth of the qualified volume in the corporate business, where the volume of the to be monitored category grew by HUF 12.1 billion. At the same time, both the volume and the share within the total qualified volume of the doubtful and below average categories decreased substantially. The HUF 10.4 billion, close to 60%, drop in the doubtful category is attributable to the decrease in of this qualification category in the corporate business. Loans of the below average category decreased HUF 3.6 billion, experiencing also a close to 60% drop from which HUF 3.5 billion occurred in the corporate business. Due to the HUF 5.5 billion (48.4%) increase in the bad qualification category, its share within the total of the qualified volume grew from 27.7% in 2000 to 37.5%, which is primarily a consequence of the changes in the retail portfolio, where the volume of bad loans increased by HUF 4.1 billion in 2001, representing a doubling of the volume compared with the previous year. In the corporate portfolio the volume of loans with the bad categorisation grew by HUF 1.4 billion.

In the retail business line, with the exception of the bad category, the share of all the other qualified loan categories within the total of the qualified volume of the retail business decreased. Compared with the previous year, a substantial increase in the share of bad loans occurred – from 41.5% to 56.3%. In the corporate business there was a steep increase in the share within the total qualified volume of the to be monitored category – from 9.1% to 50.9%, whereas the share of the bad category increased from 22.4% to 27.7%, while the shares of the below average and doubtful categories decreased substantially.

THE STRUCTURE OF QUALIFIED LOANS

	31 Dec. 2000		31 Dec. 2001		Change		Percentage point change in proportion
	HUF mn	prop.	HUF mn	prop.	HUF mn	%	
To be monitored	5,293	13.0%	17,693	39.7%	12,400	234.3%	26.7%
Below average	6,154	15.1%	2,593	5.8%	–3,561	–57.9%	–9.3%
Doubtful	17,973	44.2%	7,578	17.0%	–10,395	–57.8%	–27.2%
Bad	11,280	27.7%	16,742	37.5%	5,462	48.4%	9.8%
Total qualified	**40,700**	**100.0%**	**44,606**	**100.0%**	**3,906**	**9.6%**	**–**

With the 9.6% increase of the qualified volume, the volume of provisions and value loss dropped from HUF 22.9 billion to HUF 21.7 billion, and thus the provision coverage ratio dropped from 56.2% to 48.6%.

THE COVERAGE OF QUALIFIED RECEIVABLES BY RISK PROVISIONS

	31 Dec. 2000	31 Dec. 2001	Change	
	HUF mn		HUF mn	%
Total receivables	**881,691**	**1,118,727**	**237,036**	**26.9%**
Problem-free receivables	840,991	1,074,121	233,130	27.7%
Qualified volume	40,700	44,606	3,906	9.6%
Value loss, provisions	**22,872**	**21,683**	**–1,189**	**–5.2%**
Coverage ratio	56.2%	48.6%		

The distribution of value loss and risk provision by the various lines of business is shown in the table below.

VALUE LOSS AND RISK PROVISIONS BY BUSINESS LINE

	31 Dec. 2000		31 Dec. 2001		Change	
	HUF mn	prop.	HUF mn	prop.	HUF mn	%
Retail	5,894	25.8%	9,982	46.0%	4,088	69.4%
Corporate	16,715	73.1%	11,331	52.3%	–5,384	–32.2%
Municipal	80	0.4%	200	0.9%	120	149.3%
Interbank	183	0.8%	170	0.8%	–13	–7.0%
Total	**22,872**	**100.0%**	**21,683**	**100.0%**	**–1,189**	**–5.2%**

In line with the change in the distribution of the qualified volume by the various lines of business, the volume of value loss and risk provision dropped by HUF 5.4 billion in the corporate business, while in the retail business it increased by HUF 4.1 billion, and in the municipality and financial institutions businesses it remained at a low level. Consequently, the share of the retail business within the total combined amount of recorded value losses and provisions on receivables rose to 46.0%, while the share of the corporate division dropped to 52.3%.

