NATIONAL SAVINGS AND COMMERCIAL BANK LTD.

CONSOLIDATED FINANCIAL STATEMENTS
IN ACCORDANCE WITH
INTERNATIONAL FINANCIAL REPORTING
STANDARDS

FOR THE YEARS ENDED
DECEMBER 31, 2002 AND 2001

NATIONAL SAVINGS AND COMMERCIAL BANK LTD.

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INDEPENDENT AUDITORS' REPORT

To the Shareholders and Board of Directors of National Savings and Commercial Bank Ltd.

We have audited the accompanying consolidated balance sheets of National Savings and Commercial Bank Ltd. and its subsidiaries ("the Bank") as at December 31, 2002 and 2001, and the related consolidated statements of operations, cash flows and changes in shareholders' equity for the years then ended. These consolidated financial statements are the responsibility of the Bank's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with International Standards on Auditing. Those Standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion the consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Bank as at December 31, 2002 and 2001, and the consolidated results of its operations, cash flows and changes in shareholders' equity for the years then ended in accordance with International Financial Reporting Standards.

Budapest, April 14, 2003

Deloitte & Touche

Deloitte & Touche

Deloitte
Touche
Tohmatsu

NATIONAL SAVINGS AND COMMERCIAL BANK LTD.
CONSOLIDATED BALANCE SHEETS
AS AT DECEMBER 31, 2002 AND 2001
(in HUF mn)

	2002	*2001*
Cash, due from banks and balances with the National Bank of Hungary	355,440	381,773
Placements with other banks, net of allowance for possible placement losses	295,892	332,088
Securities held for trading and available-for-sale	220,091	228,563
Loans, net of allowance for possible loan losses	1,280,710	771,334
Accrued interest receivable	26,195	29,797
Equity investments	5,464	2,816
Securities held-to-maturity	352,916	401,603
Premises, equipment and intangible assets, net	93,568	73,334
Other assets	86,315	68,337
TOTAL ASSETS	**2,716,591**	**2,289,645**
Due to banks and deposits from the National Bank of Hungary and other banks	79,060	36,952
Deposits from customers	2,151,169	1,891,512
Liabilities from issued securities	84,862	40,074
Accrued interest payable	12,627	12,626
Other liabilities	149,345	123,902
Subordinated bonds and loans	15,511	17,293
TOTAL LIABILITIES	**2,492,574**	**2,122,359**
Share capital	28,000	28,000
Retained earnings and reserves	223,412	165,643
Treasury shares	(27,800)	(26,357)
TOTAL SHAREHOLDERS' EQUITY	**223,612**	**167,286**
MINORITY INTEREST	**405**	**--**
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	**2,716,591**	**2,289,645**

The accompanying notes to consolidated financial statements on pages 6 to 37 form an integral part of these consolidated financial statements.

NATIONAL SAVINGS AND COMMERCIAL BANK LTD.
CONSOLIDATED STATEMENTS OF OPERATIONS
FOR THE YEARS ENDED DECEMBER 31, 2002 AND 2001
(in HUF mn)

	2002	*2001*
Interest Income:		
Loans	129,711	104,722
Placements with other banks	26,653	17,584
Due from banks and balances with the National Bank of Hungary	19,251	33,359
Securities held for trading and available-for-sale	21,879	16,632
Securities held-to-maturity	32,822	41,165
Total Interest Income	*230,316*	*213,462*
Interest Expense:		
Due to banks and deposits from the National Bank of Hungary and other banks	6,440	3,276
Deposits from customers	85,441	91,884
Liabilities from issued securities	3,193	3,189
Subordinated bonds and loans	963	1,391
Other	4	234
Total Interest Expense	*96,041*	*99,974*
NET INTEREST INCOME	**134,275**	**113,488**
Provision for possible loan and placement losses	8,817	6,152
NET INTEREST INCOME AFTER PROVISION FOR POSSIBLE LOAN AND PLACEMENT LOSSES	**125,458**	**107,336**
Non-Interest Income:		
Fees and commissions	63,618	49,233
Foreign exchange losses and gains, net	(2,768)	3,067
Gains and losses on securities, net	1,062	(255)
Gains on real estate transactions, net	809	2,244
Dividend income	600	673
Insurance premiums	49,715	38,975
Other	11,545	5,033
Total Non-Interest Income	*124,581*	*98,970*
Non-Interest Expenses:		
Fees and commissions	12,965	9,094
Personnel expenses	50,241	41,366
Depreciation and amortization	17,021	15,017
Other	96,684	80,324
Total Non-Interest Expense	*176,911*	*145,801*
INCOME BEFORE INCOME TAXES	**73,128**	**60,505**
Income taxes	(13,952)	(11,552)
NET INCOME AFTER INCOME TAXES	**59,176**	**48,953**
Minority interest	55	--
NET INCOME	**59,231**	**48,953**
Consolidated earnings per share (in HUF)		
basic	**231**	**1,912**
diluted	**231**	**1,907**

The accompanying notes to consolidated financial statements on pages 6 to 37 form an integral part of these consolidated financial statements.

NATIONAL SAVINGS AND COMMERCIAL BANK LTD.
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2002 AND 2001
(in HUF mn)

	2002	*2001*
OPERATING ACTIVITIES		
Net Income before income taxes	**73,128**	**60,505**
Adjustments to reconcile Net Income before income taxes to net cash provided by operating activities		
Income tax paid	(15,436)	(12,449)
Depreciation and amortization	17,021	15,017
Provision for possible loan and placement losses	8,817	6,152
Provision for permanent diminution in value of held-to-maturity investments	26	--
Credit for permanent diminution in value of equity investments	(1,548)	(1,340)
Credit for possible losses on other assets	(1,317)	(353)
Provision for possible losses on off-balance sheet commitments and contingent liabilities, net	2,355	2,145
Net income from accounting for associates under the equity method of accounting	160	131
Net increase in insurance reserves	16,316	12,437
Unrealised gains on fair value adjustment of securities held for trading and available-for-sale	(369)	(687)
Unrealised (gains)/losses on fair value adjustment of derivative financial instruments	(5,610)	796
Effect of deferred taxes	82	464
Minority interest	55	--
Changes in operating assets and liabilities		
Net decrease/(increase) in accrued interest receivable	3,928	(1,317)
Net increase in other assets, excluding advances for investments and before allowance for possible losses	(12,410)	(13,692)
Net decrease in accrued interest payable	(730)	(1,012)
Net increase/(decrease) in other liabilities	10,201	(5,726)
Net Cash Provided by Operating Activities	**94,669**	**61,071**
INVESTING ACTIVITIES		
Net decrease/(increase) in placements with other banks, before provision for possible placement losses	48,522	(115,721)
Net decrease/(increase) in securities held for trading and available-for-sale, before unrealised gains or losses	32,265	(40,661)
Net (increase)/decrease in equity investments, before provision for permanent diminution in value	(861)	931
Purchase of investment in subsidiary, net	(3,288)	--
Net decrease/(increase) in debt securities held-to-maturity	48,740	(38,225)
Net decrease in advances for investments, included in other assets	17	38
Net increase in loans, before provision for possible loan losses	(448,152)	(141,697)
Net additions to premises, equipment and intangible assets	(31,791)	(18,254)
Net Cash Used in Investing Activities	**(354,548)**	**(353,589)**
FINANCING ACTIVITIES		
Net increase/(decrease) in due to banks and deposits from the National Bank of Hungary and other banks	6,815	(14,993)
Net increase in deposits from customers	194,716	193,546
Net increase in liabilities from issued securities	43,590	9,629
Decrease in subordinated bonds and loans	(1,782)	(467)
Minority interest	24	--
(Loss)/Profit on sale of treasury shares	(1,102)	72
Foreign currency translation losses	(360)	(84)
Increase in treasury shares	(1,443)	(7,501)
Net decrease in compulsory reserves at		

National Bank of Hungary	15,055	77,955
Dividends paid	(6,912)	(3,404)
Net Cash Provided by Financing Activities	**248,601**	**254,753**
Net Decrease in Cash and Cash Equivalents	**(11,278)**	**(37,765)**
Cash and cash equivalents at the beginning of the year	271,504	309,269
Cash and Cash Equivalents at end of the year	**260,226**	**271,504**

NATIONAL SAVINGS AND COMMERCIAL BANK LTD.
CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2002 AND 2001
(in HUF mn)

	Share Capital	Retained Earnings and Reserves	Treasury Shares	Total
Balance as at January 1, 2001	**28,000**	**123,504**	**(18,856)**	**132,648**
Net income	--	48,953	--	48,953
Profit on sale of treasury shares	--	72	--	72
Change in carrying value of treasury shares	--	--	(7,501)	(7,501)
Dividends declared on common shares	--	(7,050)	--	(7,050)
Effects of adoption of IAS 39	--	248	--	248
Foreign currency translation gain	--	(84)	--	(84)
Balance as at December 31, 2001	**28,000**	**165,643**	**(26,357)**	**167,286**
Net income	--	59,231	--	59,231
Loss on sale of treasury shares	--	(1,102)	--	(1,102)
Change in carrying value of treasury shares	--	--	(1,443)	(1,443)
Foreign currency translation gain	--	(360)	--	(360)
Balance as at December 31, 2002	**28,000**	**223,412**	**(27,800)**	**223,612**

NATIONAL SAVINGS AND COMMERCIAL BANK LTD.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2002 AND 2001

NOTE 1: ORGANIZATION AND BASIS OF CONSOLIDATED FINANCIAL STATEMENTS

1.1. General

National Savings and Commercial Bank Ltd. (the "Bank" or "OTP") was established on December 31, 1990, when the predecessor State-owned company was transformed into a limited liability company.

