OTP Bank Ltd.

Documentation for the Company's Annual General Meeting

(English translation)

April 29, 2004

THE AGENDA OF THE GENERAL MEETING

1. Report presented by the Board of Directors concerning the Company's 2003 business activities; acceptance of the 2003 Financial Reports (non consolidated and consolidated) prepared according to HAR; decision on the distribution of after tax profits.

2. Report of the Supervisory Commission concerning its activity in 2003 and the 2003 Financial Reports (non consolidated and consolidated) prepared according to HAR and on the proposal of the Board of Directors regarding the distribution of after tax profits.

3. Report of the Bank's auditor concerning the results of the audit of the 2003 Financial Reports (non consolidated and consolidated) prepared according to HAR.

4. Report of the Board of Directors on the Bank's Business Policy for 2004.

5. Election of the Company's auditor, approval of the appointment of official responsible for auditing, setting the remuneration.

6. Election of a member of the Supervisory Board (delegate of the employees).

7. Establishing the remuneration of the members of the Board of Directors and Supervisory Board.

8. Modification of part 5., 6., 8., 9, 13., 14.. of the By-Laws. (The amendment of the By-Laws requires ¾th majority of votes. At some issues having a quorum and the adoption of resolutions requires the attendance and the agreement of the owner of the voting preference share.)

9. Authorization of the Board of Directors to the acquisition of own shares.

THE 2003 BUSINESS REPORT OF THE BOARD OF DIRECTORS OF OTP BANK LTD.

BASED ON NON-CONSOLIDATED AND CONSOLIDATED AUDITED HAR FINANCIAL STATEMENTS

THE 2003 BUSINESS REPORT OF THE BOARD OF DIRECTORS OF OTP BANK LTD.

The National Savings and Commercial Bank Ltd. (hereinafter: the Bank) closed an outstandingly successful year in 2003: besides substantially increasing the intensity of its business activity and its level of profitability, it succeeded in further strengthening its market-leading position.

As of 31 December 2003, the **consolidated balance sheet total** of the Bank was HUF 3,503 billion; 28.1%, or HUF 769 billion, higher than that of the previous year, and 27.0% higher than the balance sheet total of the parent company in the same period.

The 2003 **consolidated pre-tax profit** of the Bank was HUF 102.8 billion; 50.7% higher than in the previous year and 18.5% higher than the pre-tax profit of the parent company in the year under review. The Bank's consolidated return on average assets (ROAA) was 2.66% in 2003, and its return on average equity (ROAE) was 30.6% (2002: 2.18% and 26.2% respectively).

The parent company, which made the largest contribution to both the consolidated balance sheet total and profits, also closed a successful year in terms of its non-consolidated profits. The Bank's profitability and performance indicators continued to improve in 2003. This was achieved through a dynamic increase in non-interest income and total income, which grew by 34.7% and 22.6% respectively, and by a significant improvement in the expense/revenue ratio. The dividend income of nearly HUF 8 billion from its investments also contributed to the Bank's results in 2003. On the basis of the absolute size of its profits, the Bank retained its leading position among the banks, with its pre-tax profit accounting for over 40% of the estimated aggregate total pre-tax profit of the banking sector, and in terms of return on both assets and equity the Bank is in the front rank of the Hungarian banks.

The Bank's outstanding performance was reflected in the positive development of its share price and also in the number of both Hungarian and international awards that it received. In 2003, a number of renowned international business and financial journals, such as Global Finance, Euromoney and The Banker, awarded it the title of "Best and Most Dynamically Growing Hungarian Bank". The reasons for OTP's receiving these international awards included successful acquisitions in Slovakia and Bulgaria. Based on internationally adopted standards and objective economic indicators (e.g. growth in the balance sheet total, after-tax profit and return on equity), the Hungarian business journal "Figyelő Top 200" awarded OTP Bank the title of "Bank of the Year".

The price of OTP Bank's shares grew by 21% in 2003, reaching HUF 2,675, while in the same one-year period the share index of the Budapest Stock Exchange, the BUX, increased 20.3%, from 7,798 points to 9,380 points. Over the past years, the price of OTP Bank's shares has been rising at a significantly higher rate than that of other shares traded at the Budapest Stock Exchange. The price of OTP stock grew over twenty-eight-fold between year-end 1995 and late December 2003 (an average annual increase of 52%), while in the same period – largely thanks to the Bank – the BUX grew just over six-fold (an average annual increase of 25%).

THE FINANCIAL PERFORMANCE OF OTP BANK LTD. IN 2003[1]

BALANCE SHEET

OTP remains the largest bank in the Hungarian banking sector: its **balance sheet total** of HUF 2,758.6 billion represents 20.4% of the total assets of the banking sector and is nearly twice as high as the balance sheet total of the second largest bank. The HUF 368 billion, or 15.4%, growth in the Bank's balance sheet during 2003 represents a significant, 9.7%, growth in real terms (Dec./Dec. inflation: 5.7%), but is lower than the Hungarian bank sector average (25.3%). At the end of 2003, the Bank had

[1] Non-consolidated HAS results.

a 29.1% share of the total deposits of the bank sector, and a 13.3% share of total loans. If we include the market share of the Bank's fully owned subsidiaries pursuing credit-institution activities, at the end of 2003 the Bank had a 26.2% share of the balance sheet total, a 32.3% share of total deposits and a 20.9% share of total loans. As at year-end, the Bank Group was managing nearly 40% of household savings (including investment funds but excluding other, non-credit institution securities).

In 2003, the Bank's growth again resulted from an increase in collected funds, although an increase in lending also played a part. The major share of the Bank's **funding sources** continued to be customer deposits, which accounted for 81.0% of the Bank's total liabilities as at year-end 2003. Total customer deposits reached HUF 2,235 billion, surpassing the previous year's figure by HUF 223.8 billion, or 11%. With an increase of 13.8%, or HUF 237.5 billion, in forint deposits, which exceeded the rate of increase of all other forms of customer funding, these deposits represented 87.5% of the customer-deposit total as at the end of 2003. Foreign currency deposits, owing to fluctuations in the forint exchange rate and more favourable interest rates on forint savings, decreased by HUF 13.7 billion, and thus their share of total customer deposits decreased to 12.5%. Compared to the previous year, there was a slight change in the distribution of customer deposits by customer group. Owing to a volume increase of 23.2%, the share of corporate deposits within total customer deposits increased from 17% in 2002 to 18.9% in 2003. Retail deposits grew 8.7% and accounted for 74.1% of total customer deposits (in 2002: 75.8%). Owing to a below-average volume increase of 8.1%, the share of municipality deposits decreased slightly, from 7.2% to 7.0%.

Increasing from HUF 62.9 billion to HUF 91.1 billion, interbank liabilities accounted for 3.3% of the Bank's overall liabilities at year-end 2003.

Within total liabilities, the volume of provisions increased from HUF 21.0 billion at year-end 2002 to HUF 26.8 billion in 2003. Pursuant to the provisions of the Act on Credit Institutions, by 31 December 2003 the Bank had completed the accumulation of the general risk reserve of HUF 17.1 billion, which represents an increase of 19.7% over the previous year. The provisions set aside for contingent and future liabilities nearly doubled, amounting to HUF 7.3 billion. The balance of other provisions fell HUF 0.6 billion in the course of the year, amounting to HUF 2.4 billion at year-end 2003. HUF 1.5 billion of this amount was set aside for early retirement and severance payments.

In 2003, due to a volume increase of HUF 137 billion, or 14.3%, the **proportion of loans within total assets** reached 39.5%. Within customer lending, loan placements to municipalities and the retail sector displayed an increase well above the average. The volume of retail loans decreased by HUF 11.7 billion, amounting to HUF 318.2 billion at year-end 2003, which represents a 3.5% fall against the previous year. Within retail loans, the volume of housing loans fell by 13.6% to HUF 183.5 billion, due to the sale to the Mortgage Bank of already disbursed loans. By contrast, the volume of consumer loans grew by 14.6%, to HUF 134.6 billion. Loans to the corporate sector grew by 23.7%, to stand at HUF 691.2 billion on 31 December 2003. The volume of loans provided to municipalities increased by 24.6%. Within total customer placements, the share of corporate loans grew from 58.7% to 63.5%, while that of retail loans dropped from 34.7% to 29.2%. As at year-end 2003, municipality loans accounted for 7.2% of total customer placements.

Receivables from banks represented 6% of the Bank's total assets as at year-end 2003, having decreased in volume by 37.2% over the year.

Compared with the previous year, the share of **government securities** within the Bank's portfolio decreased slightly (down from 16.8% to 14.6%). On 31 December 2003, this portfolio amounted to HUF 402.5 billion, representing a modest HUF 0.7 billion, or 0.2% increase against the previous year. No significant change occurred in the distribution of government securities. The balance of investment securities dropped by more than HUF 23 billion, or 8.0%, and consequently, as at year-end 2003 the value of trading securities was HUF 267.5 billion, representing 66.5% of the total government securities portfolio (2002: 72.4%). The total value of trading securities grew by 21.6%, or HUF 23.9

billion, and the share of this type of security within the total government securities portfolio was 33.5% (2002: 27.6%). Simultaneously with the drop in the balance of government securities, both the balance and the share of mortgage bonds issued by OTP Mortgage Bank, at more favourable interest rates than those on government securities, grew dynamically, reaching a balance of HUF 508.9 billion and representing 18.4% of total assets as at year-end 2003. In response to the change in reserve regulations, the balance of **liquid assets** decreased by HUF 94.0 billion, amounting to HUF 253 billion, or 9.2% of total assets, on 31 December 2003.

INCOME STATEMENT

The Bank's **pre-tax profit** for 2003 was HUF 86.7 billion, which was HUF 28.6 billion, or 49.3%, higher than in 2002. This pre-tax profit results from HUF 93.6 billion in operating profits, and from the combined amount of HUF 7.7 billion in dividend income, HUF 13.3 billion in provisions, value loss and lending loss, as well as HUF 1.3 billion in losses from goodwill write-offs. Compared to the reference period, operating profit increased by HUF 22.8 billion, or 32.3%, whereas provisioning and value loss decreased by HUF 0.3 billion, or 1.9%, against the previous year. The dividend income from the Bank's investments rose from HUF 0.3 billion in 2002 to HUF 7.7 billion in 2003. Goodwill write-offs (OBS, DSK) amounted to HUF –1,257 million in 2003, compared to HUF 572 million in 2002.

Helped by a slight fall in the tax rate compared to 2002 (from 18.7% to 17.5%), the Bank's **after-tax profit** was HUF 71.6 billion, representing a HUF 24.4 billion, or 51.6%, increase over the previous year.

After setting aside HUF 7.2 billion for general risk provisions and generating a dividend reserve equal to 60% of the nominal value of all shares outstanding, **the balance sheet profit** of OTP Bank Ltd. for the year 2003 amounts to HUF 47.6 billion.

Undiluted earnings per share (EPS)[2] in 2003 was HUF 269.2, while the diluted[3] figure was HUF 255.6, respectively 50.4% and 51.6% higher than in 2002.

The Bank's return on average assets **(ROAA)** in 2003 was **2.78%,** while the return on average equity (ROAE) was **30.6%** (in 2002: 2.09% and 25.9% respectively). The inflation-adjusted ROAE[4] amounted to 25.9%, in contrast to 20.6% in 2002. Both the ROAA and the inflation-adjusted ROAE are in line with the Bank's targets.

The Bank's **net interest income** amounted to HUF 118.2 billion in 2003, representing an increase of 15.1% over the previous year. The net increase in interest income – achieved in a year characterised by considerable interest rate fluctuations – originates from an interest revenue figure of HUF 205.6 billion (an 8.9% increase over the previous year) and an interest expense figure of HUF 87.5 billion (a 1.6% increase).

In the year 2003 the interest differential (i.e. the net interest margin) calculated on the average total assets and liabilities (HUF 2,550.0 billion) was 4.63%, or 6 basis points lower than in 2002.

Interest income from interbank placements fell by 16.5% – despite a HUF 2.1 billion increase in the income from swap deals – owing to a 27.9% fall in the average value of interbank placements and a 130-basis-point drop in the interbank interest rate. (Without the results of swap deals the decrease would have been 29.8%.) As a consequence, the ratio of interbank interest income within total interest

[2] The method for calculating undiluted earnings per share: adjusted after-tax profit/ (ordinary shares - own shares)
[3] Calculation method: (adjusted after-tax profit + preference dividend)/ (ordinary shares + preference shares)
[4]Calculation method: ROAE – inflation (%)

income dropped to 14.3%. With no change to the average volume of retail deposits, and due to the significant interest margin reduction of an annual average of 93 basis points, the net interest income realised on retail accounts fell by 5.7% to 23.8% of total interest income. As a consequence of the over 12.2% growth in corporate lending, and an interest margin reduction of 136 basis points, the net interest income realised on these accounts fell by 5.5%, giving it a share of 22.0% within the total of interest income. Due to a more than 89.2% increase in municipal lending in 2003 and an interest margin reduction of 118 basis points, the net interest income realised on these accounts grew by 66.0%, or HUF 4.1 billion. Compared to 2002, the interest earned from securities increased by 49.1%, or over HUF 21 billion, reflecting a steep rise (64,5%) in the average portfolio size. Interest on securities accounted for 31.1% of total interest income. In 2003, the yields on total average interest-bearing assets in forint and foreign currency reached 9.09%, which is 60 basis points lower than in 2002.

With the exception of interbank and corporate accounts, **interest expenses** decreased in all the account groups. Interest paid on corporate accounts increased by 58.4%, due to a significant, more than 34%, increase in the average total balance of these accounts and a rise in yields of 55 basis points. Interest paid on interbank accounts increased by HUF 7.2 billion, or 175.3, over the previous year, but this was partly due to the higher losses recorded here owing to the increased volume of swap deals (HUF 6.0 billion). The greatest decrease was shown by the interest paid on securities deposits and retail accounts (42.0% and 16.5% respectively). Interest paid on municipality deposits increased by 4.4%, while the average total balance of these accounts increased by 11.8%. The share of interest paid on retail accounts within the total of interest expense was 62.7%, which is in harmony with the Bank’s funding structure. In 2003, the cost of funds calculated on average interest-bearing forint and foreign currency funding amounted to 3.99%, or 55 basis points less than the 2002 figure. The interest spread calculated on total interest-bearing assets and liabilities was 5.10% in 2003, or 5 basis points lower than in 2002.

Non-interest income increased by 34.7% to HUF 85.6 billion in 2003. A determining factor in the dynamic growth of non-interest income was the HUF 28.3 billion increase in net fees and commissions. As a consequence of slower growth in net interest income and a dynamic increase in non-interest income, the share of non-interest income within total income rose from 38.2% to 42.0%. Of the various types of non-interest income, **net commission and fee income increased by 49.8%,** from HUF 56.8 billion in 2002 to HUF 85.1 billion in 2003. Compared to the previous year, commissions and fees received rose by 48.6% in 2003, while the increase in commissions and fees paid was 39.3%. Owing to the dynamic growth in lending activities, commission revenues on loans showed a particularly high increase of 159.5%. The high rate of growth in corporate lending also led to a rise in commission revenues on forint and FX loans, while the growth in "Forrás" ("Liability") Loans (provided from the Bank's own funds or through a consortium), as well as in agency fees related to the handover of loans sold on behalf of OTP Mortgage Bank, fees related to repurchase obligations, and other commission fees received from the Mortgage Bank was considerable. Of the Bank’s commission revenues, mortgage lending accounts for HUF 28.8 billion, HUF 25.1 billion of which was received from the Mortgage Bank (in 2002: HUF 5.5 billion). Within commission revenues, card fee revenues increased significantly, by 17.7%, to exceed HUF 21.5 billion. The more than HUF 3 billion increase in card fee revenues primarily originated from ATM cash withdrawal transaction fees and – due to an increase in the number of purchases made using bankcards – from merchants’ commission revenues. Commission revenues on retail current accounts increased by 7.8% during 2003. Commission revenue related to deposits increased by 165.2% to HUF 5.4 billion, while commissions on current account transactions were down 14.1%. Commission revenue from securities trading during 2003 was 27.4% up on the previous year’s figure, which can be attributed to commissions on mortgage bond issues for OTP Mortgage Bank Ltd. as well as fees related to OTP Funds. The **net result of securities trading** showed a loss of HUF 0.9 billion compared to a loss of HUF 0.6 billion in 2002. The net exchange rate loss from **FX trading** was HUF 1.4 billion in 2003 against a net gain of HUF 3.6 billion in 2002. Other non-interest revenues decreased by HUF 0.8 billion to HUF 2.9 billion.

The Bank's **total income** in 2003 amounted to HUF 203.8 billion, which represents an increase of 22.6% compared with 2002.

In 2003 the Bank’s **non-interest expenses** increased by 15.4%, reaching HUF 110.2 billion. Due to various IT and branch network development projects, this cost increase exceeded the rate of inflation, but remained well below the rate of revenue increase. **Personnel expenses** were 16.6% higher in 2003 than in the previous year. In 2003 the Bank’s personnel expenses absorbed 21.5% of its total income, compared to 22.5% in 2002. At the end of 2003, the Bank’s total **headcount** was 7,980, i.e. 790, or 9,0% less than a year previously. The average headcount for the period decreased by 69 persons, or 0.8%.

Depreciation amounted to HUF 9.9 billion, while the ratio of depreciation to total income was 4.9%, compared to 6.7% a year earlier. Other non-interest expenses were 20.5% higher than in 2002.

As a result of the 22.6% rise in total income and a 15.4% increase in non-interest income, the Bank’s **cost/income ratio** improved by 3.4 percentage points from 57.5% to 54.1%.

The **quality of the Bank's receivables** deteriorated slightly in comparison to the previous year. As of 31 December 2003, qualified loans accounted for 4.4% of total outstanding loans, whereas the same figure for year-end 2002 was 4.2%. However, the distribution of qualified loans by the various categories of qualification underwent a major transformation during 2003. While there was a substantial increase in the “below average” category (197%, or HUF 12.8 billion), the volume of receivables in the “to be monitored”, “doubtful” and “bad” categories decreased significantly (21.9%, 17.5% and 15.0% respectively).

While total receivables grew by 3.1% in 2003 (within which customer receivables increased by 13.7%), the volume of qualified receivables (99.7% of which were due from customers) increased by 8.5%. Within the total of receivables the weight of qualified receivables within customer receivables decreased from 5.3% to 5.0%, the qualified portion of receivables due from banks remained unchanged (0.1%), while the share of customer receivables with a higher rating increased. Within customer receivables, the weight of qualified receivables in the retail portfolio increased from 3.3% in 2002 to 3.6% in 2003. In the corporate division the share of qualified receivables decreased from 6.9% to 6.4%, while in the municipalities division it fell from 2.2% to 0.1%.

On the qualified portfolio of HUF 55.8 billion, the Bank set aside a loan risk provision of HUF 20.6 billion, which represents a coverage ratio of 36.9%.

The share of corporate loans within the total of qualified loans, was 78.8%, while the share of retail loans was 20.6%. Of total value loss and provisioning, 66.5% was generated in the corporate division and 32.3% in the retail division. The quality of municipality loans remains excellent. In this business area, qualified loans accounted for only 0.1% of the total loan portfolio.

The value loss, risk reserves and lending losses recorded in relation to the Bank’s customer receivables represented a charge of HUF 8.0 billion to the profit and loss account in 2003, which represents 0.78% of the average loan balance for the year, an improvement on the 2002 level (0.95%). The Bank also set aside, in accordance with the provisions of the Credit Institutions Act, a general risk reserve (HUF 2.8 billion). Provisions generated for contingent and future liabilities grew by HUF 3.6 billion. The setting aside of other provisions reduced the Bank’s profit by HUF 1.1 billion, of which HUF 546 million was set aside for early retirement and severance payments.

As of 31 December 2003, the **equity** of OTP Bank amounted to HUF 261.8 billion, representing growth of 27.2% year on year. The HUF 55.9 billion increase is the net result of the HUF 7.2 billion growth in the general reserves, the HUF 46.2 billion increase in the profit reserve, the HUF 2.6 billion reduction in tied down reserves and the balance sheet profit of HUF 47.6 billion. The equity per share, with a nominal value of HUF 100, was HUF 934.9.

As of year-end 2003, the balance of repurchased own shares was HUF 14.3 billion, down by HUF 2.6 billion from the end of the previous year.