Within the total of **trading and investment securities** (excluding Hungarian government securities) the share of the qualified portfolio was just 1.2%, or HUF 335 million. Within the total portfolio of assets examined in terms of qualification, the highest ratio of the qualified volume occurred in **equity stakes.** Of the year-end volume of HUF 34.4 billion, HUF 16.7 billion (48.6%) was not problem-free, which is, however, substantially lower than in the previous year (2000: HUF 25.4 billion, or 74.4%). The Bank recorded a value loss of HUF 5.0 billion on this volume of HUF 16.7 billion, which corresponds to a coverage ratio of 29.9%. Of the HUF 8.7 billion year-end volume of the portfolio that has been categorised as belonging to the other category (other receivables and other assets besides equity stakes), the share of the qualified portfolio was HUF 0.3 billion (3.8%).

Within **off-balance sheet items,** accounting for close to 20% of the total asset portfolio examined in terms of qualification, the volume of the qualified portfolio was 2.3%.

ASSET-LIABILITY MANAGEMENT

LIQUIDITY RISKS AND MARKET RISK MANAGEMENT

The supreme forum of market risk management within OTP Bank Ltd. is the Asset-Liability Committee (ALCO). Each year the Committee reviews the evaluation methods and the defined limits, which are determined on the basis of the maximum acceptable loss.

TRENDS IN OTP BANK LTD.'S LIQUIDITY POSITION

OTP Bank Ltd.'s liquidity policy: With a view to maintaining profitability, the Bank's liquidity policy aims at meeting its payment obligations as and when they fall due and at carrying out the necessary transactions.

In order to be able to calculate its liquidity exposure, the Bank analyses the balance of the compulsory reserve account and the Treasury's portfolio on a daily basis, prepares a cash-flow analysis for eight days ahead, and prepares a maturity balance sheet each month. It reports to ALCO on a quarterly basis on any deviation from the limits defined for the gaps, the Treasury portfolio and the funding requirement determined on the basis of plans.

The positive gap in the short-term maturities of the HUF due balance sheet (that was set up through a regrouping of the deposits according to their potential maturity dates) was again large in 2001, as – similarly to the previous years – Treasury favoured the more profitable NBH deposits and, due to the negative yield curve, high-yield short-term money market instruments. The

Bank follows a stricter procedure than called for by the currently valid regulations: while the statutory provisions define large deposits as any deposit whose value exceeds 15% of the guarantee capital, the Bank considers all deposits greater than HUF 2 billion to be large deposits. The combined volume of the Bank's cash and bank holdings, its securities negotiable with the central bank and its short-term central-bank and interbank placements is nearly 16 times higher than the combined volume of large deposits. The Bank's cash, trading securities and deposits placed with the central bank and other commercial banks account for 34% of the balance sheet total.

Also within maturity categories of less than three months of the foreign currency due balance sheet (prepared on the basis of potential maturity dates), the total of assets is much higher than value of liabilities. Within the foreign currency deposit portfolio, whose value expressed in Forint grew 4.2%, a structural shift towards EUR is observable, which is, in part, attributable to the favourable terms offered for deposit placements and for exchanging funds into EUR in the last quarter of 2001. Compared with 2000, there was a slight decrease in the volume of foreign currency loans, and consequently these loans accounted for only 39% of the total of foreign currency assets. The volume of trading and foreign currency securities increased considerably, reaching 10% of total assets by year-end.

MANAGING MARKET RISK

In accordance with Government Decree 244/2000, since the second quarter of 2001 the Bank has been reporting on a daily basis to the State Supervisory Authority the capital requirement of the position, counterparty and foreign exchange risk (calculated according to the so-called standard method) of the trading book positions.

In the second, third and fourth quarters, the average volume of the capital requirement was HUF 1,163 million, of which a value corresponding to HUF 704 million was required by position exposure, HUF 194 million by counterparty exposure and HUF 265 million by foreign exchange exposure.