As at December 31, 1994, 79% of the Bank's shares were held directly or indirectly by the Hungarian Government and the remaining 21% were held by domestic investors or represented as own shares (less than 3%). In spring 1995, 20% of the shares were transferred by the Hungarian Government to the Hungarian Social Security Funds. Subsequent to the successful privatization of the Bank by a public offering in summer 1995, the Bank's shares were introduced to the Budapest and the Luxembourg stock exchanges and were also listed on SEAQ London and PORTAL (USA).

At an extraordinary General Assembly, on September 3, 1997, the Bank issued a preferential voting share with a nominal value of HUF 1 thousand (the "Special Share") to the State Privatization and Holding Company. The Special Share gives the power to the State Privatization and Holding Company to control the outcome of certain shareholder votes in accordance with the Bank's Articles of Association and the right to delegate one member to the Bank's Board of Directors and one member to the Supervisory Board of the Bank.

By public offerings in fall 1997 and fall 1999, the State Privatization and Holding Company sold the remaining common shares.

The Annual General Meeting on April 25, 2001 approved resolution No. 6/1/2001 concerning the conversion of HUF 1,150 million nominal value preference shares issued by the Bank to common shares.

As at December 31, 2002 approximately 91.7% of the Bank's shares were held by domestic and foreign private and institutional investors. The remaining shares are owned by employees, leading officials (2.8%) and the Bank (5.5%).

The Bank provides a full range of commercial banking services through a nationwide network of 427 branches in Hungary.

1.2. Accounting

The Bank and its subsidiary companies (together the "Group") maintain their accounting records and prepare their statutory accounts in accordance with the commercial, banking and fiscal regulations prevailing in Hungary.

The Group's functional currency is the Hungarian Forint ("HUF").

Some of the accounting principles prescribed for statutory purposes are different from those generally recognized in international financial markets. Certain adjustments have been made to the Bank's Hungarian consolidated statutory accounts, in order to present the consolidated financial position and results of operations of the Bank in accordance with all standards and interpretations approved by the International Accounting Standards Board (IASB), which are referred to as International Financial Reporting Standards (IFRS). These standards and interpretations were previously called International Accounting Standards.

Effective as of January 1, 2001 the Group adopted IAS 39 – "Financial Instruments: Recognition and Measurement". Revisions to a number of other IAS also took effect in the financial statements of the year 2001. Those revisions concerned matters of detailed application which have no significant effects on amounts reported in the current or prior accounting periods.

NOTE 1: ORGANIZATION AND BASIS OF CONSOLIDATED FINANCIAL STATEMENTS [continued]

1.2. Accounting [continued]

IAS 39 has introduced a comprehensive framework of accounting for all financial instruments. The Group's detailed accounting policies in respect of such instruments are set out below. The principal effects of the adoption of IAS 39 have been that all of the Group's investments in securities classified as held for trading or available-for-sale are now carried at fair value and that derivative financial instruments have been brought on balance sheet. The effects of the remeasurement of investments to fair value and bringing the derivative financial instruments on-balance sheet at fair value have been recognised with effect from January 1, 2001.

The effects on retained earnings and reserves on adoption can be summarised as follows (in HUF millions):

Excess of fair value of securities held for trading and available-for-sale over cost	314
Net fair value of derivatives not designated as hedging instruments	(12)
Effect of deferred taxation	(54)
Adjustment as of January 1, 2001	248

Subsequent remeasurements to fair value are recorded in the Consolidated Statement of Operations.

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Significant accounting policies applied in the preparation of the accompanying consolidated financial statements are summarized below:

2.1. Basis of Presentation

These consolidated financial statements have been prepared under the historical cost convention with the exception of certain financial instruments, which are recorded on fair value. Revenues and expenses are recorded in the period in which they are earned or incurred.

2.2. Foreign Currency Translation

Assets and liabilities denominated in foreign currencies are translated into HUF at exchange rates quoted by the National Bank of Hungary ("NBH") as of the date of the consolidated financial statements. Income and expenses arising in foreign currencies are converted at the rate of exchange on the transaction date. Resulting foreign exchange gains or losses are recorded in the Consolidated Statement of Operations.

Net differences resulting from translating foreign currency financial statements of consolidated subsidiaries are presented as an element of retained earnings and reserves in the Consolidated Balance Sheet.

2.3. Principles of Consolidation

Included in these consolidated financial statements are the accounts of those subsidiaries in which the Bank holds a controlling interest. The list of the major fully consolidated subsidiaries, the percentage of issued capital owned by the Bank and the description of their activities is provided in Note 26. However, certain subsidiaries in which the Bank holds a controlling interest have not been consolidated in accordance with IAS because it is either intended that the shares shall be disposed of in the near future or the effect of consolidating such companies is immaterial to the consolidated financial statements as a whole (see Note 2.9.).

2.4. Accounting for Acquisitions

Upon acquisition, subsidiaries are accounted for under the fair value method of accounting. Any goodwill or negative goodwill arising on acquisition is recognized in the consolidated balance sheet and accounted for as indicated below.

Goodwill, which represents the residual cost of the acquisition after recognizing the acquirer's interest in the fair value of the identifiable assets and liabilities acquired, is held as an intangible asset and amortized to the consolidated Statement of Operations, in anticipation of future economic benefits, on a straight-line basis over a period not exceeding five years or until the date of disposal of the acquired company, whichever is shorter. The value of any goodwill held in the consolidated balance sheet is reassessed on an annual basis, determined on the basis of specific identification of the investment. If it is no longer probable that the goodwill will be recovered from future economic benefits, it is recognized immediately as an expense.

The excess, as at the date of the exchange transaction, of the Bank's interest in the fair values of the identifiable assets and liabilities acquired over the cost of the acquisition, is recognised as negative goodwill.

The extent that negative goodwill relates to expectations of future losses and expenses that are identified in the Bank's plan for the acquisition and can be measured reliably, but which do not represent identifiable liabilities at the date of acquisition, that portion of negative goodwill is recognised as income in the consolidated income statement when the future losses and expenses are recognised.

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES [continued]

2.4. Accounting for Acquisitions [continued]

To the extent that negative goodwill does not relate to identifiable expected future losses and expenses that can be measured reliably at the date of acquisition, negative goodwill is recognised as income on a systematic basis over the remaining weighted average useful life of the identifiable acquired depreciable/amortisable assets.

2.5. Debt securities held-to-maturity

Investments in securities are accounted on a settlement date basis and are initially measured at cost. At subsequent reporting dates, debt securities that the Group has the expressed intention and ability to hold to maturity (held-to-maturity debt securities) are measured at amortised cost, less any impairment losses recognised to reflect irrecoverable amounts. The annual amortisation of any discount or premium on the acquisition of a held-to-maturity debt security is aggregated with other investment income receivable over the term of the investment so that the revenue recognised in each period represents a constant yield on the investment.

Held-to-maturity investments include securities, which the Group is able and has the intent to hold to maturity. Such securities comprise mainly securities issued by the Hungarian Government.

2.6. Securities held for trading and available-for-sale

Investments in securities are accounted on a settlement date basis and are initially measured at cost. Held for trading and available-for-sale investments are measured at subsequent reporting dates at fair value and unrealised gains and losses are included in the Consolidated Statement of Operations for the period. Such securities consist of discounted and interest bearing Treasury bills, Hungarian Government bonds, bonds issued by National Bank of Hungary (NBH) and other securities. Other securities include shares in commercial companies, shares in investment funds, bonds issued by companies and foreign governments and mortgage bonds issued by other financial institutions.

Available-for-sale securities are remeasured at fair value based on quoted prices or amounts derived from cash flow models. In circumstances where the quoted market prices are not readily available, the fair value of debt securities is estimated using the present value of future cash flows and the fair value of unquoted equity instruments is estimated using applicable price/earnings or price/cash flow ratios refined to reflect the specific circumstances of the user.

Those held for trading and available-for-sale financial assets that do not have a quoted market price and whose fair value cannot be reliably measured by other models mentioned above, are measured at cost, less allowance for permanent diminution in value, when appropriate.