The **regulatory capital** of the Bank on 31 December 2003 was HUF 143.8 billion.

As of 31 December 2003, the **capital adequacy ratio** calculated according to Hungarian accounting regulations was 10.54%, which is well in excess of the 8% required by the Credit Institutions Act.

RESULTS AT INSTITUTIONAL AND DIVISIONAL LEVEL

INFORMATION TECHNOLOGY, CAPITAL PROJECTS

In 2003 the Bank continued to carry out large-scale capital projects aimed at strengthening its competitiveness, rationalising and streamlining operations, cutting costs and improving the quality of services.

The bank forged ahead with its introduction of a SAP system, the aim of which is to modernise the Bank's management and managerial decision-support systems, to improve the quality of information generation and processing, and to rationalise and centralise financial processes and ensure strict cost control. In 2003, major development was focused on the controlling area, and a management reporting module was added to the Management Information System.

In 2002 the implementation of a *transaction data warehouse* (TDW) began, to support product development and sales activities. In 2003, the range of inputted source data was expanded, the layout of standard reports finalised and reports themselves entered into the data warehouse, and continuous operation commenced. Using the resources of the data warehouse, the Bank began to develop the "Mini CRM" system, the purpose of which is to support sales through product offers tailored to the needs of specific customer groups.

By year-end 2003, the majority of the objectives of the Bank's *BOR* (*Back Office Rationalisation*) Project, to comprehensively streamline and centralise back-office processes, had been fulfilled. As a result, the labour requirement in the areas affected the project decreased by 38%. Further improvements in 2003 included an improvement to the quality of lending services, automated approval of "A-Hitel" (A-Credit) current account overdrafts and a simpler disbursement process for housing loans. As a result of the project the branch network was relieved of its back-office workload, since a Central Back-Office Directorate was established in to manage, at national level, the accounts and files related to housing loans, as well as corporate credit accounts.
Due to the introduction of new consumer credit products (e.g. hire-purchase credit and credit cards), and as a part of the BOR project, the first phase of consolidation of the lending support systems was completed in 2003.

Some of the Bank's central units relocated to the new central office building in 2003. The office building, with an area of approximately 32,000 square metres, houses 1,000 employees in a state-of-the arts working environment. In total, 12 of the branch office development projects were completed in 2003. Under the technical development program, 138 ATMs were installed and/or relocated. Some 40 smaller technical projects were completed, with a value of less than HUF 10 million each, and video surveillance systems were installed in 120 branches.

RETAIL BANKING

OTP Bank continues to be the largest participant in Hungary's retail banking market. Based on the combined balance sheet of monetary institutions, at year-end 2003 the Bank had a market share of 35.5% (2002: 38.0%) in household forint deposits, 36.0% (2002: 35.8%) in FCY deposits, and 14.2% (2002: 23.3%) in household loans.

Retail deposits

By year-end 2003 the volume of retail deposits managed by the Bank had reached HUF 1,656.3 billion, representing an 8.7% increase over last year's figure. Retail deposits accounted for 74.1% of customer deposits.

Within retail deposits, forint deposits increased by 12.0%, or HUF 151 billion, far outstripping the rate of inflation. Within the HUF 1,410.1 billion of forint deposits, retail current account deposits – a key product line – saw the greatest increase, of HUF 161.7 billion or 19.4%, to reach HUF 996.2 by 31 December 2003. Within retail forint deposits, the volume of time deposits on current accounts was 70.6% (in 2002: 66.3%). Following a slight, 1.8%, decline over the year, the total balance of passbook deposits amounted to HUF 382.9 billion as of 31 December 2003, with the result that their share of total deposits fell from 31% in the previous year to 27% in 2003.

The volume of foreign currency deposits fell by 7.1%, or HUF 18.9 billion, to HUF 246.2 billion, accounting for a modest 14.9% of retail deposits as at year-end 2003 (in 2002: 17.4%). Although the decline in the volume of foreign currency deposits slowed significantly in 2003, it did not stop. The reduction was mainly due to the favourable interest rates on retail forint deposits and strengthening of the forint exchange rate.

In 2003, the Bank launched two important new retail deposit products: the foreign currency savings account, available since the second quarter, and 2-month time deposits on current accounts, available since December 2003.

Retail loans

Changes (on 16 June and 22 December) to the system of state housing loan subsidies had a major impact on the volume of retail loans in 2003 also, triggering an upsurge in demand for loans in early summer and the final months of the year. By the end of December 2003, the volume of housing loans provided by the Bank was HUF 318.2 billion, 3.5% lower than at year-end 2002, due to the fact that the majority of the loans extended by the Bank were subsidised loans, later transferred to OTP Mortgage Bank.

By year-end, the volume of housing loans in OTP Bank's balance sheet had decreased by 13.6% to HUF 183.6 billion, giving the Bank a 12.3% market share of the housing loans market. The volume of the 142,000 syndicated housing loans transferred to OTP Mortgage Bank was HUF 635 billion, representing an 88.1%increase over the previous year. The total market share held by OTP Bank Group – including the loans of provided by OTP Mortgage Bank and OTP Building Society was 52.9%.

In 2003 the volume of consumer loans provided by the Bank increased by 14.6% to HUF 134.6 billion. Lagging 8 percentage points behind the rate of bank sector growth, this resulted in a 1.3-percentage-point loss in market share, which stood at 17.5% on 31 December 2003.

Within consumer loans, the volume of "*A-, B-, and C-Hitel"* overdraft facilities on retail current accounts grew dynamically, by 29.2%, to HUF 90.6 billion. Owing to vigorous growth in demand for subsidised housing loans, the volume of mortgage-backed loans decreased by 31.2% against the previous year, to HUF 3.3 billion at year-end 2003.

The "*A-Hitel*" current account overdraft facility was overhauled in 2003. The improvements included automatic loan approval, an easing of the related administrative burden and an increase in the amount of available credit to twice the amount of the monthly wages transferred on a regular basis to the given customer's current account. Improvements in the process for providing durable goods loans, the result of a product development project commenced earlier, led to a sharp increase in the volume of loans of this type towards the end of the year, while the volume of loans related to credit cards, a new product launched in October, reached approximately HUF 465 million.

INVESTMENT SERVICES

Securities trading and securities account management

Changes to the macroeconomic environment had a serious impact on the investments market in 2003. The June, and especially the November increases in the central bank base rate, the abolition of tax credit on investments, caused the volume of investment funds, especially bond and money market funds, to plummet. As a result, in 2003 the investment funds posted losses for the first time in their history.

The increases in interest rates prompted investors to seek fixed-rated investments. Consequently a high volume of OTP Optima investment fund units were redeemed, with most of the capital reinvested in government bonds and promotional two-month time deposits.

The market value of the investment portfolio managed by the Bank exceeded HUF 1,118 billion as at year-end 2003, which represents an increase of 9.5% despite the adverse market conditions. Commission revenues on securities grew even more dynamically. Their volume was 16.8% higher in 2003 than in 2002, amounting to a total of HUF 5.6 billion.

Private banking services

On 1 January 2003, OTP Bank introduced a new range of private banking options, further expanding the range of services and investment advise on offer, thus enabling the bank to offer services of outstanding quality to its most discerning customers. Simultaneously, customer acquisition activity commenced, targeting potential new private banking and preferred private banking customers.

Due to the new customer acquisition strategy adopted last year, and despite a reduction in the number of customers brought about by the increase in fees introduced simultaneously with the new private banking offer, the number of private banking customers increased by 11.2%, or 839 persons. At year-end 2003, the number of private banking customers was 8,324, of which 46 were preferred private banking customers. It should be noted that 42.5% of the increase in the number of customers was attributable to new customer acquisitions, whose assets totalled HUF 13.7 billion.

The average assets per private banking customer reached HUF 20.5 million in 2003, representing an increase of 25% over 2002. The closing volume of the private banking portfolio on 31 December 2003 was HUF 170.2 billion, representing an increase of 40%, or HUF 48.2 billion over one year.

Due to the nature of this business area, it is hard to determine the Bank's market share for 2003. However, it is a safe assumption that based on the number of customers, OTP Bank's private banking services have a market share of 32 to 36%, while in terms of the volume of its managed portfolio the Bank leads the market with a share of approximately 30%.

BANKCARD BUSINESS

At year-end 2003, the number of bankcards issued by the Bank was 3,522,000 (in 2002: 3,323,000), a 6% increase over the previous year's figure.

At year-end 2003, the number of forint-based bankcards issued in the retail sector exceeded 3,423,000, representing a rise of 5.5% over the 3,243,000 cards at year-end 2002. Within this, the number of the traditional debit cards issued to current-account holders was 2,819,000, the number of Multipont cards was 201,000 and the number of cards associated with "B-Hitel" and "C-Hitel" overdraft facilities was 173,000 and 136,000 respectively at year-end 2003. The last quarter of 2003 saw the introduction of a traditional credit card product, aimed specifically at retail customers, and of which 5,885,000 were distributed between October and December 2003. There were 89,000 of the various other types of retail bankcard in circulation at year-end 2003.

At year-end 2003, the number of business cards was 92,000, representing an increase of 23.5% (or 18,000). The overwhelming majority of these (a total of 71,000) were domestic corporate and business cards. The Bank also issued 3,000 Széchenyi Cards. The number of foreign currency cards issued by the Bank increased by 1,415 to 6,780 in 2003.

By year-end 2003, the number of OTP-operated ATMs increased to 1,305, from 1,168 in the previous year. In 2003, the number of transactions carried out using ATM's owned by OTP was 72.2 million, and the total volume of those transactions was HUF 1,822 billion. The number of ATM transactions carried out using cards issued by the Bank was 69.6 million, with a total volume of HUF 1,697 billion. Compared to the previous year, the number of transactions increased by 6.8% and 5.8% and turnover was up by 19% and 18% respectively on the acceptor and issuer side.

By 31 December 2003, the number of POS terminals was 20,452, which represents an increase of 2,411 compared to the previous year. The Bank operated 2,773 of these terminals in its own branches, 12,640 at commercial outlets and 5,039 at post offices. The number of POS terminals at commercial outlets grew by 18.7% in 2003. In 2003, the number of transactions made using OTP Bank's own POS network was 42.6 million, with a volume of HUF 353 billion, which represents a 34% in the number of transactions and a 35% increase turnover. On the issuer side, both the number of transactions and turnover increased by 35% compared to 2002. Thus, the 34.7 million transactions carried out by OTP Bank's customers resulted in a turnover of close to HUF 260 billion.

ELECTRONIC SERVICES

The Bank retained its market-leading position with respect to all electronic banking channels (estimated market shares: 74% in Internet services, 43% in mobile banking and 41% in telephone banking services). The number of customers with a contract pertaining to the use of the Bank's electronic channels increased sharply in 2003 (by 32% both for Internet and the mobile banking services, and by 24% in the case of telephone banking services).

Some 537,000 customers made over 1 million phone calls to the telephone held desk. The 278,000 users of internet banking services initiated nearly 6 million transactions via the Internet, while 201,000 customers used mobile phone-based services.

In 2003 the operation of electronic banking channels underwent major changes, with the expansion of OTPDirekt internet banking services – through a full technological upgrade – to include new functions (such as the setting up of standing orders and direct debits, as well as foreign currency transfers), the introduction of the Account Control service and the expansion of OTPDirekt telephone banking with the Call-Back Centre, dealing with calls related to product enquiries and loan repayment matters (durable goods loans, A-Hitel overdraft, credit cards, housing loans).

COMMERCIAL BANKING

Corporate banking division

In 2003, the Bank retained its leading position in the corporate banking market. As at 31 December 2003, the Bank's share of the corporate deposits and corporate loans market was 14.3% and 12.0% respectively.
Total **corporate deposits** stood at HUF 421.4 billion, representing a 23.2% increase over the previous year. The share of foreign currency deposits within total corporate deposits was 4.6%. Some 60% of the corporate deposit total came from incorporated business entities, the number of which increased by 27.8% over the year. The volume of foreign currency deposits held by incorporated business entities decreased by 6.1%.

The volume of deposits held by small enterprises grew by 13.1% to HUF 49.6 billion, while that of deposits held by sole traders rose 14.1%, to HUF 23.5 billion at year-end 2003.

Total **corporate loans** increased by 23.7% to more than HUF 691.2 billion. FCY loans accounted for 43.3% of corporate loans, the volume of which increased 47.3% year on year.

The total of loans to incorporated business entities was HUF 645.1 billion representing an increase of 24,3% over the previous year, within which the volume of FCY loans grew by 45.9%, current account loans by 21.0% and capital investment loans by 5.1%. By year-end 2003 the volume of loans to small enterprises had grown by 27.7% to HUF 9.5 billion, and the volume of FCY loans had increased by a factor of 1.5. The volume of loans to sole traders reached HUF 11.2 billion, representing an increase of 21.3%.

As of 31 December 2003, the greatest proportion of the corporate loan portfolio, 18.2%, had been lent to companies from the real estate and business services sector, 15.8% went to companies in the manufacturing sector, 13.5% to the electricity, gas, heat and water supply sector, 13.4% to trading companies and 12.4% to companies providing transport, storage, postal and telecommunications services. The share of the agricultural sector within the corporate portfolio amounted to 4.4%.

In the course of 2003, the most dynamic growth in loan placements was in the transport, storage, postal and telecommunications services sector (HUF 52.9 billion), but there was also a notable increase (HUF 20,0 billion) in loans to trading companies.

In 2003, the Bank shifted its focus to SME customers. Accordingly, a number of new credit products were developed and introduced, including *Midi Hitel*, *Európa Hitel*, *Lánchíd Faktoring*, loans to apartment blocks and housing associations, the financing of arable land purchases, corporate savings accounts and revamped factoring services. The *Széchenyi Card*, with its credit limit increased from HUF 1 million to HUF 5 million, grew in popularity in the course of 2003. The number of these cards had grown to nearly 3,000 by year-end 2003, with a credit volume of HUF 4.6 billion.

In 2003, cash pool services were expanded to include automatic interest settlement, joint collateral appraisal, and the opportunity to conduct the full range of foreign currency transactions through electronic channels.

Municipality banking

OTP continued to retain its leading position in the municipality banking sector. In 2003, over 81% of this customer group, a total of 2,587 municipalities, together with the institutions that they financed, held their current accounts at OTP Bank.

At year-end 2003, the total of deposits held by the municipalities and their institutions was HUF 157.2 billion, 8.1% up on the previous year. Despite intensive market acquisition campaigns by competitors, the Bank's market share of municipality deposits grew from 66.2% to 74.9%. The Bank's portfolio of municipality loans, which has been continuously increasing since the end of 2002, grew by 24.6%, reaching HUF 78.9 billion. However, the Bank's share of the municipality loan market fell to around 54.3%.

The year 2003 saw a steady increase in the number of municipality customers using the customer terminals, from 3, 638 customers in 2002 to 3,972 customers at year-end 2003. This was accompanied by an increase in the number of customers using the treasury and Cash Management systems.

Customs services

The year 2003 was the most successful year for OTP's customs services since their introduction in 1998. The Bank realised HUF 379 billion in commission on the handling of customs payments and duties totalling HUF 176.5 billion. Compared to the previous year, total turnover increased by 11.9%, and commission revenue by 21.5%.

Customs Cards grew in popularity, attested to by the fact that their number was close to 2,900 at year-end 2003, and that 54.3% of total payment turnover was transacted using these cards.
Over the past year the Bank provided customs cashier services to nearly 63,000 customers, 23.1% of whom started using these services for the first time in 2003. A great many corporate customers were referred to OTP Bank by one of the customs agencies.

In 2003 this business area commenced preparations to expand its range of services in order to continue serving customers to the exacting standards that they have come to expect, even in the changing regulatory and economic environment resulting from EU accession and customs harmonisation.

International desk

In 2003, OTP Bank transacted a total of HUF 5,870.7 billion in international payments, an increase of more than 93.9% over the previous year. A significant part of the turnover continued to be attributable to international forint payments. In 2003, OTP Bank opened 7 new forint-based loro accounts for its foreign partner banks, thus increasing the number of such accounts to 41.

In 2003, in conjunction with OTP Bank's foreign subsidiaries OTP Banka Slovensko and DSK Bank, this division introduced an express foreign currency transfer service, which allows transfers denominated in EUR, USD and HUF – as well as SKK in Slovakia – to be debited to the beneficiary account on the day of submission of the transfer order, similarly to intra-bank transfers.

Commission revenue on international payment transactions amounted to HUF 928.4 million, representing an increase of approximately 12% over the previous year.

Treasury

In 2003, the average balance of the investment portfolio managed by Treasury was HUF 761.3 billion, which represents an increase of 47.5 over the previous year. The average 2003 balance of the trading securities portfolio was HUF 41.3 billion, representing a significant increase of 59.0%. On average, 96-97% of both the investment and trading portfolio was forint-based.

The interest rate and net interest rate revenue from the investment portfolio were HUF 61 billion and HUF 2.5 billion respectively, while the corresponding figures for the trading portfolio were HUF 2.9 billion and HUF -224 million, which can be attributed to extreme and unexpected fluctuations in the exchange rate and interest rate in 2003, with foreign currency trading making a loss and securities trading falling short of target figures.

However, in terms of sales 2003 was a successful year, with a significant increase of 12%, or over 400, in the number of corporate and municipality customers. Volume also increased by 8.9%, due to turnover of almost HUF 1,000 billion from FX futures and securities trading transactions concluded for its customers in 2003. Within this the sales turnover of government securities was 21.2% higher in 2003 than in 2002, which means that OTP handled the highest volume of OTC transactions in the Hungarian market for government securities.

The Bank's gains from stock exchange and futures deals amounted to HUF 508 million. It made a margin loss of HUF 2.4 billion on foreign exchange trading, but posted HUF 255 million in fees and gains on option transactions. The Bank's position in the foreign exchange trading market remained practically unchanged in 2003. It remains the third largest participant in this market after Deutsche Bank and ING.

In 2003, this business line realised a net interest revenue of HUF 3.9 billion in 2003, 51% up on 2002, and a commission revenue of HUF 1.7 billion.

Structured finance

The Bank provides investment services through its Capital Market Transactions Department. Besides organising share and bond issues, it also provides capital market advisory services.

The Bank retained its leading position in the Hungarian syndicated lending market. It participated in 15 syndicated loan transactions, heading the consortium in five of these transactions. Major recipients of syndicated loans in 2003 included companies such as AKA Rt., MOL Rt., SPAR, STRABAG and Zagrebacka Banka.

The Bank arranged regular bond issues for MOL, as well as convertible bond issues in a value of HUF 12 billion.

The Bank also launched its advisory services in 2003, advising an Austrian customer concerning the privatisation of energy suppliers in Bulgaria.

The volume of mortgage bonds issued for OTP Mortgage Bank was HUF 531 billion in 2003. Most of these mortgage bonds were subscribed by OTP Bank, in a value of HUF 488 billion. From among OTP Bank's subsidiaries, Fund Management Ltd. subscribed mortgage bonds in a value of HUF 27 billion, and Garancia Insurance subscribed bonds in a value of HUF 2 billion in 2003.

In 2003, the long-term funding requirements of the Bank and the Group represented a new set of challenges for the structured finance division, including the development of tailored refinancing credit facilities for Merkantil Bank and the application for a subordinated loan from EBRD to finance its bank acquisition.

Project finance

The year 2003 saw a major shift in the focus of project financing, towards power stations. This was attested to by the fact that 21% of outstanding loans, with a volume of over HUF 35 billion, were provided to this sector, representing an increase of 47.3% compared to the previous year.

On 31 December 2003 this division's portfolio totalled HUF 160.5 billion. Major project financing deals included the refinancing of DIPOL – Trigránit Group, financing the buy-out of Lasselsberger Construction Company and the provision of a loan to Pannongreen – Pécs Power Station.

This business area contributed commission income of HUF 687 million to the Bank's revenues.

CAPITAL INVESTMENTS

In 2003 the gross book value of the Bank's investments in various companies grew from HUF 49.4 billion to HUF 106.8 billion. As of 31 December 2003, OTP group investments, which constitute the bulk of the Bank's strategic investments, totalled HUF 105.5 billion.

OTP Bank's medium-term strategy places particular emphasis on international expansion, increasing shareholder value, maintaining the Bank's medium-term profitability and improving its regional position. As the second step in implementing its acquisition strategy, OTP Bank purchased the Bulgarian DSK Bank in 2003. After restructuring, the new subsidiary was incorporated into the OTP group. OTP Bank plans to acquire other banks in the region over the coming period.