The Bank also determines each day the capital requirement based on an internal Value at Risk model. In order to be able to determine the capital requirement more precisely and by a more sophisticated method, the Bank launched the development of this model, and this project will be finished in the second half of 2002.

INTEREST RATE RISK EXPOSURE

The Bank intends to keep potential losses in terms of net interest income and the market value of the portfolio that may result from adverse movements in market interest rates to within specified limits. To this end, the Bank is continuously measuring its interest rate risk exposure and informs the management of any breaches of the limit. OTP Bank's interest rate risk exposure is relatively low, as a large part of the interest rates on HUF deposits and customer loans are not fixed, nor are they tied to money market instruments. Instead, these products are re-priced by the Bank in line with market trends, which means that, including the time required for technicalities, they may be re-priced within three months.

In 2001 the NBH went over to its inflation-targeting system, and at the same time ensured a correspondence between its benchmark fortnightly deposit interest rate and the so-called central bank prime rate. The NBH reduced its benchmark interest rates in several steps, by 2 percentage points, and it also cut the mandatory reserve ratio from 11% to 6%. The volume of government bonds held by foreigners increased from HUF 733 billion to HUF 1,076 billion.

In 2001 the gap with a maturity of less than one year within the Bank's Forint re-pricing balance sheet to be short, i.e., the volume of liabilities that may be re-priced is higher than that of assets. The volume of floating interest rate HUF investment securities increased by HUF 116 billion. Treasury also increased its fixed interest rate volume that may be re-priced after a two-year maturity period, by close to HUF 30 billion. As of year-end 2001, interest-bearing foreign currency assets were HUF 56 billion higher than interest-bearing foreign currency liabilities. The interest position was relatively closed. Pursuant to a resolution of ALCO, the duration of the Bank's trading securities portfolio must not be higher than three years.

EXCHANGE RATE RISK EXPOSURE

As of 4 May 2001, the NBH widened the band within which the exchange rate of the Forint is permitted to fluctuate – from +/–2.25% of the mid rate of the band to +/–15%. As of 1 October 2001, the crawling peg devaluation of the Forint introduced in 1995 was abolished, and the centre of the intervention band was fixed at a rate of 276.1 EUR/HUF.

In order to avoid potential losses resulting from adverse changes in exchange rates, the maximum level of the total open position is limited by the law (to 30% of the guarantee capital), and, at the same time, the Bank also has its own detailed internal exchange rate risk management regulation. In the course of the review of 2001, due to the change in the exchange rate mechanism, particular emphasis was placed on stop-loss and intraday limits. In addition to this, the Bank also limits the maximum level of the overnight open position as well as its various positions according to currency types.

The Bank participates both in the domestic and foreign exchange spot and derivative markets. The average volume of OTP Bank Ltd.'s gross foreign currency position was HUF 6.9 billion in 2001, in contrast with HUF 10.5 billion in the previous year, while the average net foreign currency position was a short position of HUF 2.5 billion, as opposed to a short position of HUF 6.8 billion a year earlier.

FINANCIAL SUMMARY*

Balance Sheet	1997	1998	1999	2000	(HUF bn) 2001
Cash and bank	378.2	350.1	557.4	482.4	372.6
Goverment securities	371.3	468.6	300.9	440.2	481.1
Interbank deposits**	173.6	246.8	277.7	233.9	329.9
Loans and advances to customers	388.3	444.9	478.4	614.1	769.8
Retail	141,2	133,1	150,8	180,2	258,2
Corporate	223,7	280,4	291,4	393,2	464,8
Municipal	23,3	31,4	36,2	40,7	46,7
Intangible and fixed assets	36,5	44,1	52,1	52,7	54,2
Other	93,5	81,4	101,2	108,0	119,6
TOTAL ASSETS	**1,441.4**	**1,635.8**	**1,767.5**	**1,931.3**	**2,127.2**
Interbank liabilities	46,7	42,8	42,2	44,4	25,1
Deposits from customers	1,229.4	1,401.3	1,507.6	1,633.0	1,811.2
Retail	974.9	1,119.6	1,214.0	1,308.1	1,405.6
Corporate	155,9	177,8	189,9	210,9	253,6
Municipal	98,5	103,9	103,7	114,0	152,0
Securities issued	38.5	30.9	22.9	19.6	14.9
Provisions	9.5	11.4	11.1	11.3	14.6
Other	55.4	70.8	83.2	95.5	102.9
Shareholders' equity	61.9	78.6	100.7	127.5	158.5
Total liabilities	**1,441.4**	**1,635.8**	**1,767.5**	**1,931.3**	**2,127.2**
Net assets per share (NAV) (HUF. fully diluted)	2,210	2,806	3,595	4,554	5,661