2.7. Loans, placements with other banks and allowance for possible loan and placement losses

Loans and placements with other banks are stated at the principal amounts outstanding, net of allowance for possible loan or placements losses, respectively. Interest is accrued and credited to income based on the principal amount outstanding. When a borrower is unable to meet payments as they become due or, in the opinion of the management, there is an indication that a borrower may be unable to meet payments as they become due, all unpaid interests are reversed. Loan origination fees and costs are recognized in the Consolidated Statement of Operations in full at the time of the loan origination.

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES [continued]

2.7. Loans, placements with other banks and allowance for possible loan and placement losses [continued]

The allowances for possible loan and placement losses are maintained at levels adequate to absorb probable future losses. Management determines the adequacy of the allowances based upon reviews of individual loans and placements, recent loss experience, current economic conditions, the risk characteristics of the various categories of loans and other pertinent factors.

2.8. Sale and repurchase agreements

Where debt or equity securities are sold under a commitment to repurchase them at a pre-determined price, they remain on the balance sheet and the consideration received is recorded in Other liabilities. Conversely, debt or equity securities purchased under a commitment to resell are not recognised in the balance sheet and the consideration paid is recorded in Other assets. Interest is accrued evenly over the life of the repurchase agreement.

2.9. Equity investments

Companies where the Bank has a significant interest are accounted for using the equity method. However, certain associated companies in which the Bank holds a significant interest have not been accounted for in accordance with the equity method because the effect of using the equity method to account for such companies is immaterial to the consolidated financial statements as a whole. From January 1, 2001 shares which it is intended shall be disposed of are included among securities available for sale.

Unconsolidated subsidiaries, associated companies that were not accounted for using the equity method and other investments where the Bank does not hold a controlling or significant interest are recorded at the cost of acquisition, less allowance for permanent diminution in value, when appropriate.

Gains and losses on the sale of equity investments are determined on the basis of the specific identification of the cost of each investment.

2.10. Premises, equipment and intangible assets

Premises, equipment and intangible assets are stated at cost, less accumulated depreciation and amortization. Depreciation and amortization are computed using the straight-line method over the estimated useful lives of the assets based on the following annual percentages:

Buildings	1-6%
Machinery and equipment	8-33.3%
Vehicles	14.5-33%
Leased assets	16.7-33.3%
Goodwill	20%
Software	14.5-33.3%
Property rights	16.7-33%

Depreciation and amortization on premises, equipment and intangible assets commences on the day such assets are placed into service.

At each balance sheet date, the Group reviews the carrying value of its tangible and intangible assets to determine if there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated to determine the extent (if any) of the impairment loss. Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

Where the carrying value of premises, equipment and other tangible fixed assets is greater than the estimated recoverable amount, it is written down immediately to the estimated recoverable amount.

2.11. Leases

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classifies as operating leases.

The Group as lessor

Amounts due from lessees under finance leases are recorded as receivables at the amount of the Group's net investment in the lease. Finance lease income in allocated to accounting periods so as to reflect a constant rate of return on the Group's net investment outstanding in respect of the leases.

Rental income from operating leases is recognised on a straight-line basis over the term of the relevant lease.

The Group as lessee

Assets held under finance leases are recognised as assets of the Group at their fair value at the date of acquisition. The corresponding liability to the lessor is included in the Consolidated Balance Sheet as a finance lease obligation. Finance costs, which represent the difference between the total leasing commitments and the fair value of the assets acquired, are charge to the Consolidated Statement of Income over the term of the relevant lease so as to produce a constant periodic rate of charge on the remaining balance of the obligations for each accounting period.

Rentals payable under operating leases are charged to the Consolidated Statement of Income on a straight-line basis over the terms of the relevant lease.

2.12. Properties held for resale

Properties held for resale are accounted for at historical cost less allowance for permanent diminution in value and are included in other assets in the Consolidated Balance Sheet. Properties held for resale include property held for sale in the normal course of business as a result of construction or development, real estate held due to work out of loans and property acquired exclusively with a view to subsequent disposal in the near future.

2.13. Insurance reserves

Insurance reserves are accrued for liabilities from life and non-life insurance contracts and are included in other liabilities. The level of such reserves reflects the amount of future liabilities expected as at the date of the consolidated financial statements. The provision for outstanding claims and claim settlement expenses for non-life policies are based upon estimates of the expected losses for all classes of business. The reserve includes reported claims, claims incurred but not reported and claim adjustment expenses. This provision takes into account mortality factors within Hungary and is based upon mortality tables approved by the Hungarian Financial Supervisory Authority.

2.14. Treasury shares

Treasury shares are purchased on the stock exchange and the over-the-counter market by the Bank and its subsidiaries and are presented in the Consolidated Balance Sheet as a deduction from consolidated shareholders' equity.

Gains and losses on the sale of treasury shares are credited or charged directly to consolidated retained earnings and reserves.

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES [continued]

2.15. Income taxes

The annual taxation charge is based on the tax payable under Hungarian fiscal law, adjusted for deferred taxation.

Deferred taxation is provided on temporary differences in the tax bases of assets and liabilities and their carrying value for financial reporting purposes, measured at the tax rates that are expected to apply when the asset is realized or the liability is settled, based on tax rates that have been enacted at the date of the Consolidated Balance Sheet.

2.16. Off-balance sheet commitments and contingent liabilities

In the ordinary course of its business, the Group has entered into off-balance sheet commitments such as guarantees, commitments to extend credit and letters of credit and transactions with financial instruments. The allowance for possible losses on commitments and contingent liabilities is maintained at a level adequate to absorb probable future losses. Management determines the adequacy of the allowance based upon reviews of individual items, recent loss experience, current economic conditions, the risk characteristics of the various categories of transactions and other pertinent factors.

The Group recognises an allowance when it has a present obligation as a result of a past event; it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation; and a reliable estimate can be made of the obligation.

2.17. Derivative financial instruments

In the normal course of business, the Group is a party to contracts for derivative financial instruments, which represent a very low initial investment compared to the notional value of the contract. The derivative financial instruments used include interest rate forward or swap agreements and currency swaps. These financial instruments are used by the Group to hedge interest rate risk and currency exposures associated with its transactions in the financial markets.

Derivative financial instruments are initially recognised at cost and subsequently are remeasured at their fair value. Fair values are obtained from quoted market prices, discounted cash flow models and options pricing models as appropriate. Changes in the fair value of derivative financial instruments that do not qualify for hedge accounting are recognised 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.

Changes in the fair value of derivatives that are designated and qualify as fair value hedges and that prove to be highly effective in relation to the hedged risk, are recorded in the profit Consolidated Statement of Operations along with the corresponding change in fair value of the hedged asset or liability that is attributable to the specific hedged risk. The ineffective element of the hedge is charged directly to the Consolidated Statement of Operations.

Changes in fair value of derivatives that are designated and qualify as cash flow hedges and that prove to be highly effective in relation to hedged risk, are recognised in the reserve among consolidated shareholders' equity. Amounts deferred in equity are transferred to the Consolidated Statement of Operations and classified as revenue or expense in the periods during which the hedged assets and liabilities affect the result for the period. The ineffective element of the hedge is charged directly to the Consolidated Statement of Operations.

Certain derivative transactions, while providing effective economic hedges under the Group's risk management positions, do not qualify for hedge accounting under the specific rules of IAS 39 and are therefore treated as derivatives held for trading with fair value gains and losses charged directly to the Consolidated Statement of Operations.

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES [continued]

2.18. Consolidated Statement of Cash Flow

For the purposes of reporting consolidated cash flows, cash and cash equivalents include cash, due from banks and balances with the National Bank of Hungary, excluding compulsory reserve established by the National Bank of Hungary. Consolidated cash flows from hedging activities are classified in the same category as the item being hedged.

2.19. Segmental Reporting

Condensed financial statements of subsidiaries, representing segments of business, other than banking, are not presented due to their immateriality to the consolidated financial statements as a whole. The Group has no significant operations outside of Hungary.

2.20. Comparative figures

Certain other amounts in the 2001 consolidated financial statements have been reclassified to conform to current year presentation.

NOTE 3: CASH, DUE FROM BANKS AND BALANCES WITH THE NATIONAL BANK OF HUNGARY (in HUF mn)

	2002	*2001*
Cash on hand:		
In HUF	42,114	38,811
In foreign currency	3,570	10,631
	45,684	49,442
Due from banks and balances with the National Bank of Hungary:		
Within one year:		
In HUF	306,003	326,173
In foreign currency	3,319	4,427
	309,322	330,600
Over one year:		
In foreign currency	434	1,731
Total	355,440	381,773

Based on the requirements for compulsory reserve set by the National Bank of Hungary, the balance of compulsory reserves maintained by the Group amounted to approximately HUF 95,214 million and HUF 110,269 million as at December 31, 2002 and 2001, respectively.