The OTP Bank Group

In the course of 2003, significant changes occurred to the composition of the OTP Bank group. The following companies were added:

- On 1 October 2003, with the purchase of DSK Bank, the DSK group (DSK Bank EAD, POK DSK-Rodina AD, DSK Trans Security EOOD, DSK Tours EOOD) was included among OTP Bank's fully consolidated subsidiaries.
- NIMO 2002. Kft., a Merkantil Bank subsidiary, has been a fully consolidated member of the Group since 3 November 2003.

CONSOLIDATED FINANCIAL STATEMENTS

CONSOLIDATED BALANCE SHEET

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

On the **liabilities side**, the major contributing factor to the 2003 increase in the consolidated balance sheet total were the HUF 672 billion increase in liabilities, and within this a HUF 557 billion increase in liabilities to customers, a HUF 68 billion increase in equity and a HUF 20 billion increase in provisions. Compared to the previous year, liabilities increased by 28.3%, within which long-term liabilities saw the most dynamic increase, with 77.9% year-on-year volume growth. Consequently, although the share of short-term liabilities within total liabilities decreased slightly in 2003, it nevertheless remained close to 91%. Liabilities to customers accounted for over 88.6% of total liabilities, with a volume of over HUF 2,698 billion at year-end 2003. The volume of funds originating from credit institutions was over twice the previous year's, reaching HUF 126 billion. However, their share within total liabilities was just 3.6%. Among the consolidated balance sheet liabilities, provisions increased by HUF 20 billion to HUF 116 billion. In the course of 2003, equity increased by HUF 67.6 billion, or 28.5%, and, at year-end 2003, represented 8.7% of liabilities, similarly to year-end 2002.

The most significant change to the **asset** side of the consolidated balance sheet was the 53.2%, or HUF 703 billion, increase in receivables from customers, with the result that their weight in the balance sheet rose from 48.4% in 2002 to 57.8% in 2003. Some 58.1% of customer receivables were retail loans, the volume of which reached HUF 1,208 billion. Corporate loans accounted for 38.0% of the portfolio, with a volume of HUF 791 billion, whereas municipality loans amounted to HUF 80 billion, giving them a 3.9% share of the portfolio. Simultaneously, the totals of receivables from credit institutions and liquid assets decreased, the latter falling from HUF 354 million at year-end 2002 to HUF 277 billion, representing a reduction of 21.9% while the former showed a moderate decline, of HUF 29 billion or 10.3%, to HUF 252 billion at the end of 2003. Owing to a volume increase of 18.6%, government securities represented 18.0% of total assets at year-end 2003, while their volume amounted to HUF 631 billion. More than 61% of government securities were investment securities.

CONSOLIDATED PROFIT

The Bank's **consolidated pre-tax profit** was HUF 102.8 billion in 2003; 50.7% higher than in the previous year and 18.5% higher than the pre-tax profit of the parent company in the year under review. The consolidated pre-tax profit is the combined result of HUF 117.5 billion operating income, HUF 668 million dividend income, and a combined provision, value loss and lending loss of HUF 13.4 billion and a loss of HUF 2.0 billion on recorded goodwill. Compared to the base period, operating profit increased 45.8%, while provision and value loss were 4.2% up on the previous year's figure.

In 2003, the concern's net interest income was HUF 177.1 billion, 43.5% up on the previous year. The increase in net interest income was the result of HUF 279.1 billion (+26.3%) in interest revenue and HUF 102.0 billion (-4.6%) in interest expenses. Non-interest type income grew dynamically, by 4.8%, to reach HUF 132.4 billion. The most important items within this figure are the increase in net fees and commissions, insurance premium revenue and real estate sales. Consequently, the concern's total income grew from HUF 249.7 billion to HUF 309.4 billion, corresponding to an increase of 23.9%. Within total income, the share of non-interest income was 42.8%. The concern's non-interest expenses increased by 13.5%, lagging behind growth in income, thus improving the concern's the expense/income ratio considerably from 67.7% to 62.0%.

Alongside a slight decrease in the tax rate, from 19.3% to 19.2%, **consolidated after-tax profit** was HUF 83.0 billion, which corresponds to an increase of HUF 28.0 billion, or 51.0%, compared to 2002.

Consolidated undiluted earnings per share (EPS)[5] were HUF 321.9 in 2003, while the diluted figure[6] was HUF 296.5; respectively 50,0%%, and 51.0% higher than in the previous year.

The 2003 Bank's consolidated return on average assets **(ROAA)** was **2.66%,** while its return on average equity **(ROAE)** was **30.6%** (in 2002: 2.18% and 26.2% respectively). The ROAE in real terms[7] was 25.9% in contrast to 20.9% in 2002.

RESULTS OF THE MOST IMPORTANT SUBSIDIARIES

In the course of 2003, the activities of OTP Bank's subsidiaries basically adhered to the Bank's targets and the owners' expectations. The combined balance sheet totals of the fully consolidated subsidiaries of the OTP Group amounted to HUF 1,550 billion, over twice those of the previous year. Their

[5] The method for calculating undiluted earnings per share: adjusted after-tax profit/ (ordinary shares – own shares)
[6] Calculation method: (adjusted after-tax profit + preference dividend)/ (ordinary shares + preference shares)
[7] Calculation method: ROAE – inflation (%)

preliminary consolidated pre-tax profits were HUF 25.2 billion in 2003, 2.5 times the figure for the previous year. (From this, the balance sheet total and pre-tax profits of DSK Group, purchased in 2003, were HUF 323.7 billion and HUF 1,573 million[8] respectively at year-end 2003.)

Merkantil Bank Ltd.

Competition in the consumer loans market continued to intensify in 2003, and Merkantil Bank's inability to provide CHF-based financing until September 2003 led to the loss of its market-leading position.

The number of cars financed by Merkantil Group accounted for 10% of new car sales in Hungary, including cash sales. Based on the assumption that 50-60% of total car sales in Hungary are financed, the Group held an estimated 20% share of the market, thus maintaining its position as a major participant in the car financing market.

In the course of 2002 Merkantil Group concluded 54,630 car financing contracts, representing a year-on-year increase of 11.3%, or 5,567 contracts. The volume of loans provided was HUF 74.5 billion, which exceeded the 2002 volume by HUF 7 billion. The average loan per car amounted to HUF 1.3 million, which is approximately the same as in 2002.

The Bank achieved an interest rate margin of HUF 6,866 million, representing a decrease of 0.1%, or HUF 6 million, compared to the previous year. Revenues from vehicle loans continue to account for nearly 80% of all interest and interest-type revenues.

In 2003, the Group's balance sheet total, pre-tax profit and after-tax profit were HUF 65,483 million (in 2002: HUF 60,904 million), HUF 2,646 million (in 2002: HUF 2,375) and HUF 2,359 million (in 2002: HUF 1,816 million) respectively. Merkantil Bank will pay to OTP Bank dividend of HUF 1 billion from its 2003 profits.

Merkantil Bank's equity was HUF 10,092 million as at 31 December 2003, 15.2% up on the previous year's closing volume. Its capital adequacy ratio was 15.6% in 2003, compared to 16.4% in 2002.

Merkantil Bank's return on average assets (ROAA) was 3.69% (in 2002: 3.08%), and its return on average equity (ROAE) was 24.1% (in 2002: 23.1%).

Merkantil Car Ltd.

Trends in vehicle financing reflected a high demand for foreign currency loans in 2003. Accordingly, the bulk of the increase in the number of new contracts concluded in 2003 were recorded on the books of Merkantil Car. In 2003 Merkantil Car financed the purchase of a total of 30,568 vehicles. More than 97% of these loans were foreign currency-based.

In accordance with the decision of OTP Bank, the production tools leasing business of Merkantil Car finances the Bank's purchases of ATMs within the framework of an open-ended financial leasing agreement. The total value of contracts signed in this respect in 2003 was HUF 2,262.

As of year-end 2003, the Merkantil Car's balance sheet total was HUF 90.8 billion, which corresponds to an increase of 46% in the company's assets over the year. This increase clearly results from the increase in the size of the vehicle portfolio. Merkantil Car's equity was HUF 1.4 billion at year-end 2003.

[8] Q4 profits, since the Bank purchased DSK Group on 1 October 2003

By year-end, interest revenues had reached HUF 10.4 billion, while interest expenses amounted to HUF 2.4 billion. The Company's commission and fee expenses were HUF 3.2 billion, of which 94% were commissions to dealers. The Company's pre-tax profits were HUF 1,452 million (in 2002: HUF 629 million) while after-tax profits were HUF 706 million (in 2002: HUF 407 million), from which a total dividend of HUF 400 million will be paid to the owners.

OTP Building Society Ltd.

OTP Building Society Ltd. closed 2003 with a balance sheet total of HUF 52.6 billion and pre-tax profits of HUF 360 million (in 2002: HUF 1,604 million). Its return on average assets (ROAA) was 0.58% and its return on average equity (ROAE) was 11.1%. The deterioration in the results is primarily attributable to a HUF 1,244 million reduction in operating profit (an increase of HUF 1, 089 million in general administrative costs, a decrease of HUF 613 million in interest revenues and a decrease of HUF 461 million in commission and fee revenues, partly due to an increase in the amount of commissions paid to OTP Bank).

Exceeding its target, OTP Building Society concluded close to 98,000 contracts, in a combined value of HUF 117.4 billion. As the net result of contractual deposit taking and disbursements, the Society's deposit portfolio grew by 9.4% to HUF 46.6 billion, while – due to a lower-than-expected demand for credit resulting from the more attractive terms offered on state-subsidised loans – its loan portfolio increased by only HUF 683 million, to HUF 8.7 billion. In the course of the year the proportion of contracts concluded through OTP Bank's network of branch offices was over target (by 50% in terms of contractual volumes and 38% with respect to the number of contracts). OTP Bank obtained a HUF 422 million slice of total acquisition fees in Hungary.

OTP Building Society's share of the building society savings market, which has come to be dominated by two main players, was 45% in terms of the number of contracts, 42% in terms of their volume, and 44% in terms of its deposit portfolio.

The Society will pay to its owner, OTP Bank, a dividend of HUF 620 million to the debit of its profits and profit reserve.

OTP Mortgage Bank Ltd.

The regulatory environment underwent a number of changes in 2003, which had a significant impact on the mortgage lending market. The government decree on subsidised housing loans was amended on two occasions over the year, first on 16 June and then on 22 December, resulting in a severe tightening of the subsidy system. Changes were made to the maximum APR, the extent of the subsidy, the size of the loans, conditions for eligibility, etc.

Despite the stricter regulations, the volume of subsidised housing loans provided through OTP Bank's network increased dynamically, and by year-end 2003 receivables from customers exceeded HUF 604 billion (in 2002: HUF 187 billion). The Company's liabilities from mortgage bonds issued had increased by a similarly impressive HUF 422 billion, to HUF 599 billion. The Company's market share in terms of loans and mortgage bonds was 65%, which continues to secure it a leading position among the three mortgage lending institutions (OTP, FHB and HVB).

The dynamic growth in the loan portfolio also had a beneficial effect on the Company's profits. Pre-tax profits increased from HUF 651 million at year-end 2002 to HUF 8,548 million as at year-end 2003, while after-tax profit was HUF 7,063 million. The Company's balance sheet total was HUF 674.2 billion as at 31 December 2003, representing an increase of 216% over the previous year. In order to meet the prudential requirements for loan portfolios, OTP Mortgage Bank increased its capital on several occasions in the course of 2003, resulting in a total HUF 17 billion rise in its subscribed capital. The Company's equity reached HUF 24.7 billion.

The Company's return on average assets (ROAA) grew from 0.50% in 2002 to 1.59% in 2003, while its return on average equity (ROAE) from 12.3% to 46.7%.

DSK Bank EAD

The purchase of Bulgaria's DKS Bank Group in 2003 was an important step towards the successful implementation of OTP Bank's acquisition strategy. DSK Bank and its subsidiaries, including POK DSK-Rodina AD and Bulstrad DSK Life Insurance Company, came under the ownership of OTP Bank in early October 2003.

A transformation project aimed at restructuring DSK, improving its competitiveness and integrating it into the OTP Bank Group was launched as early as the summer of 2003. The project identified the most important tasks to be implemented following the acquisition.

In line with the objectives of the project, organisational restructuring was carried out in the interest of improving efficiency, an IT development programme was launched, the network of branch offices was streamlined and a number of new products (e.g. the MasterCard credit card, FX-based debit cards, long-term savings products and corporate customer terminals) were introduced in the various business areas. In conjunction with OTP Bank, marketing campaigns aimed at promoting new products and reinforcing the Bank's corporate image are being conducted on an ongoing basis, and on an unprecedented scale. On 1 February 2004, DSK Bank unveiled its new image, which reflects its status as a member of the OTP Bank Group.

At year-end 2003, DSK Group's balance sheet total was HUF 323.7 billion, and its after-tax profits amounted to HUF 5,931 million (its 2003 Q4 profits were HUF 1.2 billion). Based on its balance sheet total, the Bank's market share grew from 13.9% at year-end 2002 to 15.1%.

According to international accounting standards (IFRS) the consolidated total assets of DSK Group was BGN 2,386 million, after tax profits was BGN 59.8 million, its return on average assets (ROAA) was 2.07%, whereas its return on average equity (ROAE) was 16.3%, or 14.0% in real terms in 2003.

OTP Banka Slovensko, a. s.

OTP Banka Slovensko achieved impressive results in its first full financial year as a member of OTP Group. The Bank's performance shows the positive impact of the new initiatives, projects and programmes initiated by its parent bank, which have enabled it to grow its customer base – mainly in the retail division – as well as its share of the key markets.

The volume of its customer deposits grew from HUF 69.2 billion in 2002 to HUF 112.2 billion at year-end 2003. Within this, the volume of retail deposits rose to HUF 61.6 billion and corporate deposits to HUF 39.2 billion. The volume of municipality deposits increased sharply, reaching HUF 11.4 billion and accounting for 10.2% of total customer liabilities at year-end 2003.

The volume of the Slovakian Bank's customer placements increased by HUF 28.8 billion, or 34.8%, to reach HUF 111.6 billion. On this basis the Bank's market share was 4.4%. Within customer placements, both the retail and the corporate loan portfolio grew dynamically. The retail loan portfolio increased more than fourteen-fold, reaching a volume of HUF 13.4 billion at year-end 2003. The volume of corporate loans increased by 19.8%, reaching HUF 97.4 billion, while municipality loans increased by HUF 214 million to HUF 746 million.

In the course of 2003, the number of customers increased by over 43,000 to 147,000 persons, of which 131,000 were retail customers.

OBS issued over 86,500 bankcards in 2003, more than double the figure for the previous year. The number of ATMs operated by the Bank rose from 78 in 2002 to 90., The number of ATM transactions in 2003 was 1.4 million, with a transaction turnover of SKK 2,910 million, respectively 14.6% and 23.7% up on the previous year. The number of the Bank's POS terminals was 171 at year-end 2003, which is 21 more than the year before.

As of 31 December 2003, the Bank's balance sheet total was SKK 25,106 million, representing an increase of 29.5% year on year, and giving it a 2.5% share of the Slovakian market. Under the accounting standards applicable in Slovakia, the Company closed 2002 with a profit of SKK 12.7 million. Its ROAA grew from –3.00% to 0.06%, and its ROAE from –41.3% to 0.6% in 2003.

OTP-Garancia Insurance Ltd.

In 2003, OTP-Garancia Insurance Ltd. achieved premium revenue of HUF 61.1 billion, 13.3% up on the previous year's figure. Since the rate of this increase was matched by the rate of market growth, the Company's share total insurance premiums paid remained unchanged (10.9%), making it the fifth largest participant in the insurance market in 2003. Premium revenue from life and bank insurance rose by 7.4% to HUF 29.0 billion, increasing the Company's share of the life insurance market to 12.9%. Revenue from non-life insurance was HUF 32.1 billion, which is the result of an outstandingly high growth rate of 19.2%. As a result, the Company increased its share of the non-life insurance market from 9.2% to 9.6% in 2003, making it the third largest player both in the life and non-life markets.

In 2003, gross damages totalled HUF 27.1 billion. Together with the change in reserves, damage payments amounted to 56.6% of premium revenues in the non-life business, and 84.9% in the life business. Reserves increased by HUF 15.6 billion, or 23%, compared to the previous year, to reach HUF 84.2 billion as at 31 December 2003.

Compared to the previous year, by the end of 2003 the Company's balance sheet total had grown 23.2%, reaching HUF 99.1 billion, while equity capital increased from HUF 8.5 billion to HUF 10.7 billion. The balance sheet profits contributed to a HUF 2.2 billion increase in the Company's equity capital in the reporting year. The Company's pre-tax profit increased by 62.5% to HUF 2,605 million in 2003, while the return on average assets (ROAA) increased from 1.91% to 2.41% and return on average equity (ROAE) from 19.2% to 22.6%.

OTP Fund Management Ltd.

2003 was the worst year to date in the history of the investment funds, and the first in which the market had to sustain a portfolio loss. OTP Fund Management also suffered as a result of the unfavourable developments. Owing to withdrawals of capital in November and December, the total volume of managed assets was HUF 644 billion at year-end 2003, representing an increase of only 1.6% in the course of 2003.

The volume of assets managed in the investment funds decreased by 16.5%, or HUF 78.2 billion, while the market shrank by 8%. As a result, OTP Fund Management lost 3.4 percentage points of its market share in 2003. Thus, its market share at year-end 2003 was 47.6%. Its total annual fund management fee revenue exceeded target figures, at HUF 6,429 million, despite the adverse conditions.

In 2003 OTP Fund Management received a number of new commissions on the institutional asset management market, including contracts to provide services to OTP Health Fund, the Hungarian Business Development Fund, OTP Building Society Ltd. and the Gas Suppliers' Pension Fund. It also won an asset management tender organised by Hungarian Export Credit Insurance Ltd. (MEHIB), with work scheduled to begin in 2004. As a result, the number of institutional investors grew from 7 in 2002 to 12 at year-end 2003.

This has resulted in a shift in OTP Fund Management's revenue structure, towards institutional asset management, though investment fund management remains a major contributor to revenues. It should be noted that the Bank and OTP Fund Management have concluded an agreement regarding an increase in the fees to be paid to OTP Bank in 2004.

The Company's total revenue amounted to HUF 5,260 million in 2003. Non-interest expenses reached HUF 886 million.

Given the adverse nature of the macroeconomic environment, OTP Fund Management did not perform badly in 2003. Pre-tax profit was HUF 4,338 million, and after-tax profit was HUF 3,516 million, which represent year-on-year increases of 23.9% and 21.5% respectively.

OTP Fund Management's balance sheet total was HUF 11,744 million at year-end 2003, while its equity stood at HUF 5,378 million. The former represents an increase of 6.1%, and the latter a decrease of HUF 2 billion. The reason for the fall in equity was that, in addition to the entire profits for 2003, the Shareholders' Meeting decided to pay a further HUF 2 billion as dividend from the profit reserve.

In 2003, the Company's return on average assets (ROAA) was 30.8% (in 2002: 30.3%) and its return on average equity (ROAE) was 55.1% (in 2002: 39.2%).

In the course of 2003, OTP Fund Management paid a total of HUF 2,954 million to OTP Bank for its services, of which HUF 2,403 million consisted of distribution fees, HUF 509 million of custodian fees and HUF 42 million was performance based commission.

Hungarian International Finance Ltd.

At year-end 2003, London-based HIF Ltd.'s equity reached HUF 2.0 billion (GBP 5.5 million), and its pre-tax profits amounted to HUF 259 million (GBP 698,000), the latter representing an increase of 9.7%.

In 2003 HIF's geographic reach included 14 countries, with CEE markets continuing to constitute the core area of its business operations. Close to 80% of all asset and liability assumption deals and guarantees originated from this region. In addition to the above markets, the Middle East continued to be a priority, and the number of the deals concluded in South America (Brazil and a few other countries with stabilising economies) also increased.
OTP Bank's expansion in Slovakia and Bulgaria provided an excellent opportunity for the Company to include these countries in its geographical scope of operation. The Company plans to continue making the best possible use of the synergy opportunities arising from the local presence of the Bank group.