PROFIT AND LOSS ACCOUNT	1997	1998	1999	2000	(HUF bn) 2001
Net interest income	84.3	86.5	84.0	86.9	98.3
Non interest income	10.3	21.1	30.3	39.0	42.8
Of wich: Net fee and commission income	16.6	20.7	24.0	32.0	40.0
Total income	94.6	107.5	114.3	125.8	141.1
Non-interest expenses	63.4	70.7	74.6	77.7	85.2
Operating income/profit	31.2	36.8	39.7	48.1	55.9
Provisions	12.0	11.2	10.2	7.9	8.5
Profit before taxation	**19.2**	**25.6**	**33.3**	**40.2**	**47.4**
Profit after taxation	**15.3**	**21.1**	**28.3**	**32.5**	**38.4**
Earnings per share (EPS) (HUF, undiluted)	589,55	802,32	1,071.27	1,241.32	1,457.67

KEY RATIOS	1997	1998	1999	2000	2001
Return on average assets ROAA %	1.13	1.37	1.67	1.76	1.89
Return on average equity ROAE %	27.14	30.07	31.62	28.51	26.85
Capital adequacy ratio %	13.58	13.33	15.23	15.45	14.11
Dividend per share (HUF)					
Dividend per preference share (HUF)	140	160	180	200	–
Dividend per common share (HUF)	140	160	180	200	275
Loan to deposit ratio %	31.6	32.4	31.7	38.6	42.5
Cost/income ratio %	67.0	65.8	65.3	61.7	60.4

* Unconsolidated, based on HAR.
** Includes interbank short term and long term deposits and NBH long term deposits.

MANAGEMENT'S SUMMARY OF THE DIFFERENCES BETWEEN THE PROFIT AND LOSS ACCOUNTS PREPARED ACCORDING TO THE INTERNATIONAL AND THE HUNGARIAN ACCOUNTING STANDARDS FOR THE YEAR ENDING DECEMBER 31, 2001

The after-tax profit of the Bank prepared according to the Hungarian Accounting Rules (HAR) and presented in a structure approximating the international standards developed as follows after the amendments according to the International Accounting Standards (IAS):

(HUF millions)

	MSZSZ	IAS amendments	IAS
Pre-tax profits	47,369	3,038	50,407
Taxes (deferred taxes in IAS) (–)	–8,971	–268	–9,239
After-tax profits	38,398	2,770	41,168

Profits after taxes according to IAS were HUF 2,770 million higher than according to HAR in 2001.

1. Generating/releasing the general risk provision, the provisions for exchange rate losses and country risk provisions

General risk provisions of HUF 2,380 million was generated in 2001 in the HAR profit and loss accounts based on the value of the risk weighted total assets.

Due to changes in HAR regulation, provisions for net foreign currency position and country risk have been cancelled, therefore provisions for exchange rate losses generated in the previous year in the amount of HUF 70 million based on the net foreign currency position and country risk provisions which were HUF 580 million have been released and accounted as income on the P&L.

The above provisions generated and released are not recognized by IAS, thus the provisions generated and released were reversed which resulted in a HUF 1,730 million profit increasing item in the IAS profit and loss accounts.