NOTE 4: PLACEMENTS WITH OTHER BANKS, NET OF ALLOWANCE FOR POSSIBLE PLACEMENT LOSSES (in HUF mn)

	2002	*2001*
Within one year:		
In HUF	148,158	78,764
In foreign currency	134,175	235,455
	282,333	314,219
Over one year:		
In HUF	8,000	8,000
In foreign currency	5,722	10,039
	13,722	18,039
	296,055	332,258
Allowance for possible placement losses	(163)	(170)
Total	295,892	332,088

Placements with other banks in foreign currency as at December 31, 2002 and 2001 bear interest rates in the range from 0.1% to 9.2% and from 1.0% to 6.5%, respectively.

Placements with other banks in HUF as at December 31, 2002 and 2001 bear interest rates in the range from 7.5% to 11.2% and from 8.3% to 11.3%, respectively.

NOTE 4: PLACEMENTS WITH OTHER BANKS, NET OF ALLOWANCE FOR POSSIBLE PLACEMENT LOSSES (in HUF mn) [continued]

An analysis of the change in the allowance for possible placement losses is as follows:

	2002	*2001*
Balance as at January 1	170	183
Credit for possible placement losses	(7)	(13)
Balance as at December 31	163	170

NOTE 5: SECURITIES HELD FOR TRADING AND AVAILABLE-FOR-SALE (in HUF mn)

	2002	*2001*
Held for trading securities:		
Hungarian Government discounted Treasury bills	46,335	36,510
Hungarian Government interest bearing Treasury bills	1,945	1,352
Government bonds	60,837	38,059
Bonds issued by National Bank of Hungary	--	27,230
Other securities	7,615	9,573
	116,732	112,724
Available-for-sale securities:		
Government bonds	74,747	75,281
Other bonds	23,660	18,516
Mortgage bonds	331	330
Other securities	4,621	21,712
	103,359	115,839
Total	220,091	228,563

Approximately 85% and 83% of the held for trading and available-for-sale securities portfolio was denominated in HUF as at December 31, 2002 and 2001, respectively.

Approximately 12% and 13% of the government bonds were denominated in foreign currency as at December 31, 2002 and 2001, respectively. Approximately 15.4%, 11%, 0.2%, 2.3% and 71.1% of this portfolio was denominated in USD, JPY, EUR, GBP and other currencies as at December 31, 2002 and 77.3%, 13.1%, 8.3% and 1.3% of this portfolio was denominated in USD, JPY, EUR and GBP as at December 31, 2001.

Interest rates on securities held for trading are ranged from 2.3% to 13% and from 2.8% to 14% as at December 31, 2002 and 2001, respectively.

NOTE 5: SECURITIES HELD FOR TRADING AND AVAILABLE-FOR-SALE (in HUF mn) [continued]

Interest conditions and the remaining maturities of held for trading and available-for-sale financial assets can be analyzed as follows:

	2002	*2001*
Within five years		
with variable interest	50,669	66,966
with fixed interest	103,242	110,826
	153,911	177,792
Over five years		
with variable interest	17,950	1,360
with fixed interest	26,215	17,440
	44,165	18,800
Non-interest bearing securities	22,015	31,971
Total	220,091	228,563

NOTE 6: LOANS, NET OF ALLOWANCE FOR POSSIBLE LOAN LOSSES (in HUF mn)

	2002	*2001*
Loans and trade bills within one year	401,895	342,822
Loans and trade bills over one year	935,050	478,883
	1,336,945	821,705
Allowance for possible loan losses	(56,235)	(50,371)
Total	1,280,710	771,334

Foreign currency loans represent approximately 18% and 13% of the total loan portfolio, before allowance for possible losses, as December 31, 2002 and 2001, respectively.

Loans denominated in HUF, with maturity within one year as at December 31, 2002 and 2001, bear interest rates in the range from 9.5% to 33% and from 6% to 29%, respectively.

Loans denominated in HUF, with maturity over one year as at December 31, 2002 and 2001, bear interest rates in the range from 4% to 20% and from 6% to 22.1%, respectively.

Approximately 6.3% and 6.6% of the gross loan portfolio represented loans on which interest is not being accrued as at December 31, 2002 and 2001, respectively.

An analysis of the loan portfolio by type, before allowance for possible loan losses, is as follows:

	2002		*2001*	
Commercial loans	629,309	47%	460,298	56%
Municipality loans	128,255	10%	55,809	7%
Housing loans	411,838	31%	156,237	19%
Consumer loans	167,543	12%	149,361	18%
	1,336,945	100%	821,705	100%

NOTE 6: LOANS, NET OF ALLOWANCE FOR POSSIBLE LOAN LOSSES (in HUF mn) [continued]

An analysis of the change in the allowance for possible loan losses is as follows:

	2002	*2001*
Balance as at January 1	50,371	50,101
Provision for possible loan losses	8,824	6,165
Write-offs	(2,960)	(5,895)
Balance as at December 31	56,235	50,371

NOTE 7: EQUITY INVESTMENTS (in HUF mn)

	2002	*2001*
Equity investments:		
Unconsolidated subsidiaries	1,450	1,217
Associated companies	4,357	3,391
Other	1,194	1,293
	7,001	5,901
Allowance for permanent diminution in value	(1,537)	(3,085)
Total	5,464	2,816
Total assets of unconsolidated subsidiaries	4,738	4,011

As at December 31, 2002 and 2001, except as follows all investments are in companies incorporated in Hungary. As at December 31, 2002 and 2001 the Bank held an investment in a company with a net book value of 5 million, incorporated in the Republic of Austria, a company incorporated in Romania with a net book value of HUF 0. As at December 31, 2002, ten companies are incorporated in Slovakia with a total net book value of HUF 306 million.

An analysis of the change in the allowance for permanent diminution in value is as follows:

	2002	*2001*
Balance as at January 1	3,085	4,425
Credit for permanent diminution in value	(1,548)	(1,340)
Balance as at December 31	1,537	3,085

NOTE 8: SECURITIES HELD-TO-MATURITY (in HUF mn)

	2002	*2001*
Government securities	347,880	379,439
Hungarian Government discounted Treasury Bills	3,689	19,068
Bonds issued by the National Bank of Hungary	--	2,496
Other debt securities	1,373	600
	352,942	401,603
Allowance for permanent diminution in value	(26)	--
Total	352,916	401,603

NOTE 8: SECURITIES HELD-TO-MATURITY (in HUF mn) [continued]

Interest conditions and the remaining maturities of investments in debt securities can be analysed as follows:

	2002	*2001*
Within five years		
with variable interest	128,540	167,839
with fixed interest	145,809	157,240
	274,349	325,079
Over five years		
with variable interest	48,736	52,064
with fixed interest	29,857	24,460
	78,593	76,524
Total	352,942	401,603

Approximately 99% and 97% of the debt securities portfolio was denominated in HUF as at December 31, 2002 and 2001, respectively. In most cases, interests on variable rate bonds are based on the interest rates of 90-day Hungarian Government Treasury bills and are adjusted semi-annually.

Interest rates on fixed interest securities denominated in HUF are ranged from 6.3% to 13.0% and from 7.5% to 14.0% as at December 31, 2002 and 2001, respectively. Interest on fixed rate and variable rate securities is, in most cases, paid semi-annually.

An analysis of the change in the allowance for permanent diminution in value is as follows:

	2002	*2001*
Balance as at January 1	--	--
Provision for permanent diminution in value	26	--
Balance as at December 31	26	--

NOTE 9: PREMISES, EQUIPMENT AND INTANGIBLE ASSETS, NET (in HUF mn)

	2002	*2001*
Land and buildings	59,357	43,595
Machinery and equipment, vehicles, leased assets	79,403	62,511
Construction in progress	7,326	3,219
Intangible assets	33,909	26,562
Goodwill and negative goodwill	(3,154)	1,062
	176,841	136,949
Accumulated depreciation and amortization	(83,273)	(63,615)
Total	93,568	73,334

NOTE 10: OTHER ASSETS (in HUF mn)

	2002	*2001*
Receivables due from collection of Hungarian Government securities	45	113
Property held for sale	10,244	9,677
Due from Hungarian Government for interest subsidies	876	685
Trade receivables	3,511	4,186
Advances for securities and investments	479	496
Taxes recoverable	821	1,259
Inventories	962	1,365
Credits sold under deferred payment scheme	503	2,856
Subsidies paid on behalf of the Government	777	408
Receivables from leasing activities	28,752	34,496
Receivables due from KELER	--	1,743
Receivables due from insurance bond holders	2,039	912
Margin account balance	240	508
Receivables due from pension funds and fund management	12,707	683
Settlement accounts	925	1,498
Prepayments and accrued income	4,773	2,918
Receivables from investing services	2,335	682
Fair value of derivative financial instruments	8,476	35
Other	10,321	7,605
	88,786	72,125
Allowance for possible losses on other assets	(2,471)	(3,788)
Total	86,315	68,337

Allowance for possible losses on other assets mainly consists of allowances for property held for sale, trade receivables, receivables from leasing activities and reinsurance receivables.