OTP Real Estate Ltd.

OTP Real Estate's pre-tax profit in 2003 was HUF 1,347 million, which represents rise of 25.2% over 2002. Return on average assets (ROAA) was 6.63%, while return on average equity (ROAE) was 20.5%. Both ratios increased compared to previous years.

The Company's net sales revenue was HUF 15,732 million. The largest share of the net sales revenue originated from real estate investments and sales (55.7%) and real estate appraisal activities (16.6%).

As of year-end 2002, the Company's balance sheet total was HUF 17.5 billion, of which the largest item on the asset side was the HUF 14.6 billion portfolio of current assets.

In 2003, OTP Real Estate underwent restructuring in order to comply with business policy targets, and established an Evaluation Directorate, which contributed to the Company's excellent performance. The Company further developed its ISO quality assurance system and initiated the introduction of an environment-centred management system. The Company received a further two professional awards in 2003, one for its Contribution to the Economy of Budapest, and the title of "Real Estate Investor of the Year, granted by the Hungarian Real Estate Association. The company's CEO János Szabó was awarded the title of "Real Estate Executive of the Year."

OTP Factoring Receivables Management Ltd.

During 2002, significant changes were made to the processes involved in the purchasing by OTP Factoring of receivables from OTP Bank, and their subsequent recovery. In 2003, the Company bought 43.5 thousand qualified receivables from the Bank, in a gross value of HUF 14.5 billion.

The gross value of the 15,000 receivables purchased from third parties, and that of 3,600 not-yet-overdue receivables from municipalities exceeded HUF 1.5 billion and HUF 1 billion respectively.

Due to the rapid purchase of cancelled loans and early commencement of their recovery, the Company's net income exceeded its target figures for 2003 by 43%.

By the end of 2003 the Company's balance sheet total had exceeded HUF 8 billion and pre-tax profits were more than HUF 1.3 billion, the latter representing a 1.5-increase over the previous year. The Company will pay its owners a dividend of HUF 900 million.

OTP Factoring Asset Management Ltd.

In 2003, the activities of OTP Factoring Asset Management continued to include the purchase (or repossession) and sale of real estate, as well the management of receivables. However, the company no longer performs the appraisal and the value estimation of assets pledged as loan collateral, a service that it had previously provided mainly for members of the OTP Group.

The Company achieved pre-tax profit HUF 64 million in 2003, and will pay to its owner, OTP Factoring Receivables Management Ltd., a dividend of HUF 600 million from its profit reserve and profits for 2003.

OTP Fund Services Ltd.

In 2003 OTP Fund Services retained its dominant market position in terms of the number of individual accounts and the value of the assets in the funds it managed. The total fund assets managed by the Company had grown by 37.2% to HUF 193.9 billion by year-end 2003, with the number of its members increasing 7.2% to 836,000. The Company closed the year with profit of HUF 225 million.

In 2003, OTP Fund Services focused on the further expansion of pension funds in order to improve efficiency.

In 2003 the assets of the OTP Voluntary Private Pension Fund grew 26.9%, from HUF 38.8 billion to HUF 49 billion, with the number of its members reaching 174,000, which represents a 7.4% increase compared to the previous year. At the end of 2003, the Company's market share in terms of membership reached 14.2%, while its market share in terms of assets was 11.2%. In 2003, the assets under the management of OTP Private Pension Fund increased extremely dynamically by 41.0%, reaching HUF 142.2 billion, while its membership grew from 606,000 to 646,000. At year-end 2003, the Company's market share was 28% in terms of membership, and 24.9% in terms of its managed assets. The assets of the Health Care Fund, which was merged with OTP Fund Services in 2003, was HUF 732 million, while its membership increased by 48.8% to more than 11,500.

Important changes happened in the Company during the year 2003: OTP Health Care Services was merged into the Company; and OTP Fund Service will continue its business operations as a joint stock company (Rt.) from 2004. The registry court registration is proceeding.

OTP Travel Ltd.

Events such as the war in Iraq and the SARS epidemic continued to have an adverse effect on the tourism industry in 2003, resulting in a downturn in almost every branch of the industry.

Despite the unfavourable environment, OTP Travel experienced a significant increase in the number of its customers, to almost 50,000 over the course of the year. As a result, OTP Travel's pre-tax profit for 2003 amounted to HUF 30.9 million, representing an increase of 42.8%, while its after-tax profit was HUF 27.0 million, which is approximately 1.5 times up on the previous year.

Air ticket sales were the worst affected by the Iraq war and the SARS epidemic. Nevertheless, the Company's turnover increased 7% to HUF 3.8 billion in 2003, despite stagnation in the industry at national level. In 2003, the Company's market share of this business was 6.9%, representing an increase of 0.2 percentage points relative to 2002.

OTP Travel steadily expanded its range of foreign destinations, thus strengthening its market position in 2003, and achieving revenues of HUF 2.3 billion from foreign travel. Based on data from the Licensing and Public Administration Office of the Ministry of the Economy, in 2003 OTP Travel was ranked fourth among travel agencies in Hungary that offer destinations abroad.

The Company's total turnover from services provided for visitors to Hungary, as well as domestic and other tourist industry-related services was HUF 612 million in 2003. Consequently, OTP Travel's overall turnover amounted to HUF 6.7 billion, representing an increase of 12.0% over the figure for 2002.

Key 2003 financial data of OTP Bank Ltd. [9]

	Non-consolidated			Consolidated		
	2002 Audited HUF million	2003 Audited HUF million	Change	2002 Audited HUF million	2003 Audited HUF million	Change
Interest income from interbank accounts	35,128	29,347	-16.5%	36,061	30,911	-14.3%
Interest income from retail accounts	51,898	48,961	-5.7%	65,331	93,200	42.7%
Interest income from corporate accounts	47,865	45,248	-5.5%	59,622	56,577	-5.1%
Interest income from municipal accounts	6,152	10,210	66.0%	6,218	10,269	65.1%
Interest income from securities	42,879	63,919	49.1%	48,775	79,966	63.9%
Interest income from the mandatory reserve	4,858	7,949	63.6%	4,980	8,164	63.9%
Total interest income	188,780	205,634	8.9%	220,987	279,087	26.3%
Interest expenses on interbank accounts	4,087	11,253	175.3%	7,061	12,838	81.8%
Interest expenses on retail accounts	65,656	54,799	-16.5%	69,612	59,855	-14.0%
Interest expenses on corporate accounts	9,168	14,522	58.4%	10,572	15,105	42.9%
Interest expenses on municipal accounts	5,476	5,716	4.4%	5,569	6,188	11.1%
Interest expenses on securities	714	414	-42.0%	3,796	7,291	92.1%
Interest expenses on subordinated loans	964	748	-22.4%	964	748	-22.4%
Total interest expense	86,065	87,452	1.6%	97,574	102,025	4.6%
Net interest income	**102,715**	**118,182**	**15.1%**	**123,413**	**177,062**	**43.5%**
Fees and commissions received	64,626	96,009	48.6%	63,575	81,810	28.7%
Fees and commissions paid	7,780	10,872	39.7%	12,937	19,715	52.4%
Net fees and commissions	56,846	85,137	49.8%	50,638	62,095	22.6%
Net gain from securities trading	-617	-938		561	-1,878	-434.8%
Net gain from foreign exchange trading	3,552	-1,402		4,342	-2,106	-148.5%
Loss from real estate sales	22	-129		590	1,382	134.2%
Insurance premium revenue				53,058	60,171	13.4%
Other non-interest income	3,740	2,912	-22.1%	17,048	12,688	-25.6%
Total non-interest income	**63,543**	**85,580**	**34.7%**	**126,237**	**132,352**	**4.8%**
Share of non-interest income within total income	*38.2%*	*42.0%*	*3.8%*	*50.6%*	*42.8%*	*-7.8%*
Total income	**166,258**	**203,762**	**22,6%**	**249,650**	**309,414**	**23.9%**
Personnel expenses	37,570	43,820	16,6%	50,501	61,530	21.8%
Depreciation	11,088	9,893	-10,8%	16,102	15,734	-2.3%
Insurance expenses				41,140	42,810	4.1%
Other non-interest expenses	46,899	56,521	20,5%	61,319	71,825	17.1%
Total non-interest expenses	**95,557**	**110,234**	**15,4%**	**169,062**	**191,899**	**13.5%**
Cost/Income ratio %	*57.5%*	*54.1%*	*-3.4%*	*67.7%*	*62.0%*	*-5.7%*
Operating income	**70,701**	**93,528**	**32,3%**	**80,588**	**117,515**	**45.8%**
Dividend income	332	7,691	2 216.6%	458	668	45.9%
Provisions/Value losses and lending losses	13,523	13,261	-1.9%	12,871	13,412	4.2%
Goodwill	572	-1,257	-319,8%		-2,020	
Profit before taxation	**58 082**	**86,701**	**49,3%**	**68,175**	**102,751**	**50.7%**
Tax liability	10 885	15,139	39,1%	13,599	19,956	46.7%
Corporate tax rate difference originating from consolidation				-409	-227	-44.5%
Tax rate	18,7%	17,5%	-1,2%	19,3%	19,2%	-0.1%
After-tax profit	**47 197**	**71,562**	**51,6%**	**54,985**	**83,022**	**51.0%**

[9] Data derived from the Bank's 2003 non-consolidated and consolidated financial statements prepared according to HAS and from the 2000 HAS audited financial statements in a breakdown that approximates international accounting standards.

PROPOSAL FOR THE DISTRIBUTION OF THE 2003 PROFITS OF OTP BANK LTD.

PROPOSAL FOR THE DISTRIBUTION OF THE 2003 PROFIT OF OTP BANK LTD. AND FOR DIVIDEND PAYMENT

	HUF million
PROFITS BEFORE TAX	86,701
TAX PAYMENT LIABILITY	15,139
PROFITS AFTER TAX	71,562
GENERAL PROVISIONS	7,156
USE OF ACCUMULATED RETAINED EARNINGS FOR DIVIDENDS OR PARTICIPATION	0
DIVIDEND	16,800
BALANCE SHEET PROFIT FOR THE FINANCIAL YEAR	47,606

The value of dividends for the ordinary shares HUF 60 each and HUF 600 for the voting preference share, i.e. 60% of the face value of the shares, which will be increased on the first day of the dividend payment by the volume of dividend concerning the Bank's own shares. Dividend payment will start on June 14, 2004 in pursuance of the procedure defined in the Company's By-Laws.

BALANCE SHEETS, INCOME STATEMENTS AND CASH FLOW STATEMENT OF OTP BANK LTD.

NON-CONSOLIDATED

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NATIONAL SAVINGS AND COMMERCIAL BANK LTD (OTP BANK)

ASSETS

in HUF million

non-consolidated	31 December 2002	Self revision	31 December 2003
BALANCE SHEET			
ASSETS:			
1. Cash in hand, balances with central banks	**346,963**	**-1**	**252,975**
2. Treasury bills	**401,855**		**402,543**
a) held for trade	111,072		135,011
b) held as financial fixed assets (for long term investment)	290,783		267,532
3. Loans and advances to credit institutions	**263,157**	**-1**	**165,209**
a) repayable on demand	5,317		4,700
b) other receivables from financial services	257,840	-1	160,509
ba) maturity not more than one year	243,385	-1	149,978
From this: – by affiliated undertaking	10,222		3,053
– by undertaking with which the credit institution is linked by virtue of participating	48,300		13,025
– by Hungarian National Bank	1,027		
– by clearing house			
bb) maturity more than one year	14,455		10,531
From this: – by affiliated undertaking	300		300
– by undertaking with which the credit institution is linked by virtue of participating			
– by Hungarian National Bank	434		
– by clearing house			
c) receivables from investment services			
From this: – by affiliated undertaking			
– by undertaking with which the credit institution is linked by virtue of participating			
– by clearing house			
4. Loans and advances to customers	**1,010,197**	**-75**	**1,089,158**
a) receivables from financial services	1,007,900	-75	1,088,064
aa) maturity not more than one year	376,659	-2	399,920
From this: – by affiliated undertaking	60,978		58,577
– by undertaking with which the credit institution is linked by virtue of participating			
ab) maturity more than one year	631,241	-73	688,144
From this: – by affiliated undertaking	21,826		55,690
– by undertaking with which the credit institution is linked by virtue of participating	474		283
b) receivables from investment services	2,297		1,094
From this: – by affiliated undertaking	843		
– by undertaking with which the credit institution is linked by virtue of participating			
ba) receivables from investment service activities on the on the stock exchange			
bb) receivables from over-the-counter investment service activities			
bc) receivables from clients for investment service activities	2,297		1,094
bd) receivables from clearing houses			
be) other receivables from investment service			
5. Debt securities including fixed-income securities	**153,188**		**533,136**
a) securities issued by local self-governing bodies and by other public bodi (not include the treasury bills issued by Hungarian state and securities issued by Hungarian National Bank)			1,300
aa) held for trade			600
ab) held as financial fixed assets (for long term investment)			700
b) securities issued by other bodies	153,188		531,836
ba) held for trade	1,322		124,406
From this: – by affiliated undertaking			119,194
– by undertaking with which the credit institution is linked by virtue of participating			
– own-debt securities (own issued and repurchased)			299
bb) held as financial fixed assets (for long term investment)	151,866		407,430
From this: – by affiliated undertaking	134,005		389,667
– by undertaking with which the credit institution is linked by virtue of participating			
6. Shares and other variable-yield securities	**5,682**		**7,628**
a) shares and participations for trade	92		90
From this: – by affiliated undertaking			
– by undertaking with which the credit institution is linked by virtue of participating			
b) other variable-yield securities	5,590		7,538
ba) held for trade			4
bb) held as financial fixed assets (for long term investment)	5,590		7,534

	31 December 2002	Self revision	31 December 2003
7. Sares and participating interest as financial fixed assets	**622**	**120**	**754**
a) shares and participating interest as financial fixed assets	622	120	754
From this: – shares and participating interest in credit institutions	1		1
b) revaluation surplus on shares and participating interests			
From this: – revaluation surplus on shares and on participating interests in credit institutions			
8. Shares and participating interest in affiliated undertakings	**42,908**		**100,199**
a) shares and participating interest in affiliated undertakings	42,908		100,199
From this: – shares and participating interest in credit institutions	13,580		72,833
b) revaluation surplus on shares and participating interests			
From this: – revaluation surplus on shares and on participating interests in credit institutions			
9. Intangible assets	**13,793**	**2**	**43,961**
a) intangible assets	13,793	2	43,961
b) revaluation surplus on intangible assets			
10. Tangible assets	**49,886**	**4**	**63,589**
a) tangible assets for financial and investment services	47,027	5	60,450
aa) land and buildings	29,115	13	40,247
ab) technical equipment, fittings and vehicles	11,026	-8	16,042
ac) investment	6,878		4,159
ad) advance payments on investment	8		2
b) tangible assets not for directly financial and investment services	2,859	-1	3,139
ba) land and buildings	2,651		2,751
bb) technical equipment, fittings and vehicles	143	-1	176
bc) investment	65		212
bd) advance payments on investment			
c) revaluation surplus on tangible assets			
11. Own shares	**16,883**		**14,328**
12. Other assets	**50,371**	**579**	**45,070**
a) stocks (inventories)	1,181	-7	995
b) other receivables (not from financial and investment securities)	49,190	586	44,075
From this: – by affiliated undertaking	26,058	1	33,443
– by undertaking with which the credit institution is linked by virtue of participating			
13. Prepayments and accrued income	**34,615**	**-608**	**40,056**
a) accrued income	33,916	-608	37,630
b) prepayments	699		2,426
c) deffered charges			
TOTAL ASSETS	**2,390,120**	**20**	**2,758,606**
From this:			
- CURRENT ASSETS (1+2/a+3/c+3/a+3/ba+4/aa+4/b+5/aa+5/ba+6/a+6/ba+11+12)	*1,154,361*	*575*	*1,128,176*
- FIXED ASSETS (2/b+3/bb+4/ab+5/ab+5/bb+6/bb+7+8+9+10)	*1,201,144*	*53*	*1,590,374*

Budapest, March 19, 2004

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NATIONAL SAVINGS AND COMMERCIAL BANK LTD (OTP BANK)

EQUITY AND LIABILITIES

in HUF million

non-consolidated	31 December 2002	Self revision	31 December 2003
1. Liabilities to credit instiutions	**28,220**		**91,080**
a) repayable on demand	1,701		5,430
b) liabilities from financial services with maturity dates or periods of notice	26,519		85,650
ba) not more than one year	17,137		24,738
From this: – by affiliated undertaking	73		20
– by undertaking with which the credit institution is linked by virtue of participating	2,800		
– by Hungarian National Bank	1,208		166
– by clearing house			
bb) more than one year	9,382		60,912
From this: – by affiliated undertaking			
– by undertaking with which the credit institution is linked by virtue of participating			
– by Hungarian National Bank	3,158		1,212
– by clearing house			
c) liabilities from investment services			
From this: – by affiliated undertaking			
– by undertaking with which the credit institution is linked by virtue of participating			
– by clearing house			
2. Liabilities to customers	**1,992,081**	**16**	**2,228,287**
a) saving deposits	353,303	1	345,772
aa) repayable on demand	44,013		46,846
ab) maturity not more than one year	309,230	1	298,874
ac) maturity more than one year	60		52
b) other liabilities from financial services	1,638,276	15	1,881,637
ba) repayable on demand	644,844	14	819,959
From this: – by affiliated undertaking	1,331		2,610
– by undertaking with which the credit institution is linked by virtue of participating	136		236
bb) maturity not more than one year	989,153	1	1,060,963
From this: – by affiliated undertaking	6,897		8,409
– by undertaking with which the credit institution is linked by virtue of participating			255
bc) maturity more than one year	4,279		715
From this: – by affiliated undertaking			
– by undertaking with which the credit institution is linked by virtue of participating			
c) liabilities from investment services	502		878
From this: – by affiliated undertaking			
– by undertaking with which the credit institution is linked by virtue of participating			
ca) liabilities from investment service activities on the on the stock exchange			
cb) liabilities from over-the-counter investment service activities			
cc) liabilities from clients for investment service activities	502		878
cd) liabilities from clearing houses			
ce) other liabilities from investment service			
3. Liabilities from issued debt securities	**62,689**		**58,130**
a) issued bond	2,015		2,101
aa) maturity not more than one year			
From this: – by affiliated undertaking			
– by undertaking with which the credit institution is linked by virtue of participating			
ab) maturity more than one year	2,015		2,101
From this: – by affiliated undertaking			1,000
– by undertaking with which the credit institution is linked by virtue of participating			
b) issued other debt securities	338		238
ba) maturity not more than one year	338		238
From this: – by affiliated undertaking			
– by undertaking with which the credit institution is linked by virtue of participating			
bb) maturity more than one year			
From this: – by affiliated undertaking			
– by undertaking with which the credit institution is linked by virtue of participating			

	31 December 2002	Self revision	31 December 2003
c) issued debt securities according to act on accounting, but the act on securities not qualifies that certificates as securities	60,336		55,791
ca) maturity not more than one year	56,185		18,444
From this: – by affiliated undertaking			
– by undertaking with which the credit institution is linked by virtue of participating			
cb) maturity more than one year	4,151		37,347
From this: – by affiliated undertaking			
– by undertaking with which the credit institution is linked by virtue of participating			
4. Other liabilities	**41,694**	**-297**	**49,879**
a) maturity not more than one year	41,694	-297	49,879
From this: – by affiliated undertaking	2,890	15	3,337
– by undertaking with which the credit institution is linked by virtue of participating	7		
b) maturity more than one year			
From this: – by affiliated undertaking			
– by undertaking with which the credit institution is linked by virtue of participatin			
5. Accruals and deferred income	**23,108**	**-341**	**27,268**
a) accrued liabilities	1,340	-74	338
b) accrued costs and expenses	18,525	-267	24,450
c) deferred income	3,243		2,480
6. Provisions	**20,974**	**-529**	**26,773**
a) provisions for pensions and similar obligtions	1,000		1,546
b) risk provision for off-balance sheet items (for pending and future labilities)	3,732		7,294
c) general risk provision	14,254		17,057
d) other provision	1,988	-529	876
7. Subordinated liabilities	**15,511**		**15,413**
a) subordinated loan capital	15,511		15,413
From this: – by affiliated undertaking			
– by undertaking with which the credit institution is linked by virtue of participation			
b) pencuniary contribution of members at credit institutions operating as credit cooperatives			
c) other subordinated liabilities			
From this: – by affiliated undertaking			
– by undertaking with which the credit institution is linked by virtue of participation			
8. Subcribed capital	**28,000**		**28,000**
From this: repurchased own shares at face value	1,543		1,324
9. Subcribed but unpaid capital (-)			
10. Capital reserves	**52**		**52**
a) premium (from share issue)			
b) other	52		52
11. General reserves	**34,169**		**41,325**
12. Retained earnings (accumulated profit reserve) (±)	**84,261**		**130,465**
13. Legal reserves	**16,883**		**14,328**
14. Revaluation reserve			
15. Profit or loss for the financial year according to the balance sheet (+/-)	**42,478**	**1,171**	**47,606**
TOTAL LIABILITIES	**2,390,120**	**20**	**2,758,606**
From this:			
- SHORT-TERM LIABILITIES	2,104,797	-281	2,326,249
(1/a+1/ba+1/c+2/aa+2/ab+2/ba+2/bb+2/c+3/aa+3/ba+3/ca +4/a)			
- LONG-TERM LIABILITIES	35,398		116,540
(1/bb+2/ac+2/bc+3/ab+3/bb+3/cb+4/b+7)			
- EQUITY (CAPITAL AND RESERVES) (8-9+10+11±12+13+14±15)	205,843	1,171	261,776