2. Amortisation of the premiums and discounts on investment securities

According to the IAS, for debt securities for investment purposes purchased above the par value, the loss equal to the difference between the par value and the cost shall be amortized on a straight-line basis from acquisition to maturity and the sum of the amortization shall be accounted against the income.

Similar regulations exist under HAR starting 2001, which has been accounted as follows:

- for securities in the portfolio as of 31 December 2000 the difference between face value and purchase value has been amortized for the remaining maturity on a straight line basis.
- for securities purchased in 2001 the difference between face value and purchase value has been amortized on a straight line basis between the date of purchase and date of maturity.

Modifications under IAS are as follows:
– Release of IAS accruals for the previous year of HUF 496 million
– Release of HAR accruals of HUF 1,505 million
– IAS accruals on 31 December, 2001 of HUF –1,508 million
– Total HUF 493 million

The above items increased the IAS profit by HUF 493 million in total.

3. Release of provisions for contingent and future liabilities

Within its business activities, the Bank financed and made built dwelling houses for sale, and in connection with this it was obliged to guarantee against possible workmanship faults for 10 years. The Bank's guarantee liability related to the dwelling houses will stand until 2007.

In the previous years HUF 1,500 million provisions were generated for the possible losses arising from the house-guarantee claims.

In 1999, HUF 700 million, in 2000 HUF 350 million and in 2001 HUF 153 million was released from the provisions generated in the previous years. The latter was equal to the expenses paid by the Bank.

The above increases the IAS results by HUF 153 million.

4. Accounting of finance leases

The Bank leased and paid rental fees for computers and other equipments since 1995. Contrary to the HAR, IAS considers these transactions as finance leases, and the equipment is registered among tangible assets. Parts of these are equipments leased from AXIAL, and parts of them are the leases of ATMs.

IAS takes out the items accounted according to HAR and accounts them according to the international standards.

The above items related to lease transactions increased the IAS profit by HUF 88 million in total.

5. Valuation of financial instruments according to IAS 39

Starting 1 January 2001 the IAS 39 standard is introducing valuation principles, which differ from HAR. At the Bank this resulted in modification of value relating to securities and off balance sheet financial instruments. Within securities a new category has been introduced and included into the balance sheet called: “Trading and sellable securities”.

5.1 TRADING AND SELLABLE SECURITIES AND PARTICIPATIONS

The trading and sellable securities and sellable participations have to be presented in the balance sheet on market value. These valuation difference based on 31 December, 2000 volume, which was established based on 31 December, 2000 market value has been charged to shareholders equity. These increase IAS results by HUF 667 million.

5.2 DIFFERENCE IN ACCOUNTING FOR OFF BALANCE SHEET FINANCIAL INSTRUMENTS

Since IAS 39 is marking these instruments to market, in IAS the accruals of the end of the previous year; in HAR the provisions pending for derivative instruments and the accruals for swaps have to be cancelled and fair market valuation has to be made in IAS.

As a result of different accounting, the results of the release of accruals of the end of the previous year and the provisions pending for derivative instruments and the accruals for swaps was an increase of HUF 861 million.

In IAS the following modifications have been carried out:
– Reversal of accruals of HUF 543 million
– Reversal of HAR provisions for non covered futures instruments of HUF 473 million
– Reversal of HAR accruals of HUF –155 million
– Totaling HUF 861 million

The futures, swaps and derivative type options are considered a trading instruments and liabilities, therefore their value in the balance sheet should be their fair market value. The results from marking to market reached HUF –773 million. Consequently the modifications in the valuation of off balance sheet financial instruments increased IAS results by HUF 88 million.

The total effect of modifications based on IAS 39 increased IAS results by HUF 755 million (HUF 667 million under 5.1. and HUF 88 million under 5.2.).

6. Gains on repurchased own shares

According to HAR, gains from the sale of repurchased own shares are posted into the profits under income of investment services. IAS, however, posts them directly into the reserves, thus it decreased IAS profit by HUF 72 million in 2001.