An analysis of the change in the allowance for possible losses on other assets is as follows:

	2002	*2001*
Balance as at January 1	3,788	4,141
Provision for possible losses on other assets	(1,317)	(353)
Balance as at December 31	2,471	3,788

NOTE 11: DUE TO BANKS AND DEPOSITS FROM THE NATIONAL BANK OF HUNGARY AND OTHER BANKS (in HUF mn)

	2002	*2001*
Within one year:		
In HUF	27,323	5,236
In foreign currency	31,213	11,642
	58,536	16,878
Over one year:		
In HUF	4,774	7,822
In foreign currency	15,750	12,252
	20,524	20,074
Total	79,060	36,952

NOTE 11: DUE TO BANKS AND DEPOSITS FROM THE NATIONAL BANK OF HUNGARY AND OTHER BANKS (in HUF mn) [continued]

Due to banks and deposits from the National Bank of Hungary and other banks payable in HUF within one year as at December 31, 2002 and 2001, bear interest rates in the range from 7.5% to 9.7% and from 3.0% to 10.8%, respectively.

Due to banks and deposits from the National Bank of Hungary and other banks payable in HUF over one year as at December 31, 2002 and 2001, bear interest rates in the range from 9% to 9.5% and from 3.0% to 9.8%, respectively.

Due to banks and deposits from the National Bank of Hungary and other banks payable in foreign currency within one year as at December 31, 2002 and 2001, bear interest rates in the range from 0.7% to 8.4% and from 1.1% to 2.5%, respectively.

Due to banks and deposits from the National Bank of Hungary and other banks payable in foreign currency over one year as at December 31, 2002 and 2001, bear interest rates in the range from 1.4% to 9.2%, respectively.

NOTE 12: DEPOSITS FROM CUSTOMERS (in HUF mn)

	2002	*2001*
Within one year:		
In HUF	1,756,724	1,498,199
In foreign currency	360,327	359,052
	2,117,051	1,857,251
Over one year:		
In HUF	33,693	34,261
In foreign currency	425	--
	34,118	34,261
Total	2,151,169	1,891,512

Deposits from customers payable in HUF within one year as at December 31, 2002 and 2001, bear interest rates in the range from 0% to 8% and from 0.5% to 9.2%, respectively.

Deposits from customers payable in HUF over one year as at December 31, 2002 and 2001, bear interest rates in the range from 3% to 7.6% and from 3.0% to 8.5%, respectively.

Deposits from customers payable in foreign currency within one year as at December 31, 2002 and 2001, bear interest rates in the range from 0% to 5.3% and from 0.1% to 2.1%, respectively.

Deposits from customers payable in foreign currency over one year as at December 31, 2002, bear interest rates in the range from 0.1% to 5.4%.

An analysis of deposits from customers by type, is as follows:

	2002		*2001*	
Commercial deposits	381,242	18%	265,948	14%
Municipality deposits	156,365	7%	155,032	8%
Consumer deposits	1,613,562	75%	1,470,532	78%
	2,151,169	100%	1,891,512	100%

NOTE 13: LIABILITIES FROM ISSUED SECURITIES (in HUF mn)

	2002	*2001*
With original maturity:		
Within one year	12,312	5,688
Over one year	72,550	34,386
Total	84,862	40,074

Liabilities from issued securities are denominated mainly in HUF and as at December 31, 2002 and 2001, bear interest at rates in the range from 6.4% to 8.3% and from 3.8% to 9.2%, respectively.

NOTE 14: OTHER LIABILITIES (in HUF mn)

	2002	*2001*
Deferred tax liabilities	699	617
Taxes payable	2,340	2,483
Giro clearing accounts	23,916	14,389
Accounts payable	7,981	8,352
Insurance reserves	68,544	52,228
Salaries and social security payable	7,398	6,452
Liability from security trading	5,431	5,177
Allowance for possible losses on off-balance sheet commitments and contingent liabilities	7,511	5,225
Dividends payable	598	7,509
Liabilities from leasing activities	--	792
Advances received from customers	1,681	915
Accrued expenses	6,941	4,161
Loan for collection	1,567	967
Suspense accounts	2,543	3,228
Fair value of derivative financial instruments	3,713	843
Other	8,482	10,564
Total	149,345	123,902

The allowances for possible losses on off-balance sheet commitments and contingent liabilities are detailed as follows:

	2002	*2001*
Allowance for litigation	1,591	779
Allowance for possible losses on off-balance sheet commitments and contingent liabilities	3,212	1,999
Other allowances (for expected liabilities)	2,232	1,915
Allowance for housing warranties	476	532
Balance as at December 31	7,511	5,225

The allowance for possible losses on other off-balance sheet commitments and contingent liabilities primarily relates to commitments stemming from guarantees and credit lines issued by the Bank and other Group companies.

NOTE 14: OTHER LIABILITIES (in HUF mn) [continued]

As part of its operations, until 1991, the Bank financed and constructed residential accommodation for resale on which it was required to provide a ten-year-guarantee against defective workmanship. The Bank has recourse against the constructors for any claims. The recovery of such claims is, however, dependent upon the financial status of the constructors, which is impaired in certain cases. An allowance has been recorded to account for the estimated possible future losses on housing warranties.

Movements in the allowance for possible losses on commitments and contingent liabilities can be summarized as follows:

	2002	*2001*
Balance as at January 1	5,225	3,233
Provision for possible off-balance sheet commitments and contingent liabilities	2,355	2,145
Write-offs	(69)	(153)
Balance as at December 31	7,511	5,225

Movements in insurance reserves can be summarized as follows:

	2002	*2001*
Balance as at January 1	52,228	39,791
Net increase in insurance reserves	16,316	12,437
Balance as at December 31	68,544	52,228

NOTE 15: SUBORDINATED BONDS AND LOANS

In 1993, the Bank issued HUF 5 billion in bonds, which are subordinated to the other liabilities of the Bank and subscribed by the Hungarian Ministry of Finance. Interest on subordinated bonds and the frequency of payment of interests are based on condition of interest of 2013/C credit consolidated government bonds, which is a variable-rate bond, the interest payable and the rate of interest are fixed twice a year. The semi-annual interest payable was 5.57% as at December 20, 2001, 5.19% as at June 20, 2002, and 4.36% as at December 20, 2002. The original maturity was 20 years. The proceeds of the subordinated bonds were invested in Hungarian Government bonds with similar interest conditions and maturity.

In December 1996, the Bank obtained a USD 30 million and DEM 31.14 million (15.92 million in EUR) subordinated loan from the European Bank for Reconstruction and Development. The loan is unsecured, subordinate to the other liabilities and has a ten-year maturity, with interest payable at six-month LIBOR + 1.4% from December 27, 1996 until December 29, 1997, at six-month LIBOR + 1.0% from December 29, 1997 until June 28, 1999, at six-month LIBOR + 1.7% from June 28, 1999 until December 27, 2004 and at six-month LIBOR + 2.5% from December 27, 2004 until December 27, 2006.

NOTE 16: SHARE CAPITAL (in HUF mn)

	2002	2001
Authorized, issued and fully paid:		
Common shares	28,000	28,000
	28,000	28,000

In the first quarter of 2002 the nominal value of the common shares of the Bank has decreased from HUF 1,000 to HUF 100 per share.

From September 3, 1997, the Bank has one preferential voting share (the "Special Share") outstanding with a nominal value of HUF 1 thousand (see Note 1.1).

NOTE 17: RETAINED EARNINGS AND RESERVES (in HUF mn)

	2002	2001
Balance as at January 1	165,643	123,504
Net income after income taxes	59,231	48,953
(Loss)/Profit on sale of treasury shares	(1,102)	72
Effects of adoption of IAS No 39	--	248
Dividends	--	(7,050)
Foreign currency translation loss	(360)	(84)
Balance as at December 31	223,412	165,643

The Bank's unconsolidated reserves under Hungarian Accounting Standards were HUF 177,843 million and HUF 130,515 million at December 31, 2002 and 2001, respectively. Of these amounts, legal reserves represent HUF 34,169 million and HUF 29,450 million, respectively. The legal reserves are not available for distribution.

Dividends for the year ended December 31, 2001 represent the dividends declared by the Bank's shareholders for both preference and common shares at the Annual General Meeting in 2002.

Dividends for the year ended December 31, 2002 will be proposed at the Annual General Meeting in April 2003.