OFF-BALANCE SHEET COMMITMENTS	**787,613**		**776,970**
1. Contingent liabilities	551,870		503,429
2. Future liabilities	235,743		273,541
OFF-BALANCE SHEET ASSETS	**442,268**		**311,513**

Budapest, March 19, 2004

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NATIONAL SAVINGS AND COMMERCIAL BANK LTD (OTP BANK)

PROFIT AND LOSS ACCOUNT

in HUF million

	non-consolidated	31 December 2002	Self revision	31 December 2003
		c	d	e
1.	Interest received and interest-type income	188,780	-578	205,634
	a) interest received on securities with fixed-interest signifying a creditor relationship	42,879		63,919
	Including: - from related companies	1,709		27,920
	- from other participation companies			
	b) other interest received and interest-type income	145,901	-578	141,715
	Including: - from related companies	3,039		4,219
	- from other participation companies	725		816
2.	Interest paid and interest-type expenses	86,065	26	87,452
	Including: - to related companies	745		1,119
	- to other participation companies	180		168
	Interest difference (1-2)	**102,715**	**-604**	**118,182**
3.	Incomes from securities	332		7,691
	a) from trading securities and participations (dividend, profit participation)	186		
	b) from related companies (dividend, profit participation)	146		7,670
	c) from other participation companies (dividend, profit participation)			21
4.	Fees and Commission received	63,545	-17	94,680
	a) revenues from other financial services	57,872	41	87,446
	Including: - from related companies	6,919		27,200
	- from other participation companies	2		2
	b) revenues from investment services (except incomes from trading activities)	5,673	-58	7,234
	Including: - from related companies	2,891		3,909
	- from other participation companies			
5.	Fees and Commission paid	7,780	40	10,872
	a) expenses on other financial services	7,442	40	10,536
	Including: - to related companies	1,103	11	1,017
	- to other participation companies			
	b) expenses on investment services (except expenses from trading activities)	338		336
	Including: - to related companies	63		
	- to other participation companies			
6.	Profit or loss from financial transactions (6/a-6/b+6/c-6/d)	1,748	177	-5,194
	a) revenues from other financial services	34,592	-1	14,393
	Including: - from related companies	64		770
	- from other participation companies	1		66
	b) expenses on other financial services	31,304	1	19,315
	Including: - from related companies	3,294		-8,950
	- from other participation companies			1,695
	c) revenues from investment services (revenues from trading activities)	6,328	179	11,961
	Including: - from related companies	85		94
	- from other participation companies			
	- reversal of write-off of trading securities			
	d) expenses on investment services (expenses from trading activities)	7,868		12,233
	Including: - to related companies	125		165
	- to other participation companies			
	- write-off of trading securities			

				in HUF million
		31 December 2002	Self revision	31 December 2003
		c	d	e
7.	Other incomes from business	211,587	35	479,693
	a) incomes from non financial and investment services	7,681	30	8,389
	Including: - from related companies	2,053		2,047
	- from other participation companies	3		2
	b) other revenues	203,906	5	471,304
	Including: - from related companies	195,361	1	451,996
	- from other participation companies			
	-reversal of write-off of inventory	66		
8.	General administration expenses	67,824	-357	81,204
	a) personnel expenses	36,188	-265	43,820
	aa) wage costs	23,294	-212	25,455
	ab) other payments to personnel	3,405	8	7,346
	Including: - social security expenses	2,179		2,690
	- pension related expenses	1,889		1,992
	ac) contributions on wages and salaries	9,489	-61	11,019
	Including: - social security expenses	8,402	-52	9,735
	- pension related expenses	4,381	-37	5,352
	b) other administration expenses	31,636	-92	37,384
9.	Depreciation and amortization	11,088	-2	11,913
10.	Other expenses from business	231,335	-1,311	501,337
	a) expenses from non-financial and investment services	6,156	5	7,049
	Including: - to related companies	2,949	5	2,817
	- to other participation companies	24		
	b) other expenses	225,179	-1,316	494,288
	Including: - to related companies	73	7	52
	- to other participation companies			
	- write-off of inventory			49
11.	write-off of loans and provision for contingent and future liabilities	15,134		17,114
	a) write-off of loans	12,737		11,152
	b) provision for contingent and future liabilities	2,397		5,962
12.	Reversal of write-off of loans and credit for contingent and future liabilities	13,306		13,895
	a) reversal of write-off of loans	12,672		11,394
	b) credit for contingent and future liabilities	634		2,501
13.	write-off of securities for investing purposes, signifying a creditor relationship, equity investments in associated or other company	1,992		97
14.	Reversal of write-off of securities for investing purposes, signifying a creditor relationship, and equity investments in associated or other company	1,349		322

Budapest, March 19, 2004

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NATIONAL SAVINGS AND COMMERCIAL BANK LTD (OTP BANK)

PROFIT AND LOSS ACCOUNT

in HUF million

	non-consolidated	31 December 2002	Self revision	31 December 2003
		c	d	e
15.	**Result of ordinary business activities**	**59,429**	**1,221**	**86,732**
	Icluding: -RESULT OF FINANCIAL AND INVESTMENT SERVICES (1-2+3+4-5±6+7/b-8-9-10/b-11+12-13+14)	57,904	1,196	85,392
	- RESULT OF NON-FINANCIAL AND INVESTMENT SERVICES (7/a-10/a)	1,525	25	1,340
16.	Extraordinary revenues	39	123	1,735
17.	Extraordinary expenses	1,386	7	1,766
18.	Extraordinary profit or loss (16-17)	-1,347	116	-31
19.	**Profit or loss before tax (±15±18)**	**58,082**	**1,337**	**86,701**
20.	Tax liabilities	10,885	166	15,139
21.	**After-tax profit or loss (±19-20)**	**47,197**	**1,171**	**71,562**
22.	Formation and utilization of general reserves (±)	-4,719		-7,156
23.	Use of accumulated profit reserve for dividends and profit-sharings			
24.	Dividends and profit-sharings paid (approved)			16,800
	Including: - to related companies			
	- to other participation companies			
25.	**Balance-sheet profit or loss figure (±21±22+23-24)**	**42,478**	**1,171**	**47,606**

Budapest, March 19, 2004

Non-Consolidated Cash Flow Statement

in HUF million

	DESCRIPTION	2002	2003
1.	Interest income	188,780	205,634
2.	+ Revenues from other financial services (except for write back of diminuition of value on securities)	92,052	101,821
3.	+ Other revenues (except for utilization of provisions and re-entry of surplus provisions; losses on inventory; and write back of above planned provisions)	198,996	463,390
4.	+ Revenues from investment services (except for write back of diminuition of value on securities)	12,001	19,195
5.	+ Revenues from non-financial and investment services	7,681	8,389
6.	+ Dividend income	332	7,691
7.	+ Extraordinary Revenues	39	76
8.	- Interest expenses	-86,065	-87,452
9.	- Expenses on other financial services (except for write back of diminuition of value on securities)	-38,746	-29,261
10.	- Other expenses (except for the formation of provisions ; losses on inventory; and write back of above planned provisions)	-216,084	-481,516
11.	- Expenses on investment services (except for write back of diminuition of value on securities)	-8,206	-12,569
12.	- Expenses on non-financial and investment services	-6,156	-7,049
13.	- General administration expenses	-78,912	-93,117
14.	- Extraordinary expenses (not including the Amount of corporate tax liabilities in the subject year)	-1,386	-234
15.	- Corporate tax liabilities in the subject year	-10,885	-15,139
16.	- Dividends paid	-7,109	-9
17.	**OPERATING CASH-FLOW**	**46,332**	**79,850**

	DESCRIPTION	2002	2003
18.	± Change in stock of liabilities (if increase +, if decrease -)	215,446	286,724
19.	± Change in stock of receivables (if increase -, if decrease +)	-208,091	24,578
20.	± Change in stock of inventories (if increase -, if decrease +)	1,009	130
21.	± Change in stock of securities reported under current assets (if increase -, if decrease +)	30,398	-37,434
22.	± Change in stock of securities reported as investment assets (if increase -, if decrease +)	-98,734	-399,769
23.	± Change in stock of investments (including advances) (if increase -, if decrease +)	-4,009	2,578
24.	± Change in stock of intangible assets (if increase -, if decrease +)	-2,085	-32,064
25.	± Change in the value of tangible assets (except for investments and advances on investments) (if increase -, if decrease +)	-3,656	-16,395
26.	± Change in stock of deferred expenses and accrued income (if increase -, if decrease +)	-3,113	-6,049
27.	± Change in stock of accrued expenses and deferred income (if increase +, if decrease -)	873	4,501
28.	+ Issue of shares at Sales price	0	0
29.	+ Liquid assets received definitively on the basis of legal regulation	0	0
30.	- Liquid assets transferred definitively on the basis of legal regulation	0	0
31.	- Nominal value of shares or share notes withdrawn	0	0
32	**NET CASH-FLOW**	**-25,630**	**-93,350**
	of which:		
33	- change in stock of cash on hand (cash in forints and foreign currency, checks)	-6,140	14,961
34	- change in stock of account cash (NBH forint and foreign exchange clearing and deposit accounts with a maturity of less than one year, as well as current deposit accounts kept in forints with another financial institution on the basis of a separate legal	-19,490	-108,949

BALANCE SHEETS, INCOME STATEMENTS AND CASH FLOW STATEMENT OF OTP BANK LTD.

CONSOLIDATED

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NATIONAL SAVINGS AND COMMERCIAL BANK LTD (OTP BANK)

ASSETS

consolidated

in HUF million

BALANCE SHEET	31 December 2002	Self revision	31 December 2003
ASSETS:			
1. Cash in hand, balances with central banks	**353,980**	**-1**	**276,501**
2. Treasury bills	**531,896**		**630,642**
a) held for trade	177,986		246,870
b) held as financial fixed assets (for long term investment)	353,910		383,772
3. Loans and advances to credit institutions	**281,400**	**-1**	**252,314**
a) repayable on demand	5,319		9,915
b) other receivables from financial services	276,081	-1	242,399
ba) maturity not more than one year	261,925	-1	232,088
From this: – by affiliated undertaking	28		1
– by undertaking with which the credit institution is linked by virtue of participating	48,300		13,025
– by Hungarian National Bank	12,847		13,070
bb) maturity more than one year	14,156		10,311
From this: – by affiliated undertaking			
– by undertaking with which the credit institution is linked by virtue of participating			
– by Hungarian National Bank	434		
c) receivables from investment services			
From this: – by affiliated undertaking			
– by undertaking with which the credit institution is linked by virtue of participating			
4. Loans and advances to customers	**1,322,587**	**-75**	**2,025,694**
a) receivables from financial services	1,320,264	-75	2,024,574
aa) maturity not more than one year	377,148	-2	505,539
From this: – by affiliated undertaking	1,520		836
– by undertaking with which the credit institution is linked by virtue of participating			40
ab) maturity more than one year	943,116	-73	1,519,035
From this: – by affiliated undertaking	14,121		20,805
– by undertaking with which the credit institution is linked by virtue of participating	474		284
b) receivables from investment services	2,323		1,120
From this: – by affiliated undertaking	843		-1
– by undertaking with which the credit institution is linked by virtue of participating			
ba) receivables from investment service activities on the on the stock exchange			
bb) receivables from over-the-counter investment service activities			
bc) receivables from clients for investment service activities	2,323		1,120
bd) receivables from clearing houses			
be) other receivables from investment service			
5. Debt securities including fixed-income securities	**21,108**		**32,590**
a) securities issued by local self-governing bodies and by other public bodi (not include the treasury bills issued by Hungarian state and securities issued by Hungarian National Bank)			1,559
aa) held for trade			600
ab) held as financial fixed assets (for long term investment)			959
b) securities issued by other bodies	21,108		31,031
ba) held for trade	1,368		7,362
From this: – by affiliated undertaking			
– by undertaking with which the credit institution is linked by virtue of participating			
– own-debt securities (own issued and repurchased)			299
bb) held as financial fixed assets (for long term investment)	19,740		23,669
From this: – by affiliated undertaking	182		62
– by undertaking with which the credit institution is linked by virtue of participating			
6. Shares and other variable-yield securities	**11,578**		**12,762**
a) shares and participations for trade	101		94
From this: – by affiliated undertaking			
– by undertaking with which the credit institution is linked by virtue of participating	1		1
b) other variable-yield securities	11,477		12,668
ba) held for trade	5,387		4,502
bb) held as financial fixed assets (for long term investment)	6,090		8,166

	31 December 2002	Self revision	31 December 2003
7. Sares and participating interest as financial fixed assets	**5,681**	**120**	**6,396**
a) shares and participating interest as financial fixed assets	5,681	120	6,396
From this: – shares and participating interest in credit institutions	1		345
b) revaluation surplus on shares and participating interests			
From this: – revaluation surplus on shares and on participating interests in credit institutions			
8. Shares and participating interest in affiliated undertakings	**5,260**		**43,663**
a) shares and participating interest in affiliated undertakings	5,194		4,926
From this: – shares and participating interest in credit institutions			
b) revaluation surplus on shares and participating interests			
From this: – revaluation surplus on shares and on participating interests in credit institutions			
c) capital consolidation difference	66		38,737
- from subsidiaries and joint managed companies	66		38,737
- from affiliated companies			
9. Intangible assets	**16,248**	**2**	**9,569**
a) intangible assets	16,248	2	9,569
b) revaluation surplus on intangible assets			
10. Tangible assets	**74,861**	**3**	**108,698**
a) tangible assets for financial and investment services	61,141	5	93,544
aa) land and buildings	42,154	13	67,897
ab) technical equipment, fittings and vehicles	11,990	-8	19,719
ac) investment	6,986		5,910
ad) advance payments on investment	11		18
b) tangible assets not for directly financial and investment services	13,720	-2	15,037
ba) land and buildings	6,580	-1	8,880
bb) technical equipment, fittings and vehicles	6,906	-1	5,680
bc) investment	192		476
bd) advance payments on investment	42		1
c) revaluation surplus on tangible assets			117
11. Own shares	**27,800**		**25,420**
12. Other assets	**42,474**	**579**	**39,241**
a) stocks (inventories)	11,340	-7	12,763
b) other receivables (not from financial and investment securities)	31,134	586	26,478
From this: – by affiliated undertaking	715	1	1,100
– by undertaking with which the credit institution is linked by virtue of participating	15		2
b.1.) receivables of consolidated financial and investment service companies	26,484	586	20,884
b.2.) receivables of consolidated insurance companies	2,617		2,367
b.3.) receivables of consolidated other companies	2,033		3,227
c) receivables from income tax due to consolidation (calculates)			
13. Prepayments and accrued income	**39,209**	**-608**	**39,173**
a) accrued income	36,595	-608	32,965
b) prepayments	2,614		6,208
c) deffered charges			
TOTAL ASSETS	***2,734,082***	***19***	***3,502,663***
From this:			
- CURRENT ASSETS (1+2/a+3/c+3/a+3/ba+4/aa+4/b+5/aa+5/ba+6/a+6/ba+11+12)	*1,255,811*	*575*	*1,349,252*
- FIXED ASSETS (2/b+3/bb+4/ab+5/ab+5/bb+6/bb+7+8+9+10)	*1,439,062*	*52*	*2,114,238*

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NATIONAL SAVINGS AND COMMERCIAL BANK LTD (OTP BANK)

EQUITY AND LIABILITIES

consolidated

in HUF million

	31 December 2002	Self revision	31 December 2003
1. Liabilities to credit instiutions	**60,832**		**126,353**
a) repayable on demand	1,610		2,829
b) liabilities from financial services with maturity dates or periods of notice	59,222		123,524
ba) not more than one year	37,307		54,896
From this: – by affiliated undertaking	1		
– by undertaking with which the credit institution is linked by virtue of participating	2,800		
– by Hungarian National Bank	1,208		166
bb) more than one year	21,915		68,628
From this: – by affiliated undertaking			
– by undertaking with which the credit institution is linked by virtue of participating			
– by Hungarian National Bank	3,158		1,212
c) liabilities from investment services			
From this: – by affiliated undertaking			
– by undertaking with which the credit institution is linked by virtue of participating			
2. Liabilities to customers	**2,140,397**	**16**	**2,697,843**
a) saving deposits	358,926	1	442,155
aa) repayable on demand	45,301		137,023
ab) maturity not more than one year	313,327	1	304,890
ac) maturity more than one year	298		242
b) other liabilities from financial services	1,780,969	15	2,254,810
ba) repayable on demand	663,124	14	894,949
From this: – by affiliated undertaking	92		2,371
– by undertaking with which the credit institution is linked by virtue of participating	136		288
bb) maturity not more than one year	1,060,141	1	1,298,772
From this: – by affiliated undertaking	443		2,130
– by undertaking with which the credit institution is linked by virtue of participating			433
bc) maturity more than one year	57,704		61,089
From this: – by affiliated undertaking			
– by undertaking with which the credit institution is linked by virtue of participating			
c) liabilities from investment services	502		878
From this: – by affiliated undertaking			
– by undertaking with which the credit institution is linked by virtue of participating			
ca) liabilities from investment service activities on the on the stock exchange			
cb) liabilities from over-the-counter investment service activities			
cc) liabilities from clients for investment service activities	502		878
cd) liabilities from clearing houses			
ce) other liabilities from investment service			
3. Liabilities from issued debt securities	**102,689**		**136,661**
a) issued bond	2,015		1,104
aa) maturity not more than one year			
From this: – by affiliated undertaking			
– by undertaking with which the credit institution is linked by virtue of participating			
ab) maturity more than one year	2,015		1,104
From this: – by affiliated undertaking			3
– by undertaking with which the credit institution is linked by virtue of participating			
b) issued other debt securities	40,338		79,766
ba) maturity not more than one year	338		10,885
From this: – by affiliated undertaking			10,000
– by undertaking with which the credit institution is linked by virtue of participating			
bb) maturity more than one year	40,000		68,881
From this: – by affiliated undertaking			2,539
– by undertaking with which the credit institution is linked by virtue of participating			