7. Self-audit and items accounted directly against reserves

According to HAR, corrections due to self-audit are accounted against profit reserves. IAS does not consider the items discovered in the course of the Bank's self-audit a serious error, thus it posted the amount of HUF 109 million against the current year's profit.

8. Deferred taxes

HAR does not, while IAS recognize and apply deferred taxation, where taxes are considered the same as other expenses and thus are subject to the principle of accrual and comparison.

In the Bank's case, deferred taxation effects items in the IAS accounts that will, in all probability, be realized on Hungarian accounts in the future, i.e. be posted either as a cost or as income. As a result of their accounting, tax payable may change in both way.

The Bank started to apply deferred taxation under its IAS accounts in 1994. Considering the 2001 profit changing items and the corporate tax rate of 18%, the assets resulting from deferred tax payment amounted to HUF 268 million.

DIFFERENCES BETWEEN THE CONSOLIDATED PROFIT AND LOSS ACCOUNTS PREPARED ACCORDING TO THE INTERNATIONAL AND THE HUNGARIAN ACCOUNTING STANDARDS FOR THE YEAR ENDING DECEMBER 31, 2001

Establishment of consolidated pre-tax profits

	HAR	IAS	*(in HUF million)* Difference
OTP Bank Ltd.	47,369	50,407	3,038
OTP-Garancia Insurance Ltd.	1,254	1,552	298
Merkantil Group	2,451	2,506	55
OTP Asset Management Ltd.	2,413	2,413	0
OTP Fund Services Ltd.	77	37	–40
OTP LTP Ltd.	1,652	1,818	166
OTP Mortgage Bank Ltd.	146	146	0
HIF Ltd.	184	177	–7
OTP Securities Ltd.	–428	–433	–5
OTP Real Estate Ltd.	856	856	0
OTP Factoring Ltd.	635	635	0
OTP Real Estate Asset Management Ltd.	273	278	5
Inga Ltd-s.	129	129	0
Bank Center No l. Ltd.	–237	–237	0
Concordia Info Ltd.	12	12	0
I. Aggregate pre-tax profits	**56,786**	**60,296**	**3,510**
Difference between aggregate and unconsolidated pre-tax profits	*9,417*	*9,889*	*472*
Equity consolidation	505	131	–374
Capital consolidation	–172	–134	38
Intra-group transactions	171	62	–109
II. Total effect of consolidation	**504**	**59**	**–445**
III. Effect of other differences	**–**	**150**	**150**
Consolidated pre-tax profits	**57,290**	**60,505**	**3,215**
Difference between consolidated and unconsolidated pre-tax profits	*9,921*	*10,098*	*177*

As it could be seen from the table above majority of the differences between the consolidated accounts for the year ended 31 December, 2001 made under HAR and IAS is represented by the difference of the individual data of OTP Bank, to which as an increase factor is added the differences in the individual data of the subsidiaries, the effect of the adoption od IAS 39 for the measurement of fair value of financial instruments, the reversal of certain provisions and as a diminutive component, the effect of consolidation.

I. DIFFERENCES AT THE AGGREGATION OF THE FINANCIAL REPORTS

OTP Bank Ltd.

Adjustments to the HAR statements to present IAS accounts the components influencing the results:

– Premium and discount amortization on investment securities	HUF +493 million
– Difference in accounting for finance leases	HUF +88 million
– Reversal of statutory general provision, statutory provision for net foreign currency position, statutory country risk provision	HUF +1,730 million
– Profit on sale of Treasury Shares	HUF –72 million
– Allowance for possible losses on off-balance sheet commitments and contingent liabilities	HUF +153 million
– Reclassification of direct charges	HUF –109 million
– Fair value adjustment of held for trading and available-for-sale financial assets	HUF +667 million
– Difference in accounting for off- balance sheet financial instruments, fair value adjustment of derivative financial instruments	HUF 88 million
Total modification of pre-tax profits	HUF +3,038 million

Merkantil Group

– Difference in accounting for finance leases	HUF –100 million
– Reversal of statutory general provision	HUF 155 million
Total modification of pre-tax profits:	HUF +55 million

HIF Ltd.