NOTE 18: TREASURY SHARES (in HUF mn)

	2002	2001
Nominal value (Common Shares)	2,334	2,217
Carrying value	27,800	26,357

NOTE 19: MINORITY INTEREST

	2002	2001
Balance as at January 1	--	--
Minority interest purchased	381	--
Minority interest deriving from capital increase	79	--
Minority interest included in net income	(55)	--
Balance as at December 31	405	--

NOTE 20: OTHER EXPENSES (in HUF mn)

	2002	*2001*
Provision for permanent diminution in value of held-to-maturity investments	26	--
Credit for permanent diminution in value of equity investments	(1,548)	(1,340)
Credit for other assets	(1,317)	(353)
Provision for off-balance sheet commitments and contingent liabilities	2,355	2,145
Administration expenses, including rent	21,070	18,009
Advertising	4,272	2,972
Taxes, other than income taxes	9,540	7,905
Services	15,037	13,234
Insurance claims paid	23,436	19,767
Net increase in insurance reserves	16,316	12,437
Professional fees	2,769	1,878
Other	4,728	3,670
Total	96,684	80,324

NOTE 21: INCOME TAXES (in HUF mn)

The Group is presently liable for income tax at rates of 18%, 25% and 30% of taxable income. The 18% rate relates to the Bank and its subsidiaries incorporated in Hungary. The 25% rate relates to the Bank's subsidiary incorporated in Slovakia and the 30% rate relates to the Bank's United Kingdom subsidiary.

A reconciliation of the income tax charges is as follows:

	2002	*2001*
Current tax	13,870	11,088
Deferred tax	82	464
Total	13,952	11,552

A reconciliation of the deferred tax liability is as follows:

	2002	*2001*
Balance as at January 1	(617)	(99)
Effects of adoption of IAS 39	--	(54)
Deferred tax charge	(82)	(464)
Balance as at December 31	(699)	(617)

A reconciliation of the income tax charge is as follows:

	2002	*2001*
Income before income taxes	73,128	60,505
Permanent timing differences	4,397	3,511
Adjusted income before income taxes	77,525	64,016
Income taxes	13,952	11,552

NOTE 22: FINANCIAL INSTRUMENTS

A financial instrument is any contract that gives rise to the right to receive cash or another financial asset from another party (financial asset) or the obligation to deliver cash or another financial asset to another party (financial liability).

Financial instruments may result in certain risks to the Group. The most significant risks the Group faces include:

Credit risk

The Group takes on exposure to credit risk which is the risk that a counter-party will be unable to pay amounts in full when due. The Group structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower, or Banks of borrowers, and to geographical and industry segments. Such risks are monitored on a revolving basis and subject to an annual or more frequent review. The exposure to any one borrower including banks and brokers is further restricted by sub-limits covering on and off-balance sheet exposures and daily delivery risk limits in relation to trading items such as forward foreign exchange contracts. Actual exposures against limits are monitored daily. Exposure to credit risk is managed through regular analysis of the ability of borrowers and potential borrowers to meet interest and capital repayment obligations and by changing these lending limits where appropriate. Exposure to credit risk is also managed in part by obtaining collateral and corporate and personal guarantees.

Market risk

The Group takes on exposure to market risks. Market risks arise from open positions in interest rate, currency and equity products, all of which are exposed to general and specific market movements. The Group applies a ‘value at risk’ methodology to estimate the market risk of positions held and the maximum losses expected, based upon a number of assumptions for various changes in market conditions. The Management Board of the Group sets limits on the value of risk that may be accepted, which is monitored on a daily basis.

Foreign currency risk

See Note 29.

Liquidity risk

See Note 30.

Interest rate risk

See Note 31.

NOTE 23: OFF-BALANCE SHEET COMMITMENTS, CONTINGENT LIABILITIES AND FINANCIAL INSTRUMENTS (in HUF mn)

In the normal course of business, the Group becomes a party to various financial transactions that are not reflected on the balance sheet and are referred to as off-balance sheet financial instruments. The following represent notional amounts of these off-balance sheet financial instruments, unless stated otherwise.

(a) Contingent liabilities

	2002	*2001*
Commitments to extend credit	310,559	255,554
Guarantees arising from banking activities	137,469	36,606
Confirmed letters of credit	787	3,799
Others	22,467	21
Legal disputes	4,846	3,487
Local tax contingency	--	542
Total	476,128	300,009

Commitments from guarantees and letters of credit

The primary purpose of these instruments is to ensure that funds are available to a customer as required. Guarantees and standby letters of credit, which represent irrevocable assurances that the Group will make payments in the event that a customer cannot meet its obligations to third parties, carry the same credit risk as loans. Documentary and commercial letters of credit, which are written undertakings by the Group on behalf of a customer authorising a third party to draw drafts on the Group up to a stipulated amount under specific terms and conditions, are collateralised by the underlying shipments of goods to which they relate and therefore carry less risk than a direct borrowing.

Commitments to extend credit represent unused portions of authorisations to extend credit in the form of loans, guarantees or letters of credit. With respect to credit risk on commitments to extend credit, the Group is potentially exposed to loss in an amount equal to the total unused commitments. However, the likely amount of loss is less than the total unused commitments since most commitments to extend credit are contingent upon customers maintaining specific credit standards.

Guarantees, irrevocable letters of credit and undrawn loan commitments are subject to similar credit risk monitoring and credit policies as utilised in the extension of loans. The management of the Group believes the market risk associated with guarantees, irrevocable letters of credit and undrawn loans commitments to be minimal.

Legal disputes

At the balance sheet date the Group was involved in various claims and legal proceedings of a nature considered normal to its business. The level of these claims and legal proceedings correspond to the level of claims and legal proceedings in previous years.

The Group believes that the various asserted claims and litigations in which it is involved will not materially affect its financial position, future operating results or cash flows, although no assurance can be given with respect to the ultimate outcome of any such claim or litigation.

NOTE 23: OFF-BALANCE SHEET COMMITMENTS, CONTINGENT LIABILITIES AND FINANCIAL INSTRUMENTS (in HUF mn) [continued]

(b) Derivatives

	2002	2001
Foreign currency contracts		
Assets	57,743	36,548
Liabilities	(63,581)	(37,488)
	(5,838)	(940)
Foreign exchange swaps and interest rate swaps		
Assets	161,347	122,728
Liabilities	(150,126)	(122,664)
	11,221	64
Option contracts		
Assets	183,322	28,294
Liabilities	(164,999)	(19,310)
	18,323	8,984
Forward rate agreements		
Assets	41,700	30,768
Liabilities	(26,500)	(30,986)
	15,200	(218)

The Group maintains strict control limits on net open derivative positions, i.e. the difference between purchase and sale contracts, by both amount and term. At any one time the amount subject to credit risk is limited to the current fair value of instruments that are favourable to the Group (i.e. assets), which in relation to derivatives is only a small fraction of the contract or notional values used to express the volume of instruments outstanding. This credit risk exposure is managed as part of the overall lending limits with customers, together with potential exposures from market movements. Collateral or other security is not usually obtained for credit risk exposures on these instruments, except of trading with clients, where the Group in most of the cases requires margin deposits.

As at December 31, 2002, the Group has derivative instruments with positive fair values of 8,476 million and negative fair values of 3,713 million. Corresponding figures as at December 31, 2001 are 35 million and 843 million.

Foreign currency contracts

Foreign currency contracts are agreements to exchange specific amounts of currencies at a specified rate of exchange, at a spot date (settlement occurs two days after the trade date) or at a forward date (settlement occurs more than two days after the trade date). The notional amount of these contracts does not represent the actual market or credit risk associated with these contracts.

Foreign currency contracts are used by the Group for risk management and trading purposes. The Group's risk management foreign currency contracts were used to hedge against exchange rate fluctuations on loans and advances to credit institutions denominated in foreign currency.

Foreign exchange swaps and interest rate swaps

The Group enters into foreign-exchange swap and interest rate swap transactions. The swap transaction is a complex agreement concerning to the swap of certain financial instruments, which usually consist of a prompt and one or more futures contracts.

NOTE 23: **OFF-BALANCE SHEET COMMITMENTS, CONTINGENT LIABILITIES AND FINANCIAL INSTRUMENTS (in HUF mn) [continued]**

Interest rate swaps obligate two parties to exchange one or more payments calculated with reference to fixed or periodically reset rates of interest applied to a specific notional principal amount. Notional principal is the amount upon which interest rates are applied to determine the payment streams under interest rate swaps.

Such notional principal amounts often are used to express the volume of these transactions but are not actually exchanged between the counter-parties. The Group's interest rate swaps were used for management of interest rate exposures and have been accounted for at mark-to-market fair value.

Forward rate agreements

A forward rate agreement is an agreement to settle amounts at a specified future date based on the difference between an interest rate index and an agreed upon fixed rate. Market risk arises from changes in the market value of contractual positions caused by movements in interest rates. The Group limits its exposure to market risk by entering into generally matching or offsetting positions and by establishing and monitoring limits on unmatched positions. Credit risk is managed through approval procedures that establish specific limits for individual counterparties. The Group's forward rate agreements were transacted for management of interest rate exposures and have been accounted for at mark-to-market fair value.

For an analysis of the allowance for possible losses on off balance sheet commitments and contingent liabilities, see Note 14.