	31 December 2002	Self revision	31 December 2003
c) issued debt securities according to act on accounting, but the act on securities not qualifies that certificates as securities	60,336		55,791
ca) maturity not more than one year	56,185		18,444
From this: – by affiliated undertaking			
– by undertaking with which the credit institution is linked by virtue of participating			
cb) maturity more than one year	4,151		37,347
From this: – by affiliated undertaking			
– by undertaking with which the credit institution is linked by virtue of participating			
4. Other liabilities	**48,988**	**-216**	**63,645**
a) maturity not more than one year	48,564	-216	60,942
From this: – by affiliated undertaking	778	15	237
– by undertaking with which the credit institution is linked by virtue of participating	8		
a.1.) receivables of consolidated financial and investment service companies	41,800	-297	50,880
a.2.) receivables of consolidated insurance companies	2,701		3,320
a.3.) receivables of consolidated other companies	4,063	81	6,742
b) maturity more than one year	24		2,530
From this: – by affiliated undertaking			
– by undertaking with which the credit institution is linked by virtue of participatin			
b.1.) receivables of consolidated financial and investment service companies			2,530
b.2.) receivables of consolidated insurance companies			
b.3.) receivables of consolidated other companies	24		
c) calculated income tax difference due to consolidation	400		173
5. Accruals and deferred income	**27,227**	**-341**	**37,089**
a) accrued liabilities	2,560	-74	2,442
b) accrued costs and expenses	24,627	-267	34,607
c) deferred income	40		40
6. Provisions	**96,634**	**-529**	**116,232**
a) provisions for pensions and similar obligtions	1,000		1,546
b) risk provision for off-balance sheet items (for pending and future labilities)	4,346		5,492
c) general risk provision	15,294		20,738
d) other provision	75,994	-529	88,456
d.1.) receivables of consolidated financial and investment service companies	7,001	-529	3,481
d.2.) receivables of consolidated insurance companies	68,531		84,188
d.3.) receivables of consolidated other companies	462		787
7. Subordinated liabilities	**19,779**		**19,720**
a) subordinated loan capital	15,511		15,413
From this: – by affiliated undertaking			
– by undertaking with which the credit institution is linked by virtue of participation			
aa) capital consolidation difference	4,268		4,307
- from subsidiaries and joint management companies	4,268		4,307
b) pencuniary contribution of members at credit institutions operating as credit cooperatives			
c) other subordinated liabilities			
From this: – by affiliated undertaking			
– by undertaking with which the credit institution is linked by virtue of participation			
8. Subcribed capital	**28,000**		**28,000**
From this: repurchased own shares at face value	2,334		2,115
9. Subcribed but unpaid capital (-)			
10. Capital reserves	**52**		**52**
a) premium (from share issue)			
b) other	52		52
11. General reserves	**34,170**		**41,325**
12. Retained earnings (accumulated profit reserve) (±)	**86,232**		**132,733**
a) retained earnings	84,508		130,699
b) changes in equity of equity consolidated subsidiaries	1,724		2,034
13. Legal reserves	**16,883**		**14,328**
14. Revaluation reserve			
15. Profit or loss for the financial year according to the balance sheet (+/-)	**49,899**	**1,089**	**58,101**
16. Changes in equity of subsidiaries and joint managed companies (+/-)	**19,246**		**29,313**

Budapest, March 23, 2004

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NATIONAL SAVINGS AND COMMERCIAL BANK LTD (OTP BANK)

EQUITY AND LIABILITIES

consolidated

in HUF million

	31 December 2002	Self revision	31 December 2003
17. Changes due to consolidation (+/-)	**2,770**		**851**
- debt consolidation	4,687		6,646
- difference of intermediate results	-1,917		-5,795
18. Shares of other outside owners	**284**		**417**
TOTAL LIABILITIES	***2,734,082***	***19***	***3,502,663***
From this:			
- SHORT-TERM LIABILITIES	*2,226,799*	*-200*	*2,784,681*
(1/a+1/ba+1/c+2/aa+2/ab+2/ba+2/bb+2/c+3/aa+3/ba+3/ca +4/a)			
- LONG-TERM LIABILITIES	*145,886*		*259,541*
(1/bb+2/ac+2/bc+3/ab+3/bb+3/cb+4/b+7)			
- EQUITY (CAPITAL AND RESERVES) (8-9+10+11±12+13+14±15)	*237,536*	*1,089*	*305,120*

OFF-BALANCE SHEET COMMITMENTS	**881,708**		**781,830**
1. Contingent liabilities	641,127		505,365
2. Future liabilities	240,581		276,465
OFF-BALANCE SHEET ASSETS	**444,142**		**314,482**

Budapest, March 23, 2004

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NATIONAL SAVINGS AND COMMERCIAL BANK LTD (OTP BANK)
PROFIT AND LOSS ACCOUNT
consolidated

in HUF million

		31 December 2002	Self revision	31 December 2003
1.	Interest received and interest-type income	*220,987*	*-578*	*279,087*
	a) interest received on securities with fixed-interest signifying a creditor relationship	48,775		79,965
	Including: - from related companies			32
	- from other participation companies			
	b) other interest received and interest-type income	172,212	-578	199,122
	Including: - from related companies	976		1,560
	- from other participation companies	725		818
2.	Interest paid and interest-type expenses	*97,574*	*26*	*102,025*
	Including: - to related companies	243		350
	- to other participation companies	180		169
	Interest difference (1-2)	**123,413**	**-604**	**177,062**
3.	Incomes from securities	*458*		*668*
	a) from trading securities and participations (dividend, profit participation)	279		
	b) from related companies (dividend, profit participation)	177		522
	c) from other participation companies (dividend, profit participation)	2		146
4.	Fees and Commission received	*55,921*	*-17*	*73,825*
	a) revenues from other financial services	53,005	41	70,427
	Including: - from related companies	37		47
	- from other participation companies	2		3
	b) revenues from investment services (except incomes from trading activities)	2,916	-58	3,398
	Including: - from related companies	14		65
	- from other participation companies			
5.	Fees and Commission paid	*10,609*	*40*	*15,620*
	a) expenses on other financial services	10,275	40	15,279
	Including: - to related companies	445	11	688
	- to other participation companies	3		115
	b) expenses on investment services (except expenses from trading activities)	334		341
	Including: - to related companies	46		
	- to other participation companies			
6.	Profit or loss from financial transactions (6/a-6/b+6/c-6/d)	*3,289*	*177*	*-5,854*
	a) revenues from other financial services	34,226	-1	20,872
	Including: - from related companies	155		-1,139
	- from other participation companies	1		67
	b) expenses on other financial services	29,751	1	26,328
	Including: - from related companies	1,414		-3,712
	- from other participation companies	1		1,695
	c) revenues from investment services (revenues from trading activities)	6,802	179	11,920
	Including: - from related companies	153		45
	- from other participation companies			
	- reversal of write-off of trading securities			
	b) expenses on investment services (expenses from trading activities)	7,988		12,318
	Including: - to related companies	180		116
	- to other participation companies	10		43
	- write-off of trading securities			
7.	Other incomes from business	*112,271*	*35*	*124,496*
	a) incomes from non financial and investment services	94,770	30	99,505
	Including: - from related companies	722		851
	- from other participation companies	3		5
	a.1.) income of consolidated investment service providers	20,506	30	12,230
	a.2.) income of consolidated insurance companies	55,160		61,662
	a.3.) income of other consolidated companies	19,104		25,613

		31 December 2002	Self revision	31 December 2003
	b) other revenues	15,327	5	24,830
	Including: - from related companies	1,039	1	965
	- from other participation companies			
	-reversal of write-off of inventory	66		7
	b.1.) income of consolidated investment service providers	13,666	5	23,914
	b.2.) income of consolidated insurance companies	97		107
	b.3.) income of other consolidated companies	1,564		809
	ba) consolidation difference income due to debtor consolidation	10		
	bb) other income due to consolidation	2,164		161
8.	General administration expenses	*76,334*	*-357*	*94,632*
	a) personnel expenses	41,254	-265	51,707
	aa) wage costs	26,670	-212	30,849
	ab) other payments to personnel	4,220	8	8,156
	Including: - social security expenses	2,312		2,971
	- pension related expenses	2,018		2,183
	ac) contributions on wages and salaries	10,364	-61	12,702
	Including: - social security expenses	8,997	-52	10,763
	- pension related expenses	4,704	-37	5,986
	b) other administration expenses	35,080	-92	42,925
9.	Depreciation and amortization	*12,045*	*-2*	*11,613*
10.	Other expenses from business	*122,972*	*-1,264*	*140,745*
	a) expenses from non-financial and investment services	58,048	5	52,013
	Including: - to related companies	697	5	52
	- to other participation companies	24		
	a.1.) expense of consolidated investment service providers	18,353	5	9,803
	a.2.) expense of consolidated insurance companies	39,670		42,184
	a.3.) expense of other consolidated companies	25		26
	b) other expenses	37,408	-1,316	50,339
	Including: - to related companies	319	7	35
	- to other participation companies			
	- write-off of inventory			49
	b.1.) expense of consolidated investment service providers	34,785	-1,316	48,585
	b.2.) expense of consolidated insurance companies	422		541
	b.3.) expense of other consolidated companies	2,201		1,213
	ba) consolidation difference expinse due to debtor consolidation			11
	bb) other expense due to consolidation	60		2,378
	c) expense of consolidated investment service providers	27,456	47	36,004
	c.1.) expense of consolidated insurance companies	12,730		15,668
	c.2.) expense of other consolidated companies	14,726	47	20,336
11.	write-off of loans and provision for contingent and future liabilities	*22,483*		*31,417*
	a) write-off of loans	19,123		27,314
	b) provision for contingent and future liabilities	3,360		4,103
12.	Reversal of write-off of loans and credit for contingent and future liabilities	*19,042*		*27,012*
	a) reversal of write-off of loans	16,872		23,875
	b) credit for contingent and future liabilities	2,170		3,137
13.	write-off of securities for investing purposes, signifying a creditor relationship, equity investments in associated or other company	*320*		*183*
14.	Reversal of write-off of securities for investing purposes, signifying a creditor relationship, and equity investments in associated or other company	*60*		*349*
15.	**Result of ordinary business activities**	**69,691**	**1,174**	**103,348**
	Icluding: -RESULT OF FINANCIAL AND INVESTMENT SERVICES (1-2+3+4-5±6+7/b-8-9-10/b-11+12-13+14)	61,387	1,196	92,698
	- RESULT OF NON-FINANCIAL AND INVESTMENT SERVICES (7/a-10/a)	8,304	-22	10,650

Budapest, March 23, 2004

Consolidated Cash Flow Statement

in HUF million

	DESCRIPTION	2002	2003
1.	Interest income	220,987	279,087
2.	+ Revenues from other financial services (except for write back of diminuition of value on securities)	86,772	91,465
3.	+ Other revenues (except for utilization of provisions and re-entry of surplus provisions; losses on inventory; and write back of above planned provisions)	10,815	13,026
4.	+ Revenues from investment services (except for write back of diminuition of value on securities)	9,701	15,318
5.	+ Revenues from non-financial and investment services	96,407	100,765
6.	+ Dividend income	458	668
7.	+ Extraordinary Revenues	53	32
8.	- Interest expenses	-97,574	-102,025
9.	- Expenses on other financial services (except for write back of diminuition of value on securities)	-40,099	-41,085
10.	- Other expenses (except for the formation of provisions ; losses on inventory; and write back of above planned provisions)	-22,716	-33,583
11.	- Expenses on investment services (except for write back of diminuition of value on securities)	-8,319	-12,659
12.	- Expenses on non-financial and investment services	-71,318	-74,548
13.	- General administration expenses	-88,379	-106,245
14.	- Extraordinary expenses (not including the Amount of corporate tax liabilities in the subject year)	-1,569	-461
15.	- Corporate tax liabilities in the subject year	-13,190	-19,729
16.	- Dividends paid	-7,109	-1,123
17.	**OPERATING CASH-FLOW**	**74,920**	**108,903**

	DESCRIPTION	2002	2003
18.	± Change in stock of liabilities (if increase +, if decrease -)	342,531	658,897
19.	± Change in stock of receivables (if increase -, if decrease +)	-456,272	-674,684
20.	± Change in stock of inventories (if increase -, if decrease +)	-334	-1,432
21.	± Change in stock of securities reported under current assets (if increase -, if decrease +)	7,044	35,393
22.	± Change in stock of securities reported as investment assets (if increase -, if decrease +)	32,373	-184,134
23.	± Change in stock of investments (including advances) (if increase -, if decrease +)	-4,157	826
24.	± Change in stock of intangible assets (if increase -, if decrease +)	-2,136	4,784
25.	± Change in the value of tangible assets (except for investments and advances on investments) (if increase -, if decrease +)	-14,640	-35,796
26.	± Change in stock of deferred expenses and accrued income (if increase -, if decrease +)	-3,823	-571
27.	± Change in stock of accrued expenses and deferred income (if increase +, if decrease -)	-636	10,203
28.	+ Issue of shares at Sales price	0	0
29.	+ Liquid assets received definitively on the basis of legal regulation	0	0
30.	- Liquid assets transferred definitively on the basis of legal regulation	0	0
31.	- Nominal value of shares or share notes withdrawn	0	0
32.	± Share of outside members (other shareholders) (if increase +, if decrease -)	284	133
33.	**NET CASH-FLOW**	**-24,846**	**-77,478**
	of which:		
34.	- change in stock of cash on hand (cash in forints and foreign currency, checks)	-3,760	31,887
35.	- change in stock of account cash (HNB forint and foreign exchange clearing and deposit accounts with a maturity of less than one year, as well as current deposit accounts kept in forints with another financial institution on the basis of a separate legal	-21,086	-109,365

REPORT OF THE SUPERVISORY BOARD ABOUT THE 2003 BUSINESS AND FINANCIAL REPORTS AND THE PROFIT DISTRIBUTION PROPOSAL

REPORT OF THE SUPERVISORY BOARD CONCERNING ITS ACTIVITY IN 2003 AND THE 2003 FINANCIAL REPORTS (NON CONSOLIDATED AND CONSOLIDATED) PREPARED ACCORDING TO HAR AND ON THE PROPOSAL OF THE BOARD OF DIRECTORS REGARDING THE DISTRIBUTION OF AFTER TAX PROFITS.

The Supervisory Board of OTP Bank Ltd. in agreement with those included in the auditors reports, proposes to the AGM to accept the Report of the Board of Directors on the Performance of the Bank in 2003 and the financial reports prepared under HAR with the following main figures:

Unconsolidated balance sheet total of HUF 2,758,606 million,

Consolidated balance sheet total of HUF 3,502,663 million, and

to accept the proposal concerning **the distribution of the HUF 71,562 million after-tax profits.**

The Supervisory Board agrees with the Board of Directors' proposal to pay dividends for the ordinary shares HUF 60 each and HUF 600 for the voting preference share, i.e. 60% of the face value of the shares, which will be increased on the first day of the dividend payment by the volume of dividend concerning the Bank's own shares.

REPORT OF THE AUDITOR ON THE RESULTS OF THE AUDIT OF THE 2003 HAR FINANCIAL REPORTS

NON-CONSOLIDATED

FREE TRANSLATION OF THE HUNGARIAN ORIGINAL

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INDEPENDENT AUDITORS' REPORT

To the Shareholders of National Savings and Commercial Bank Ltd.

We have audited the accompanying balance sheet of National Savings and Commercial Bank Ltd. (the "Bank") as at December 31, 2003, which shows total assets of HUF 2,758,606 million and a retained profit for the year of HUF 47,606 million, the related profit and loss account for the year then ended and the supplement (hereinafter the balance sheet, the profit and loss account and the supplement, collectively "the financial statements") included in the Bank's 2003 Annual Report. The Annual Report and the Business Report is the responsibility of the Bank's management. Our responsibility is to express an opinion on the financial statements based on our audit. In addition, it is our responsibility to assess whether the accounting information in the Business Report is consistent with that contained in the financial statements.

With reference to our auditors' report relating to the 2002 financial statements issued on March 17, 2003, we issued an unqualified auditors' report based on our audit of the previous year.

We conducted our audit in accordance with Hungarian National Standards on Auditing and applicable laws and regulations in Hungary. 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 statements' presentation. Our work with respect to the Business Report was limited to checking it within the aforementioned scope, and did not include a review of any information other than that drawn from the audited accounting records of the Bank. We believe that our audit provides a reasonable basis for our opinion.

These financial statements have been prepared for the consideration of shareholders at the forthcoming General Meeting and do not reflect the effects, if any, of resolutions that might be adopted at that meeting. The Bank shows a dividend of HUF 16,800 million in its financial statements, but the final amount of the dividend will approved by the forthcoming General Meeting.

Clause
We have audited National Savings and Commercial Bank Ltd.'s financial statements, including its sections and items and the supporting accounting records and certificates thereof in accordance with the applicable National Standards on Auditing and have obtained reasonable assurance that - except for the effects on the financial statements of the resolutions to be adopted at the forthcoming General Meeting, if any - the financial statements have been prepared pursuant to the Accounting Act and generally accepted accounting principles.

In our opinion, the financial statements give a true and fair view of the financial position of National Savings and Commercial Bank Ltd. as at December 31, 2003 and of the results of its operations for the year then ended. The Business Report corresponds to the figures included in the financial statements.

Budapest, March 19, 2004

Hungarian version has been signed

....	....
Alastair Teare Deloitte Auditing and Consulting Ltd. 000083	Köbli Gyula registered auditor 005394

REPORT OF THE AUDITOR ON THE RESULTS OF THE AUDIT OF THE 2003 HAR FINANCIAL REPORTS

CONSOLIDATED

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INDEPENDENT AUDITORS' REPORT

To the Shareholders of National Savings and Commercial Bank Ltd.

We have audited the accompanying consolidated balance sheet of National Savings and Commercial Bank Ltd. and its subsidiaries (the "Bank") as at December 31, 2003, which shows total assets of HUF 3,502,663 million and a consolidated retained profit for the year of HUF 58,101 million , the consolidated related profit and loss account for the year then ended and the consolidated supplement (hereinafter the balance sheet, the profit and loss account and the supplement, collectively "the consolidated financial statements") included in the Bank's 2003 consolidated Annual Report. The consolidated Annual Report and the consolidated Business Report, is the responsibility of the Bank's management. Our responsibility is to express an opinion on the consolidated financial statements based on our audit. In addition, it is our responsibility to assess whether the accounting information in the consolidated Business Report is consistent with that contained in the consolidated financial statements.

With reference to our auditors' report relating to the 2002 consolidated financial statements issued on March 24, 2003, we issued an unqualified auditors' report based on our audit of the previous year.

We conducted our audit in accordance with Hungarian National Standards on Auditing and applicable laws and regulations in Hungary. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidation financial statements' presentation. Our work with respect to the consolidated Business Report was limited to checking it within the aforementioned scope, and did not include a review of any information other than that drawn from the audited accounting records of the Bank. We believe that our audit provides a reasonable basis for our opinion.

These consolidation financial statements have been prepared for the consideration of shareholders at the forthcoming General Meeting and do not reflect the effects, if any, of resolutions that might be adopted at that meeting. The Bank shows a dividend of HUF 16,793 million in its consolidated financial statements, but the final amount of the dividend will approved by the forthcoming General Meeting.

Clause
We have audited National Savings and Commercial Bank Ltd.'s consolidated financial statements, including its sections and items and the supporting accounting records and certificates thereof in accordance with the applicable National Standards on Auditing and have obtained reasonable assurance that - except for the effects on the consolidated financial statements of the resolutions to be adopted at the forthcoming General Meeting, if any - the consolidated financial statements have been prepared pursuant to the Accounting Act and generally accepted accounting principles.

In our opinion, the consolidated financial statements give a true and fair view of the financial position of National Savings and Commercial Bank Ltd. as at December 31, 2003 and of the results of its operations for the year then ended. The consolidated Business Report corresponds to the figures included in the consolidated financial statements.

Budapest, March 23, 2004

Hungarian version has been signed

....	....
Alastair Teare	Köbli Gyula
Deloitte	registered auditor
Auditing and Consulting Ltd.	005394
000083	

REPORT OF THE BOARD OF DIRECTORS CONCERNING THE BANK'S BUSINESS POLICY FOR 2004

REPORT OF THE BOARD OF DIRECTORS CONCERNING THE BANK'S BUSINESS POLICY FOR 2004

1. SUMMARY

In 2004 we expect the Bank's operational environment to be characterised on the macroeconomic level by a slight increase in economic growth and by accelerating inflation, and with respect to business trends, by a continuation of the processes discernible in the second half of 2003 as well as by changes related to the country's accession to the EU.
With respect to the bank sector, a strengthening of market concentration can be expected. Following EU accession, we can expect to see cross-border services appearing, while as regards the domestic market participants, a resumption of price competition – also characteristic of 2003 – can be expected, primarily in the area of funds collection.

In line with its adjusted medium-term strategy, the main business policy objectives of OTP Bank Ltd. in 2004 are as follows:

Financial objectives
In order for the Bank to achieve its main strategic objectives, the key performance ratios for 2004 will need to be as follows:
- Real average return on equity (ROAE): 24.9% (before dividends received: 21.1%)
- Return on average assets (ROAA) 3.14% (before dividends received: 2.77%)
- Share of non-interest income within total income: 44.2%
- Expense/income ratio: 49.2% (before DSK goodwill amortisation and received dividends).