In the IAS consolidated accounts, due to different technique used at expressing foreign currency accounts to HUF (the conversion difference in HAR is other income/expense, in IAS charged against equity).
Modification of pre-tax profits: HUF –7 million

OTP-Garancia Insurance Ltd.

Reversal of depreciation related to cost of reorganization increasing pretax profits in the value of HUF 95 million.
IAS does not recognize income/expenses based on stop-loss deals with reinsures therefore IAS reverses HAR accounts increasing pretax profits by HUF 203 million.
Total modification of pre-tax profits HUF +298 million

OTP Securities Ltd.

According to HAR, corrections due to self-audit are accounted against profit reserves. IAS does not consider the items discovered in the course of the company's self-audit a serious error, thus it posted the amount of HUF 5 million against the current year's profit.

OTP Building Society Ltd.

Reversal of statutory general provision and compensation provision accounted in HAR increase pre-tax profits by HUF 106 million.

OTP Fund Services Ltd.

Newly consolidated company where pretax profits is decreased by HUF 40 million in IAS, since under IAS retained earnings shown in reserves has to be accounted within the subject year's results.

II. DIFFERENCES IN THE EFFECT OF CONSOLIDATION

Effect of equity consolidation

Under HAR and IAS there is a difference as to which companies have to be equity consolidated. Under HAR and based on its accounting policy, the Bank equity consolidates those fully owned subsidiaries which are exempt from full consolidation and those associated companies where the nominal value of investment reaches HUF 50 million and where the ownership of the Bank reached at least 10%. There are 13 companies equity consolidated under HAR. Under IAS only limited number (2) of companies are consolidated. The companies consolidated under HAR are more profitable than those consolidated under IAS, decreasing consolidated pre-tax profits by HUF 374 million.

Effect of capital consolidation

One of the reasons for the difference between the HAQR and IAS accounts is the different accounting of amortization of active capital consolidation differences. The capital consolidation difference for Inga Ltds. is depreciated in a straight line over 5 years under HAR, while the full amount has been deducted in 1998 under IAS. Therefore the depreciation is decreasing the HAR results by HUF 15 million, and there is no such effect under IAS.

At the acquisition of Merkantil; Bank, under HAR a passive capital consolidation difference has been created, while under IAS, which established the capital consolidation difference for the Merkantil Group active capital consolidation difference has been created, for which the depreciation for the current year decreased IAS results by HUF 36 million.

At HIF Ltd. the subscribed capital is shown in the IAS accounts at original rate of exchange, while under HAR it has been continuously revalued at NBH exchange rates, creating a HUF 59 million increase in results under IAS.

Other differences HUF 10 million

Intra-group relations

The putting of self revision items into the profit and loss account created a decrease in pre-tax profits of HUF 37 million under IAS.

In 2000 OTP Bank has transferred funds of HUF 200 million with a final effect to OTP Fund Services. This has increased the value of investments at OTP Bank which has to be reversed at the consolidation of accounts, thus decreasing pre-tax profits by HUF 62 million.

III. EFFECT OF OTHER DIFFERENCES

Effect of IAS for establishment of fair value of financial instruments decreased pre-tax profits by HUF 3 million.

The securities held for trading, securities available for sale and investments considered as saleable financial instruments has to be presented at fair market value under IAS. Based on fair market value at 31 December 2001 the pre-tax profits has to be increased by HUF 20 million.

Derivative financial instruments are initially recognized at cost and subsequently are re-measured at their fair value. Changes in the fair value of derivative financial instruments that do not qualify for hedge accounting are recognized in the Consolidated Statement of Operations as they arise. All derivatives are carried as assets when fair value is positive and as liabilities when fair value is negative. Based on fair market value at 31 December 2001 the pre-tax profits have to be decreased by HUF 23 million.

Additional provisioning of HUF 400 million created under IAS in 2000 provisions of HUF 153 million has been released in relation to tax fine at OTP Securities levied in 2001.