NOTE 24: **CASH AND CASH EQUIVALENTS (in HUF mn)**

	2002	*2001*
Cash, due from banks and balances with the National Bank of Hungary	355,440	381,773
Compulsory reserve established by the National Bank of Hungary	(95,214)	(110,269)
	260,226	271,504

NATIONAL SAVINGS AND COMMERCIAL BANK LTD.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2002 AND 2001

NOTE 25: CASH FLOW STATEMENT

a. Purchase and consolidation of subsidiary undertakings (in HUF mn):

	2002	*2001*
Cash, due from banks, and balances with the National Bank	1,052	--
Placements with other banks, net of allowance for possible placement losses	12,319	--
Securities held for trading and available-for-sale	16,978	--
Loans, net of allowance for possible loan losses	70,048	--
Accrued interest receivable	326	--
Equity investment	399	--
Debt securities held-to-maturity	53	--
Premises, equipment and intangible assets	9,680	--
Other assets	656	--
Due to banks and deposits from the National Bank and other banks	(35,293)	--
Deposits from customers	(64,941)	--
Liabilities from issued securities	(1,198)	--
Accrued interest payable	(731)	--
Other liabilities	(411)	--
Minority interest	(381)	--
	8,556	--
Negative Goodwill	(4,216)	--
Total	4,340	--

b. Analysis of net outflow of cash in respect of purchase of subsidiaries (in HUF mn):

	2002	*2001*
Cash consideration	4,340	--
Cash acquired	(1,052)	--
Net cash outflow	3,288	--

NOTE 26: MAJOR SUBSIDIARIES

Equity investments in companies in which the Bank has a controlling interest are detailed below. All companies are incorporated in Hungary unless indicated otherwise.

Name	Ownership (Direct and Indirect)		Activity
	2002	*2001*	
OTP-Garancia Biztosító Ltd.	100.00%	100.00%	insurance
OTP Real Estate Ltd.	100.00%	100.00%	real estate management and development
OTP Securities Ltd.	100.00%	100.00%	brokerage
HIF Ltd. (United Kingdom)	100.00%	100.00%	forfeiting
Merkantil Bank Ltd.	100.00%	100.00%	financing car purchases
Merkantil Car Ltd.	100.00%	100.00%	financing car purchases, leasing
OTP Building Society Ltd.	100.00%	100.00%	financing flat purchase and reconstruction
Bank Center No. 1. Ltd.	100.00%	100.00%	letting real estates
OTP Factoring Ltd.	100.00%	100.00%	work-out
Inga Companies	100.00%	100.00%	property management
OTP Fund Management Ltd.	100.00%	100.00%	fund management
OTP Mortgage Bank Company Ltd.	100.00%	100.00%	mortgage loaning
OTP Funds Servicing and Consulting Ltd.	100.00%	100.00%	fund services
OTP Banka Slovensko, a. s. (Slovakia)	95.74%	3.19%	commercial banking services

NOTE 27: TRUST ACTIVITIES

The Bank acts as a trustee for certain loans granted by companies or employers to their employees, mainly for housing purposes. The ultimate risk for these loans rests with the party advancing the funds. As these loans and related funds are not considered to be assets or liabilities of the Bank, they have been excluded from the accompanying consolidated Balance Sheet. The total amount of such loans managed by the Bank as a trustee amounted to HUF 27,061 million and HUF 42,843 million as at December 31, 2002 and 2001, respectively.

NOTE 28: CONCENTRATION OF ASSETS AND LIABILITIES

Approximately 30% and 40% of the Group's total assets consisted of receivables from, or securities issued by, the Hungarian Government or the National Bank of Hungary as at December 31, 2002 and 2001, respectively.

As at December 31, 2002 and 2001 95.7% and 99.5% of the Group’s total assets were held by companies incorporated in Hungary. There were no other significant concentrations of the Group's assets or liabilities as at December 31, 2002 and 2001.

NOTE 29: NET FOREIGN CURRENCY POSITION AND FOREIGN CURRENCY RISK (in HUF mn)

As at December 31, 2002

	USD	EUR	Others	Total
Assets	160,805	131,151	139,708	431,664
Liabilities	(116,739)	(177,792)	(122,342)	(416,873)
Off-balance sheet assets and liabilities, net	(44,412)	(4,103)	(3,208)	(51,723)
Net position	**(346)**	**(50,744)**	**14,158**	**(36,932)**

As at December 31, 2001

	USD	EUR	Others	Total
Assets	224,364	184,433	37,408	446,205
Liabilities	(162,152)	(192,487)	(36,713)	(391,352)
Off-balance sheet assets and liabilities, net	(61,387)	(10,493)	1,973	(69,907)
Net position	**825**	**(18,547)**	**2,668**	**(15,054)**

The table above provides an analysis of the Group‘s main currency exposures. The remaining currencies are shown within ‘Others’. The Group monitors its foreign exchange position for compliance with the regulatory requirements of the National Bank of Hungary and own limit system established in respect of limits on open positions. The measuring of the Group’s open foreign currency position involves monitoring the ‘value at risk’ limit on the foreign exchange exposure of the Group.

NOTE 30: MATURITY ANALYSIS OF ASSETS AND LIABILITIES AND LIQUIDITY RISK (in HUF mn)

Liquidity risk is a measure of the extent to which the Group may be required to raise funds to meet its commitments associated with financial instruments. The Group maintains its liquidity profiles in accordance with regulations laid down by the National Bank of Hungary. The following tables provide an analysis of assets, liabilities and shareholders' equity into relevant maturity groupings based on the remaining period from the balance sheet date to the contractual maturity date. It is presented under the most prudent consideration of maturity dates where options or repayment schedules allow for early repayment possibilities.

As at December 31, 2002	Within 3 months	Within one year and over 3 months	Within 5 years and over one year	Over 5 years	Total
Cash, due from banks and balances with the National Bank of Hungary	349,939	5,067	307	127	355,440
Placements with other banks, net of allowance for possible placement losses	236,358	45,812	13,722	--	295,892
Securities held for trading and available-for-sale	35,289	46,382	89,126	49,294	220,091
Loans, net of allowance for possible loan losses	104,848	238,784	488,148	448,930	1,280,710
Accrued interest receivable	22,977	2,859	93	266	26,195
Equity investments	--	--	--	5,464	5,464
Debt securities held-to-maturity	24,186	56,606	193,531	78,593	352,916
Premises, equipment and intangible assets, net	276	1,135	32,878	59,279	93,568
Other assets	43,474	18,141	23,849	851	86,315
TOTAL ASSETS	**817,347**	**414,786**	**841,654**	**642,804**	**2,716,591**
Due to banks and deposits from the National Bank of Hungary and other banks	31,753	26,898	18,741	1,668	79,060
Deposits from customers	1,727,023	390,027	19,914	14,205	2,151,169
Liabilities from issued securities	3,133	9,180	32,506	40,043	84,862
Accrued interest payable	6,003	3,691	2,900	33	12,627
Other liabilities	69,410	9,955	15,415	54,565	149,345
Subordinated bonds and loans	--	--	10,511	5,000	15,511
TOTAL LIABILITIES	**1,837,322**	**439,751**	**99,987**	**115,514**	**2,492,574**
Share capital	--	--	--	28,000	28,000
Retained earnings and reserves	--	--	--	223,412	223,412
Treasury shares	--	(27,800)	--	--	(27,800)
TOTAL SHAREHOLDERS' EQUITY	**--**	(27,800)	**--**	**251,412**	**223,612**
MINORITY INTEREST	**--**	**--**	**--**	**405**	**405**
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	**1,837,322**	**411,951**	**99,987**	**367,331**	**2, 716,591**
LIQUIDITY (DEFICIENCY)/EXCESS	**(1,019,975)**	**2,835**	**741,667**	**275,473**	**--**

NOTE 30: MATURITY ANALYSIS OF ASSETS AND LIABILITIES AND LIQUIDITY RISK (in HUF mn) [continued]

As at December 31, 2001	Within 3 months	Within one year and over 3 months	Within 5 years and over one year	Over 5 years	Total
Cash, due from banks and balances with the National Bank of Hungary	378,826	1,216	1,480	251	381,773
Placements with other banks, net of allowance for possible placement losses	139,904	174,145	17,499	540	332,088
Securities held for trading and available-for-sale	61,909	49,783	92,050	24,821	228,563
Loans, net of allowance for possible loan losses	91,999	206,633	305,914	166,788	771,334
Accrued interest receivable	22,989	6,244	386	178	29,797
Equity investments	--	--	--	2,816	2,816
Debt securities held-to-maturity	42,801	55,154	225,674	77,974	401,603
Premises, equipment and intangible assets, net	695	569	25,341	46,729	73,334
Other assets	21,686	17,351	27,847	1,453	68,337
TOTAL ASSETS	**760,809**	**511,095**	**696,191**	**321,550**	**2,289,645**
Due to banks and deposits from the National Bank of Hungary and other banks	5,396	11,563	17,563	2,430	36,952
Deposits from customers	1,505,280	354,921	30,025	1,286	1,891,512
Liabilities from issued securities	1,242	4,446	34,386	--	40,074
Accrued interest payable	5,216	4,809	2,601	--	12,626
Other liabilities	53,054	17,289	16,818	36,741	123,902
Subordinated bonds and loans	--	--	12,293	5,000	17,293
TOTAL LIABILITIES	**1,570,188**	**393,028**	**113,686**	**45,457**	**2,122,359**
Share capital	--	--	--	28,000	28,000
Retained earnings and reserves	--	--	--	165,643	165,643
Treasury shares	--	(26,357)	--	--	(26,357)
TOTAL SHAREHOLDERS' EQUITY	**--**	**(26,357)**	**--**	**193,643**	**167,286**
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	**1,570,188**	**366,671**	**113,686**	**239,100**	**2,289,645**
LIQUIDITY (DEFICIENCY)/EXCESS	**(809,379)**	**144,424**	**582,505**	**82,450**	**--**

NOTE 31: INTEREST RATE RISK MANAGEMENT

Interest rate risk is the risk that the value of a financial instrument will fluctuate due to changes in market interest rates. The length of time for which the rate of interest is fixed on a financial instrument, therefore, indicates to what extent it is exposed to interest rate risk.