Market position
The Bank's objective with regard to its market position, as defined in its business policies, is to maintain its market share in terms of balance sheet total, which will require a growth in total assets exceeding the rate of inflation and close to that of the Hungarian banking sector as a whole. Assuming the Bank meets what are realistic targets for expansion on the liabilities side, the objective is to achieve, based on the balance sheet total, a market share of 20.9% or higher in 2004 (2003 actual: 20.3%) and to achieve a higher rate of growth in its consolidated balance sheet total than in its non-consolidated balance sheet total.

In order for the Bank to achieve the market share target for 31 December 2004, its balance sheet total must grow by 7.9 percentage points faster than inflation, equivalent to a nominal growth of HUF 404 billion. The balance sheet total targeted by the Bank for year-end 2004 is HUF 3,162 billion. This growth will again be assured primarily by an increase in customer funding in 2004, but also from an additional syndicated loan, which the Bank intends to raise in order to ensure an appropriate level of foreign currency liquidity.

Customer-related objectives
In the present market environment – in which market penetration by the banks is relatively high, the number of customers that can be acquired is limited, and the cost of further customer acquisition is also high – OTP Bank will be able to attain its market-position and income targets primarily through increasing sales to its existing customer base and retaining its more "valuable" clientele.

For this reason, the Bank must pay more attention than before to segmenting its existing customer base, improving the quality of its service, developing segment-specific value proposals, retaining "valuable" customers, selling additional products to them, and acquiring new customers from the preferred segments.

There are two major areas that offer potential in terms of increasing sales and product usage:

- Improvement of the transaction “engine”, as the Bank’s current client base offers a significant potential for increasing the number of transactions and the related fee revenue.
- Segment-specific sales of asset and liability products must be increased, that is, tailor-made offers must be made for groups of customers who have similar characteristics but who as yet do not use a particular product. When developing the product structure, more emphasis must be placed on ensuring that the new products are suited to the needs of the respective segments.

An intensive and continuous improvement must be achieved in relation to product-usage ratios, which will in turn result in a restructuring of the various customer segments in a manner that is favourable for the Bank.

Objectives related to operational processes

For the Bank’s strategic objectives to be achieved, it is essential that operational processes be continuously monitored and rationalised in order to increase the Bank’s efficiency and flexibility, and to steadily improve the quality and speed of information supply, as well as the level of customer service. For this reason, the related development projects (TA, BOR Phase II, consolidation of the credit systems, etc.) must be continued in 2004.

The most important tasks related to the development of the sales network are as follows:

- Within the context of the branch-network development project, optimisation of the current branch network, introduction of new types of branches, provision of the technical support required for sales and distribution activities, and the reformulation and enhancement of the incentives system
- Altering the record-keeping systems related to customers using electronic channels; changeover from product-based records to customer-based records
- Expansion of the range of services that can be accessed through electronic channels, introducing convenience-enhancing functions.

In the coming years, the greatest challenge facing risk management will be to prepare for Basle II, the requirements of which are expected to become effective in 2006, and to adapt the new regulations to the Bank. From the start of 2004, preparation work for Basle II must proceed according to a specified set of rules and a pre-defined schedule, so that by the time the new provisions take effect the Bank will be able to fully meet the requirements. A high-priority task for 2004 is to elaborate the various operational and investment risk-management processes, and to create the organisational and infrastructure-related conditions for them.

In the wake of the Bank’s acquisitions, from 2004 the further development of Group-level country and counterparty limit systems will be of exceptional importance.

Training and development-related objectives

In the HR area in 2004, the focus will be on revising human resource management systems in line with the Bank’s strategic objectives, and in particular, on revising the pay and bonus system – a process that was begun in 2003. The standardised system of job positions, formulated in 2003 and embracing the entire Bank – including all levels and activities – has enabled the Bank to determine the relative internal value to the company of the various jobs, and to rank them accordingly, which in turn provides a basis – through the job categorisation system and various salary analyses – for reviewing the remuneration system, developing a complex system of incentives, and transforming the training system in accordance with the (primarily professional) competencies set out in the job descriptions.

Besides transforming the education and training systems, there is a need for the continuous professional training of administrators and for the development of a range of human competencies, with the emphasis on the training of staff that possess sales skills and that display an aptitude for advisory work. On the managerial level, in order to reinforce a sales-oriented mindset and approach, training courses are required that promote the effective application of methods and tools of organisational and capacity management and of operational control.

2. EXPECTED TRENDS IN THE EXTERNAL ENVIRONMENT

2.1. EXPECTED MACROECONOMIC TRENDS IN 2004

According to our forecasts, the structure of economic growth will change in 2004. As a result of a fall in the rate of growth in domestic consumption and an increase in external demand, economic growth will be more decisively driven by exports than is currently the case, and growth will depend much less on domestic demand. The change in the structure of economic growth is not likely to result in a substantial increase in the rate of economic growth however, and we expect to see a growth rate similar to or slightly higher than the 3% growth of 2003. The drop in the growth rate of the domestic elements of demand is expected to be due to the following factors:

The rate of growth in household consumption, which grew by 7% in 2003, could fall to around 2% in 2004, due to the combined effect of a far lower nominal wage increase than in the previous year and of growing inflation.

Prospects for capital investments are clouded by a number of uncertainties. In the past period, household investment, driven by strong demand in the retail segment, was one of the most dynamic sectors. Household capital expenditure is still likely to be strongly influenced in 2004 by the impetus that home construction received last year.
Due to improving opportunities for sales to the corporate sector, we expect the favourable trends that began in 2003 to continue in 2004. This view is supported by the increase in capacity utilisation, rising business confidence and the improvement in the global economic situation. We also expect to see a modest upswing in state investments in the course of 2004, especially in view of the government's road construction plans. The accumulation expenses of the economy will also be increased by the accumulation inventory that can be expected due to the improvement in export prospects. Thus, the growth in gross fixed-asset accumulation could amount to 3.7%, which is higher than the GDP growth rate.

Due to a potential recovery in the international business environment and an improvement in the domestic export outlook, we can expect export growth to accelerate in 2004. Exports are expected to grow 9.1%, while imports – due to the net effect of domestic consumption lower than in 2003 on the one hand, and growing exports on the other – are expected to grow by 7.8%. The current balance of payments will decrease only slightly, and the external financing requirement of the economy will continue to be high.

After the somewhat lax fiscal polices of 2003, we expect to see more stringent policies being pursued in 2004. By accepting an austerity package of HUF 185 billion, the Ministry of Finance wishes to cut the public finance deficit to 5.8% or 4.6% of GDP[10], although both on the revenue and on the expense side the plan is shrouded in considerable uncertainty. Due to the unusually high degree of one-way risk, our forecasts predict a deficit higher than that: we believe the deficit could increase to HUF 1,045 billion by December, as a result of which the total deficit will be nudging 5.1%[11] of GDP by year-end.

In 2004 inflation will increase, primarily as a consequence of administrative measures. The inflation rate will not be steady throughout the year: in the early part of the year – due to an increase in the VAT rate, the increase in regulatory prices and the low base figure of the previous year – we predict a high rate of inflation, of around 7% or more, while in the second half of the year, the price index may decrease, and could fall to 6.7% by year-end. As a result of this decline, the average rate of inflation for the year as a whole is likely to be around 7.2%.

2.2. MONETARY ENVIROMENT IN 2004

[10] 5.8% in cash-flow terms and 4.6% in P&L terms
[11] In cash-flow terms

2003 was characterised by a volatile and unpredictable monetary environment. The unpredictability of monetary policy was primarily caused by the tensions between the inflationary targets and repeated swings in budgetary policies, and by the speculative flows of money that resulted from it. Within one year, the central-bank base rate – considering the interest rate corridor and not just the base rate itself – ranged from as low as 3.5% to as high as 13.5%, while the exchange rate of the forint fluctuated wildly. The volatility in the forint exchange rate was exacerbated by the speculation in January and the shifting of the middle of the band in June. The monetary environment of 2004 does not appear to be much more predictable. In view of the relevant statutory regulations, the National Bank of Hungary (MNB) can be expected to continue a monetary policy based on a system of inflation targets primarily aimed at achieving price stability. In 2004 tensions may also arise between MNB's statutory obligations, budgetary policies and the nation's medium-term business strategy objectives, which could lead to unpredictable fluctuations in the base rate. Nevertheless, we believe that the benchmark rate will decrease slightly during the year, but there is a high degree of uncertainty concerning how this downward trend will run its course.

An assessment of the monetary environment is rendered even more difficult by the fact that although Hungary is about to join the EU, the policy objective of Hungary's joining the European Exchange Rate Mechanism (ERM II) has been set back a few years.

Consequently, the various factors influencing the exchange rate can be expected to result in a high degree of volatility in the prime interest rate, thus reducing the predictability of the general interest rate environment.

The regulations pertaining to mandatory bank reserves will change from the beginning of 2004. The reserve rate for liabilities with an original maturity of more than two years will be 0%, while a 5% reserve rate will apply to all other liabilities. Another change is that the permitted delay between reserve calculation and the actual generation of the reserve will increase from one month to two. The changes to the conditions for reserve generation will have a favourable impact on the Bank's profitability.

2.3. MAIN TRENDS EXPECTED IN THE FINANCIAL MARKETS IN 2004

Most of the 2003 trends in finance and financing have carried over into 2004. We expect growth in the total assets of the bank sector to outstrip inflation and nominal GDP growth, and we also forecast a deepening of the system of financial intermediation.

We expect to see further lending growth in 2004:

- In the retail sector, the growth in home loans will lose momentum. The growth in consumer loans will also slow compared with 2003.
- In accordance with the long-term trends, the increases in household savings will exceed the rate of inflation, despite a slowing of growth in incomes.
- The financial position of the corporate sector is determined by the intensity of borrowing. Due to the upswing in borrowing that commenced in 2003, and an improvement in the sales outlook, we expect further growth in lending activity. On the basis of our underlying assumptions, the rate of growth in corporate deposits, while dynamic, will not attain that of the loan portfolio.

2.4. COMPETITIVE SITUATION

As soon as the country joints the EU in May 2004, it will be possible to sell cross-border banking services in Hungary. The restrictions on opening branch offices in Hungary will be lifted, but we do not expect a large number of new banks to enter the market. However, some parent banks may transform those of their subsidiaries that operate under their tight control and with limited operations and independent authorisation into branch offices. It is also possible that foreign banks could become strong competitors on the Hungarian market by sub-contracting their activities to existing players on the market, or by selling their services via the internet or through agents.

Our main competitors in the Hungarian market will be K&H, MKB, CIB, Raiffeisen, Erste Bank and HVB. The years-old downward trend in the Herfindahl index, a measure of market concentration, and the decline in the market share of Hungary's top five banks, will be halted by the mergers of Erste Bank and Postabank and of MKB and Konzumbank.

We expect intense housing loan activity to continue in 2004. In the consumer loans market we expect competition to intensify considerably, mainly in the area of personal loans, durable-goods loans and credit cards.

In the corporate division we expect tough competition, primarily for the business of large corporations, since after EU expansion large companies in Hungary will have more freedom to use the financial services of foreign financial institutions, which means that we must increase our efforts to retain these clients.

OTP Bank must maintain its favourable position with respect to geographical coverage and electronic services. To achieve this, it must monitor competitors who are actively expanding their branch networks, and must also pay close attention to developments in electronic banking services that prove popular among customers. In this regard, it is worth noting that, pursuant to Act CI of 2003 on the Post Office, any company providing "universal postal services," provided that it fulfils the requisite personnel, material, technical and security conditions, is also entitled to provide financial, investment and supplementary investment services. If the Hungarian Post Office decides to take advantage of this opportunity, it will be able to do so with the largest branch network in the domestic market for financial services.

According to our projections, price competition between the domestic financial service providers in the area of funds collection and deposits will intensify in 2004, and consequently, market trends in this respect will have to be closely monitored throughout the year.

Although the many players in the Hungarian banking sector compete for customers on price, the key to retaining customers and ensuring their satisfaction lies in the provision of high-quality, reliable services, and in a personalised approach designed to show customers that they are not "just one of many" (excellent service, paying close attention to the customer, etc.), as well as in speed and simplicity. In relation to this, OTP Bank must ensure a more precise segmentation of its customer base, and must place greater emphasis on customers belonging to the more discerning, up-market segments, who tend to be more sensitive to the service factors mentioned above.

3. OTP BANK'S 2004 BUSINESS POLICY OBJECTIVES AND TASKS [12]

3.1. MARKET POSITION

The Bank's strategic objective with regard to market position is to maintain its market share in terms of balance sheet total, which will require a growth in total assets exceeding the rate of inflation and close to that of the Hungarian banking sector as a whole. In 2004 the objective is to achieve a market share of 20.9% (2003: 20.3%) based on balance sheet total, and to achieve a higher rate of growth in the Bank's consolidated balance sheet total than in the non-consolidated balance sheet total.

In line with the approved strategy and the current liability position:

- the Bank's market share of retail foreign currency deposits must be maintained, while with regard to corporate foreign currency deposits, its market share must be significantly increased,
- forint funds must be expanded at an appropriate pace, in line with the liquidity position, and accordingly, the business policy plan has set the objective of increasing the Bank's share of the retail forint deposit market,
- the Bank's share of retail loans, especially of high-yield consumer loans, must be increased,
- the Bank's share of the institutional asset management market must be increased further, through OTP Investment Fund Management Ltd.

3.2. FINANCIAL OBJECTIVES

Based on the requirements specified in the medium-term strategy and in view of the Bank's performance in 2003, the objectives of the 2004 annual business policy plan are as follows:

- Growth of the Bank's balance sheet total in an extent necessary to achieve the market share targets set for 31 December 2004, which means that total assets will need to exceed the expected inflation rate by 7.9 percentage points, equivalent to a nominal increase of HUF 404 billion. The Bank aims to have a total balance sheet of HUF 3,162 billion by year-end 2004.
- The growth in 2004 will again be primarily funded through a growth in customer deposits, but also partly through the utilisation of a syndicated EUR loan to be raised in order to ensure the Bank's foreign currency liquidity.
- On the assets side of the balance sheet, achievement of the market share targets in the loan markets will result in customer placements of HUF 1,168 billion (not including the loans of OTP Mortgage Bank). This will mean an increase in customer placements of 7.3%, which is above the rate of inflation, and will result in a ratio of customer placements to total assets of around 37%.
- The business policy plan is based on the assumption that the Bank's interest margin will fall by a lesser extent in 2004 (13 basis points) than specified in the medium-term plan (150 basis points over 5 years, or 30 basis points a year), and from a higher base than planned in the strategy (2003: 4.63%; 2004 annual plan: 4.50%).
- The planned increase in non-interest income – excluding the fees paid by OTP Mortgage Bank and the state subsidies related to the portfolio transfer – is 10.7%, which will be achieved primarily through the planned increase in turnover and in the intensity of product usage.
- Provided it achieves the balance sheet total target and the projected 4.50% interest margin, the Bank's net interest income will amount to HUF 133 billion. Non-interest income will grow by 23.2%, to reach HUF 105 billion, which means that the Bank's total income will be HUF 239 billion. The planned ratio of non-interest income to total income is 44.2%.
- In order to achieve the target expense/revenue[13] ratio of 49.2%, which is significantly lower than the 2003 figure, the planned increase in non-interest expenses is 6.4%.
- Assuming that provisions and value losses will amount to at most 1.2% of the average customer placement, the Bank's pre-tax profit target for 2004 is HUF 97 billion, and the target for after-tax

[12] The figures for the 2004 business policy are in harmony with those of the medium-term strategy, adjusted in accordance with the time that has elapsed to date.
[13] Before dividend received and before DSK goodwill amortisation.

profit is HUF 82 billion, with this latter figure taking into account the effect of goodwill amortisation related to the acquisitions as well as the decrease in the corporate tax rate. Based on the subsidiaries' strategic and business plans, the 2004 business policy plan assumes HUF 10.9 billion in dividends received, and, if we include this amount, the total after-tax profit will be HUF 93 billion.

- The planned after-tax profit arrived at in accordance with the above meets expectations in terms of both growth and profitability indicators, resulting in a return on average assets (ROAA) for the Bank of 2.77%, a return on average equity (ROAE) of 28.3% and an inflation-adjusted ROAE of 21.1%. Including dividends received, ROAA will be 3.14% and the inflation-adjusted ROAE 24.9%.

The growth in the Bank's profits and its consistently high profitability will allow the Bank's management to propose that, in addition to the planned capital projects and investments, and in accordance with the medium-term strategy, higher dividends should be paid than in previous years. Accordingly, the Bank plans to distribute 40% of after-tax profits as dividends (approx. HUF 120/share), which will mean that its equity will stand at HUF 317 billion at year-end 2004.

3.3. CUSTOMER-RELATED OBJECTIVES

In the current market environment – in which market penetration by the banks is relatively high, the number of customers that can be acquired is limited, and the cost of further customer acquisition is also high – OTP Bank will be able to attain its market-position and income targets primarily through increasing sales to its existing customer base and retaining its more "valuable" clientele. For this reason, the Bank must place more emphasis than before on

- segmenting the already existing customer base,
- improving the quality of service and developing segment-specific value proposals,
- retaining "valuable" customers and selling additional products to them,
- acquiring new customers from the "preferred" segments.

Both for product and service development, and for improving the quality of customer handling and servicing, it is essential that the Bank learns as much as it can about its existing clientele, and about the profiles of the various homogenous groups that constitute it, including their behaviour patterns and product usage characteristics, for which the opportunities offered by the Transaction Database and the various tools that it allows the Bank to use (segmentation, price sensitivity tests, etc.) must be exploited more concertedly. An intensive and continuous improvement must be achieved in relation to product-usage ratios, which will in turn result in a restructuring of the various customer segments in a manner that is favourable for the Bank. A further improvement in the customer satisfaction index must be ensured by improving the standard of customer service at the branches.

3.4. OPERATIONAL PROCESSES

3.4.1. EFFECIENCY, QUALITY, AND INFORMATION FLOW

The Bank, in accordance with the original conceptual guidelines, is executing the implementation stages of the Transaction Database (TA) in distinct logical phases, as the functions within it are build rationally, one on the other. Of the various projects currently underway, the inclusion of the new information-source systems (the bankcard system, information management database, EGYSZER database - electronic channel data, etc.) has begun, and additional operative functions (indicators related to the BSC customer perspective, Mini CRM, OPERA) are being developed, so that the data from the TA can be utilised more effectively and for a broader range of purposes, and so that analyses (e.g. customer churn and price sensitivity analyses) can be regularly prepared for the various business lines.

Tasks related to phase 3, to be launched at the start of 2004:

- During this phase, additional information-source systems will be uploaded so that the wealth of data can be expanded further.
- Additional customer analyses will be prepared to support the various sales models and marketing campaigns.
- Further development of the Mini CRM (a customer relationship management system that supports sales).
- Planning, implementation and evaluation of direct marketing campaigns.

Phase I of the SAP Project, aimed at replacing the old IT systems, was completed in 2003, and in Phase II, already commenced, an optimal operation model, which adjusts flexibly to the services offered by the new system, has already been implemented. The most important tasks for 2004 are to test and evaluate the systems developed and commissioned during the project, to provide feedback and, if necessary, to implement modifications, while added emphasis will be afforded to creating and operating an adequate support environment.

In 2003, primarily in relation to the introduction of new consumer loan products (durable-goods loans, credit cards) and the BOR project, the first phase of the consolidation of the systems designed to support lending operations was implemented. The task for the project in 2004 is to integrate additional systems and to ensure that, in line with the transformation of the loan-product portfolio, smaller-volume products, or products that are set to be phased out, can be managed centrally.

3.4.2. RISK MANAGEMENT

In the coming years, the greatest challenge facing risk management will be to prepare for Basle II, the requirements of which are expected to become effective in 2006, and to adapt the regulations to the Bank. From the start of 2004, preparation work for Basle II must proceed according to a specified set of rules and a pre-defined schedule, so that by the time the new provisions take effect the Bank will be able to fully meet the requirements. A high-priority task for 2004 is to elaborate the various operational and investment risk-management processes, and to create the organisational and infrastructure-related conditions for them.