The majority of the Group 's interest bearing assets and liabilities are structured to match either short-term assets and short-term liabilities, or long-term assets and liabilities with repricing opportunities within one year, or long-term assets and corresponding liabilities where repricing is performed simultaneously.

In addition, the significant spread existing between the different types of interest bearing assets and liabilities enables the Group to benefit from a high level of flexibility in adjusting for its interest rate matching and interest rate risk exposure.

The following table presents the interest repricing dates of the Group. Variable yield assets and liabilities have been reported according to their next repricing date. Fixed income assets and liabilities have been reported according to their maturity.

NOTE 31: INTEREST RATE RISK MANAGEMENT (in HUF mn) [continued]

As at December 31, 2002

	Within 1 month		Over 1 month and Within 3 months		Over 3 months and Within 12 months		Over 1 year and Within 2 years		Over 2 years		Total		Total
	HUF	Currency	HUF	Currency	HUF	Currency	HUF	Currency	HUF	Currency	HUF	Currency	
ASSETS													
Cash, due from banks and balances with the National Bank of Hungary	**345,248**	**8,368**	**363**	**939**	--	**76**	--	--	--	**446**	**345,611**	**9,829**	**355,440**
fixed rate	303,154	2,224	363	197	--	--	--	--	--	446	303,517	2,867	306,384
variable rate	4	--	--	742	--	76	--	--	--	--	4	818	822
non-interest-bearing	42,090	6,144	--	--	--	--	--	--	--	--	42,090	6,144	48,234
Placements with other banks, net of allowance for possible placement losses	**111,281**	**119,638**	**21,200**	**7,336**	**23,780**	**8,829**	--	**9**	**25**	**3,794**	**156,286**	**139,606**	**295,892**
fixed rate	106,057	115,400	14,000	1,670	23,780	6,526	--	9	24	773	143,861	124,378	268,239
variable rate	800	3,029	7,200	5,666	--	2,303	--	--	--	--	8,000	10,998	18,998
non-interest-bearing	4,424	1,209	--	--	--	--	--	--	1	3,021	4,425	4,230	8,655
Securities held for trading and available-for-sale	**32,342**	**240**	**39,168**	**23,719**	**46,100**	**2,252**	**11,626**	**6,340**	**58,028**	**276**	**187,264**	**32,827**	**220,091**
fixed rate	2,403	--	18,851	2,275	44,629	--	11,626	6,340	51,910	276	129,419	8,891	138,310
variable rate	24,206	--	20,317	21,444	1,471	2,252	--	--	997	--	46,991	23,696	70,687
non-interest-bearing	5,733	240	--	--	--	--	--	--	5,121	--	10,854	240	11,094
Loans, net of allowance for possible loan losses	**629,640**	**101,702**	**155,248**	**62,425**	**63,646**	**32,066**	**10,720**	**6,525**	**216,549**	**2,189**	**1,075,803**	**204,907**	**1,280,710**
fixed rate	6,554	88	11,890	201	5,964	4,726	7,150	3,138	157,165	1,316	188,723	9,469	198,192
variable rate	623,086	101,614	143,358	62,224	57,070	27,340	2,778	3,387	59,384	482	885,676	195,047	1,080,723
non-interest-bearing	--	--	--	--	612	--	792	--	--	391	1,404	391	1,795
Debt securities held-to-maturity	**23,193**	--	**132,675**	**47**	**42,855**	**2,954**	**37,509**	--	**111,438**	**2,245**	**347,670**	**5,246**	**352,916**
fixed rate	--	--	1,853	--	35,387	2,954	37,509	--	111,438	2,245	186,187	5,199	191,386
variable rate	23,193	--	130,822	47	7,468	--	--	--	--	--	161,483	47	161,530
FX-swap, FX-forward, FX-futures, FRA-deals included in other assets	**70,579**	**67,224**	**37,131**	**13,521**	**114,176**	**21,545**	--	**8,458**	**1,162**	--	**223,048**	**110,748**	**333,796**
fixed rate	69,532	67,224	20,551	11,952	81,576	21,545	--	8,458	1,162	--	172,821	109,179	282,000
variable rate	1,047	--	16,580	1,569	32,600	--	--	--	--	--	50,227	1,569	51,796

NOTE 31: INTEREST RATE RISK MANAGEMENT (in HUF mn) [continued]

As at December 31, 2002

	Within 1 month		Over 1 month and Within 3 months		Over 3 months and Within 12 months		Over 1 year and Within 2 years		Over 2 years		Total		Total
	HUF	Currency	HUF	Currency	HUF	Currency	HUF	Currency	HUF	Currency	HUF	Currency	
LIABILITIES													
Due to banks and deposits from the National Bank of Hungary and other banks	**26,615**	**23,385**	**2,887**	**11,430**	**3,498**	**6,266**	--	**2,797**	**1,573**	**609**	**34,573**	**44,487**	**79,060**
fixed rate	20,774	21,492	2,300	906	3,036	5,249	--	66	1,573	609	27,683	28,322	56,005
variable rate	4,468	1,502	587	10,524	462	1,017	--	2,731	--	--	5,517	15,774	21,291
non-interest-bearing	1,373	391	--	--	--	--	--	--	--	--	1,373	391	1,764
Deposits from customers	**1,683,059**	**96,839**	**49,207**	**218,293**	**26,802**	**45,265**	**18,539**	**299**	**12,841**	**25**	**1,790,448**	**360,721**	**2,151,169**
fixed rate	463,213	62,128	49,207	218,293	14,810	45,265	18,539	299	12,841	25	558,610	326,010	884,620
variable rate	1,219,815	34,711	--	--	11,992	--	--	--	--	--	1,231,807	34,711	1,266,518
non-interest-bearing	31	--	--	--	--	--	--	--	--	--	31	--	31
Liabilities from issued securities	**12,877**	**207**	**27,521**	**346**	**642**	**1,253**	--	**258**	**41,758**	--	**82,798**	**2,064**	**84,862**
fixed rate	770	207	1,311	346	642	1,253	--	258	41,758	--	44,481	2,064	46,545
variable rate	12,070	--	26,210	--	--	--	--	--	--	--	38,280	--	38,280
non-interest-bearing	37	--	--	--	--	--	--	--	--	--	37	--	37
FX-swap, FX-forward, FX-futures, FRA-deals included in other liabilities	**22,398**	**110,834**	**13,951**	**18,027**	**68,920**	**32,188**	**9,407**	**1,842**	**52,546**	--	**167,222**	**162,891**	**330,113**
fixed rate	21,350	110,834	13,951	18,027	68,920	32,188	9,407	1,842	52,546	--	166,174	162,891	329,065
variable rate	1,048	--	--	--	--	--	--	--	--	--	1,048	--	1,048
Subordinated bonds and loans	--	--	--	--	**5,000**	**10,511**	--	--	--	--	**5,000**	**10,511**	**15,511**
variable rate	--	--	--	--	5,000	10,511	--	--	--	--	5,000	10,511	15,511

NOTE 32: EARNINGS PER SHARE

Earnings per share attributable to the Group's common shares are determined based on dividing income after income taxes for the year attributable to common shareholders, after the deduction of declared preference dividends, by the weighted average number of common shares outstanding during the period.

	2002	*2001*
Consolidated net income (in HUF mn)	59,231	48,953
Weighted average number of common shares outstanding during the year for calculating basic EPS (piece)	256,171,463	25,607,005
Consolidated Basic Earnings per share (in HUF)	231	1,912
Weighted average number of common shares outstanding during the year for calculating diluted EPS (piece)	256,959,316	25,664,667
Consolidated Diluted Earnings per share (in HUF)	231	1,907

The weighted average number of common shares outstanding during the period does not include own shares held.

In the first quarter of the year of 2002 the nominal value of the common shares of the Bank has decreased from HUF 1,000 to HUF 100 per share.