The most important tasks to be performed in 2004 in relation to credit-risk management include the launch, under live conditions, of the monitoring and management information modules of the EHKR (Uniform Credit Risk Management System), the introduction of the rating module, the elaboration of the uniform credit rating system of public service organisations, the development, based on follow-up checks, of consumer loan and credit card scoring, and the finalisation of the concept of retail customer limits. Also in 2004, the conceptual framework for determining Group-level customer limits, which will be an effective instrument for monitoring the lending portfolios of larger debtors, also needs to be elaborated. Finally, the analysis and adequate monitoring of the mortgage loan portfolio will be afforded appropriate emphasis in 2004.

In relation to OTP Bank’s dynamic regional expansion, Group-level risk management is taking on an increasing importance, as is the Group-level capital adequacy ratio. Continuous work is needed to ensure that the regulations of individual Group members and those pertaining to the Group as a whole are updated and rendered uniform, and that the risk management systems of new members are transparent and can be integrated into the current system of the OTP Bank Group.

With regard to the management of market risks, from 2004 OTP Bank Ltd. will be able, with the help of the Quant system, to determine on a daily basis the marked-to-market value and the value at risk (VaR) of the market-risk exposed portfolio of the entire Group and of its various members, as well as the capital requirement as indicated by the internal model. The Bank can also now monitor on a daily basis the utilisation of the share-risk limit. The Quant system is able, even according to the standard (BIS) model, to fulfil the Bank’s trading book-related daily and monthly data-provision obligation to the supervisory authorities, also on Group level. The expansion of OTP Bank Group’s housing loan operations requires a new approach to liquidity and interest rate management, and the introduction of new risk management tools.

In 2003 OTP Bank Ltd. introduced its uniform, Group-level market risk management regulation, which supplements and consolidates the Group members' market and liquidity management regulations, and determines limits with respect to OTP Group's maximum exposure in the interests of reducing its liquidity, interest rate and share risks. In 2004, a review of the Group members' market and liquidity risk regulations will also be conducted, with due consideration paid to the changes in the activities of the individual Group members, the principles of the Financial Supervisory Authority's recommendations on asset and liability management and market risk management, as well as trends in the money and capital markets. The greatest challenge in 2004 will be the integration of DSK into the Group's risk management system.

In line with OTP Bank Ltd.'s foreign acquisition strategy, the emphasis will shift in 2004 to the improvement of Group-level country and counterparty rating systems, and to the further development of the limit systems. The key issues will be the allocation of limits defined on the Group level, and the monitoring of limit utilisation.

3.4.3. DEVELOPMENT OF THE SALES NETWORK

The various changes within the Bank affecting the role and activities of the branches (e.g. the centralisation of back-office activities), adaptation to external changes (change in consumer habits, the increasingly widespread use of electronic channels and of cards) and competitors' aggressive branch network expansion, make it imperative that OTP Bank Ltd. review its own branch network and adapt it to the changing environment. For this purpose, a branch network transformation project has been launched, the main tasks of which in 2004 are as follows:

- Optimisation of the current branch network and the introduction of new types of branches
- Ensuring the technical infrastructure required to support sales and distribution activities
- Reformulation and enhancement of the incentives system
- Modelling the provision of services for the small and medium-sized business sector.

In 2004 the development of electronic channels will be less rapid than in previous years, for the reason that the degree of technological development in Hungary has caught up with international levels, and the basic structure for the provision of the service is now in place. This means that the Bank's domestic competitors are likely only to implement "smaller-scale" changes in the range of electronic services they offer. In addition to the players of the old "electronic market", the emergence of new banks can also be expected in the area of internet and WAP-based services, but here too, it is highly probable that the services offered by them will fit into the current range of offered services. A significant change could occur in the area of mobile phone-based banking. As early as in 2003 a number of national and international projects were launched with the aim of promoting the use of mobile phones in the financial world. As of today, the success of these projects is uncertain. It is important for the Bank to monitor these developments and to elaborate its position based on a thorough analysis of the potential benefits and risks.

3.5. TRAINING AND DEVELOPMENT

In the HR area in 2004, the focus will be on revising human resource management systems in line with the Bank's strategic objectives, and in particular, on revising the pay and bonus system – a process that was begun in 2003.

The new standardised system of job positions has enabled the Bank to determine the relative internal value to the company of the various jobs, and to rank them accordingly, and this has provided the basis for determining the development tasks to be implemented in 2004, which are as follows:

- The revision – based on the categorisation system of job positions and various wage analyses – of the remuneration system, and the elaboration of a complex system of incentives
- In order to boost the motivational power of the incentives system, the linking of the incentives system to the performance management and career management systems
- Transforming the training system in accordance with the (primarily professional) competencies set out in the job descriptions.

Besides transforming the education and training systems, there is a need for the continuous professional training of administrators and for the development of a range of human competencies, with the emphasis on the training of staff that possess sales skills and that display an aptitude for advisory work. One of the objectives in relation to the development of the training system is the broader-based introduction of electronically delivered training and the preparation of additional electronic training material. On the managerial level, in order to reinforce a sales-oriented mindset and approach, training courses are required that promote the effective application of methods and tools of organisational and capacity management and of operational control. An important special series of in-house seminars will be held at the Bank in the coming year covering a range of contemporary topics, including the latest issues affecting domestic and international finance and business, and providing training in matters related to EU accession.

4. OBJECTIVES AND TASKS OF THE DIVISIONS

4.1. RETAIL DIVISION

4.1.1. RETAIL DEPOSITS

OTP Bank's objective is to maintain its market-leading position in the retail bank savings market. With respect to HUF deposits, the Bank plans to increase its market share, while in the foreign currency deposit market the goal is to maintain market share. This will require a 17.2% increase (or 10% increase in real terms) in retail forint deposits, while the foreign currency deposit total will need to be maintained at current levels.

In order to maintain its market position and competitiveness, it will be necessary for the Bank to constantly analyse the possible reasons for the gains made by its main competitors in the various markets (customer churn, price sensitivity, customer satisfaction surveys, follow-up surveys on customer responses to particular campaigns and price changes, etc.), and the findings of these surveys will then have to be utilised in order to develop the Bank's services.

In line with the Bank's overall objectives, increasing fee and commission income continues to be a key aim, and one that can be achieved primarily by increasing the number of transactions, that is, by encouraging customers to use products more actively.

4.1.2. RETAIL LOANS

With respect to housing loans, in 2004 OTP Bank Ltd. aims to maintain its Group-level market share (calculated inclusive of the portfolio of OTP Mortgage Bank), while with regard to consumer loans, the goal is to maintain market share and to dynamically increase volume.

As a consequence of the favourable market conditions, over the past year or two the majority of the large banks have joined the government-subsidised housing loan scheme. As regards the majority of loans offered and requested, there are no real differences between the offers of the various banks, and they all tend to be placed at rates close to the ceiling set by the law. This means that as far as housing loans are concerned, it is overall availability and the standard of services that are the key competitive factors, and by improving these, the Bank will be able to maintain its market position.

In 2003, the portfolio of consumer loans was reviewed, and the measures required for renewing the product offer were approved. The most important task for 2004 will be to implement these decisions, and thus:

- to launch a personal loan product,
- to develop a goods-purchase credit card,
- to launch of a “prestige” credit card.

In the interest of improving service quality, the role of other sales channels in retail lending must be heightened (to enhance information provision, increase product availability, and expand the range of services offered).

4.2. INVESTMENT SERVICES

In 2004, the Bank’s objective continues to be to maintain its dynamic growth, above the overall growth rate of the market, both with respect to customer numbers and assets under management, and with particular regard to key private-banking customers. By providing pro-active investment advisory services, the Bank intends to increase product usage rates among its private banking customers, and thereby to expand the revenue potential from this segment. In 2004, the Bank plans to increase the number of its private banking customers by 15%. Although acquiring key private-banking customers is far more challenging, and promises to be profitable only in the longer term, here too the Bank sees significant potential for acquiring new and valuable customers. Besides increasing the overall number of customers, the Bank aims to increase the average value of managed assets per customer, as well as the number and volume of transactions. A related aim is to ensure that a steadily increasing proportion of customers’ assets are managed by the Bank, and that customers commission the Bank to manage an increasing proportion of their finances. In the area of retail securities distribution, in 2004 the Bank aims to maintain its dominant market position in terms of volumes under management, and at the same time to increase the intensity of product usage.

4.3. BANKCARD BUSINESS

The Hungarian debit card market appears to be close to saturation, while credit cards still represent significant growth potential. Consequently, in the future the Bank must concentrate on the dynamically developing business of credit cards, and on encouraging customers to use their debit cards more. The increase in the number of debit cards can primarily be achieved through cards supplemented with additional new services. The primary objective of OTP Bank continues to be to maintain its dominant market share, which has ranged from 50 to 60% in the past years. In order to realise this objective, the Bank plans to increase the number of bankcards in circulation by 5.6% (equivalent to 193,800 cards). Similarly to the previous years, it is the Bank’s objective in 2004 to increase its fee and commission revenue. In order to achieve this, it will be necessary to encourage an increase in card usage rates as well as a more widespread use of cards with higher fees and commissions, and cards with special supplementary services must also be developed. The various affinity, loyalty and co-branded cards represent significant growth potential. In the commercial-banking customer segment, the development and introduction of charge cards for large corporations, companies and municipalities, represents an opportunity to expand the range of services offered, as well as to increase overall card use.

OTP Bank intends to expand its card-acceptance infrastructure in the coming year too. Accordingly, the Bank plans to expand its ATM network by a total of 178 machines nationwide, and to install 3,459 new POS terminals at commercial outlets, post offices and at the branches. In order to achieve the planned increase in commission revenue and number of transactions, the Bank intends to expand the commercial network by a total of 3,112 POS terminals, which means that by the end of 2004, we can expect to have more than 15,600 commercial POS terminals in total.

4.4. COMMERCIAL BANKING

4.4.1. CORPORATE DIVISION

In order to maintain and strengthen its competitiveness and market position, the Bank's objective is to further increase the total of its corporate foreign currency deposits, and to raise its current market share, as well as to develop its electronic products and expand them to include new services. The key to improving the profitability of the business line continues to lie in raising product usage ratios and in increasing the number of products and services used by each customer. In the drive to improve profitability, added emphasis will be given to increasing the use among customers of electronic products and services, and to exploiting as far as possible the opportunities that exist for cross-selling.

The Bank offers a broad range of products to corporate customers. In 2004 the use of these products and services must be increased, and this must be encouraged through well-planned, well-targeted marketing campaigns involving a mix of direct marketing and sales promotions, while making the best use of market research data as well as analyses of data taken from the Transaction Database. In 2004, the measuring of customer satisfaction will need to be extended to include corporate customers, and the findings of this research will be used to develop the Bank's services.

Ensuring compliance with EU regulations and monitoring the change in regulations represents a continuous challenge. Together with the Bank Association, the Bank is playing an important role in elaborating the standard forms, the operational processes and the various rules that are needed in order to obtain EU subsidies. With EU accession, the disbursement system for agricultural subsidies is also set to change, with these subsidies to be paid retrospectively. The Bank must develop a loan facility, related both to agricultural subsidies and to other subsidy bid applications, that makes available an advance payment in connection with subsidies that have already been approved but that will not be paid until the end of the year.

Working together with OTP Health Care Services Ltd., the Bank must examine the opportunities for co-operation with, and cross-selling to, the healthcare institutions that are soon to be privatised.

4.4.2. CUSTOMS SERVICES

Following EU accession, the relative emphasis afforded to the various operations of OTP Bank's business division that has until now dealt with customs duty payments and the related services will shift. With the creation of the customs union, demand will increase within the Community for guarantees related to foreign trade transactions conducted with third-party countries, as it will for other methods of tax and duty payment. The Bank plans to expand its activities in the future to include new products and services. With respect to guarantees, potential new services include bank guarantees related to activities subject to customs and excise, guarantees related to the trading of agricultural products, as well as involvement in the field of duty payments. It is OTP Bank's objective to retain its present leading position in the area of customs payments, and to take maximum advantage of its dominance when launching the new operations it plans to offer.

In the interest of further leveraging the customer relations it has forged through the provision of customs cashier services, a task of high importance is to sell other banking products to customers who are currently using the Bank only for making customs payments. In order to gain as detailed a knowledge as possible of the potential clientele, and to support product development, targeted market research will have to be carried out in 2004 on customers that pursue foreign trade activities. In 2004, equipped with a thorough knowledge of accession-related regulations, the Bank must

- elaborate the conditions and rules related to the provision of bank guarantees required for the trading within the EU of products subject to excise duty, and
- develop products related to agricultural imports subject to quotas, and to intra-Community trade.

The Bank's acquisitions represent an opportunity for it to expand its customs cashier services and develop a co-operative framework in relation to these services with its foreign subsidiaries.

4.4.3. INTERNATIONAL DESK

The Bank intends to maintain its market share in the area of foreign currency and HUF international payments in 2004 as well, and if possible, to raise its market share. The primary goal is to increase the commission revenues derived from the operations of the business line, which, following EU accession, will (given that fees and commissions are expected to fall with the adoption of fee regulations on international transfers) be achieved primarily by increasing the number of transactions and overall transacted volume. In order to achieve this, the Bank needs to retain existing customers as well as acquire new ones, which can in turn be ensured by maintaining high-quality service levels, developing as broad a range of services as possible, and by intensively promoting these services. Constant efforts must also be made to establish long-term partnerships with foreign banks. Great emphasis must continue to be placed on establishing correspondent banking relationships with the banks of countries where turnover levels warrant this, as well as on concluding individual agreements with foreign banks when necessary.

With an eye to the objectives of the Bank Group, the international payments services of OBS, DSK as well as of banks that will be acquired in the future, must be promoted to our foreign partner banks and their customers, while making every effort to minimise risk. An important task is to continue encouraging foreign banks to promote the opening of forint accounts, and to increase the international payments turnover transacted on these accounts. In relation to OBS and DSK, a uniform, Group-level image must be created for the international banking business (e.g. harmonisation of the nostro account structure), and when negotiating agreements, OTP Bank's already existing banking relations and the positions it has achieved must be leveraged in order to obtain the best possible terms.

4.4.4. MUNICIPALITY DIVISION

Serving municipalities represents a traditional area of business for the Bank, where the Bank's aim is to retain its customers and to maintain its market share based on volume. This can be assured primarily by maintaining the Bank's capacity for innovation and, in the area of lending, by reinforcing a regional approach and mindset. Thus, again in 2004, it is imperative – mainly in the field of lending – to develop products and product packages that are better suited to, and therefore better satisfy, customers' needs (e.g. an EU loan package, mortgage-based lending, foreign-currency lending, and a savings account similar to retail and corporate savings accounts). With respect to liability products, it is important to review the product structure and to terminate certain products. Besides this, continued emphasis must be placed on promoting electronic banking tools (such as the Customer Terminal and cash management) that relieve the municipalities of some of their workload, and on increasing the intensity of card usage.

The banking habits of public service customers – as a customer group belonging to the municipality banking segment – must be influenced primarily by recommending loan products and other services to them (such as Mini Treasury and cash management) and by promoting their use.

4.4.5. TREASURY AND STRUCTURED FINANCE

In 2004 the Bank to intends to remain among the primary distributors of government securities, and it aims to maintain its market-maker position in the government securities, FX trading and money markets, while at the same time reducing its risk exposure.

An important business-policy objective is to be able to perform liquidity management on the Group level. This is needed due to the fact that in recent months, placements made by OTP Mortgage Bank and Merkantil Group have grown significantly, and as a consequence, their funding requirement has also risen. Thus in 2004 even greater emphasis will be placed on the Group-level assessment and planning of funding needs, and on managing these needs in a more concerted manner.

The Bank's goal is to retain its leading position in the syndicated loans market, where it must aim to benefit from the opportunities that exist for financing buyouts. The new markets for syndicated loans are the emerging markets of neighbouring countries – such as Croatia and Romania – and the companies in them, though in order to meet the division’s high profitability expectations, efforts must also be made to reduce the relatively high degree of risk involved.
Besides this, the Bank’s objective is to achieve an outstanding performance in other investment services, such as investment consulting, stock-market flotation and privatisation advice.

In the area of trading, it is essential that profitability be improved and rendered more balanced, while risk exposure be reduced. The Bank’s primary objective is to improve the quality of the client portfolio, that is, to improve its current position primarily with respect to large corporate and institutional clients, and to do so by increasing the quantity and enhancing the quality of Treasury services sold to them.

4.4.6. PROJECT FINANCE AND SPECIAL TRANSACTIONS

In the area of project financing, the most important sectors in 2004 will again be real estate financing and the energy sector, in which the Bank’s most important targets continue to be the financing of power plants implementing environmental protection projects. We also expect continued restructuring in the telecommunications sector, and to see a strong need for financing as a result. The Bank's aim is to remain among the most important players in the project finance market, and to maintain its leading position based on the size of its contracted credit portfolio.

Of particular importance in 2004 will be the Bank’s participation, primarily through its foreign subsidiaries in Slovakia and Bulgaria, in international real estate financing and energy-sector transactions. Other potential target countries in terms of financing are the Czech Republic, Poland and Croatia.

From the start of 2004, one of the key policy objectives will be the financing of corporate acquisitions. In this regard, the Bank will need to make a shift towards the financing of purchases of equity stakes, shares and ownership participations, for which there is likely to be an increased demand following EU accession. With accession, the demand for infrastructure developments will also strengthen, and the Bank intends to be involved in the financing of such projects, especially those related to available EU funds.

5. BALANCE SHEET, INCOME STATEMENT AND MAJOR RATIOS OF OTP BANK

HUF billion	31 Dec 2003	31 Dec 2004	Change	
	Actual	Plan	HUF billion	%
Balance sheet total	2,759	3,162	404	14.6%
Loans	1,088	1,168	80	7.3%
Deposits	2,235	2,462	227	10.2%
Equity capital	262	317	56	21.3%
Loans/total assets	39.5%	36.9%		
Deposits/total funds	81.0%	77.9%		
Loans/deposits	48.7%	47.4%		
Equity/balance sheet total	9.5%	10.0%		

HUF million	31 Dec 2003	31 Dec 2004	Change	
	Actual	Actual	HUF million	%
Net interest income	118,182	133,218	15,036	12.7%
Non-interest income	85,580	105,409	19,829	23.2%
Total income	203,762	238,627	34,865	17.1%
Non-interest expense	110,234	117,328	7,094	6.4%
Operating profit	93,528	121,299	27,771	29.7%
Provisions	13,261	13,691	430	3.2%
Goodwill amortisation related to acquisitions	1,257	10,242	8,985	714.8%
Pre-tax profit	79,010	97,366	18,356	23.2%
After-tax profit before dividends received	63,871	81,989	18,118	28.4%
Dividend received	7,691	10,874	3,183	41.4%
After-tax profit including dividends received	71,562	92,863	21,301	29.8%
Inflation	4.7%	7.2%		
ROAA (nominal)[14]	2.78%	3.14%		
ROAE (nominal)[15]	30.6%	32.1%		
Real ROAE	25.9%	24.9%		
Non-interest income/total income	42.0%	44.2%		
Cost/income ratio	54.1%	49.2%		

[14] Calculated based on the mathematical average of the balance sheet total at the beginning and at the end of the year, and with the after-tax profit including dividends received.
[15] Calculated based on the mathematical average of the equity at the beginning and at the end of the year, and with the after-tax profit including dividends received.

6. OBJECTIVES AND TASKS OF THE MEMBERS OF THE OTP BANK GROUP

With regard to the assessment of OTP Bank by the capital markets, the performance of the Bank Group members is assuming ever-greater importance. The Bank's main objective is to increase Group-level market share, to retain, or to increase, its market share in the respective markets of the Group members. The primary expectation with regard to the various members of the Bank Group remains that they should achieve a return on equity, assets and revenue that is at least equal to the average of their respective sectors.

Again in 2004 OTP Bank plans to only make strategic investments that are directly related to its banking operations. Of the current investments, those that – in light of amendments to the Bank's investment strategy – no longer complement its investment portfolio are earmarked for restructuring or disposal.

As new investments, the main areas targeted as potential strategic banking acquisitions continue to be participations in foreign and domestic banks, or in companies operating in specific segments of the financial services market, as well as the purchase of business portfolios. Accordingly, the Bank is continuously assessing investment opportunities in neighbouring countries. A basic objective with regard to foreign expansion is that the Bank should be able to maintain its liquidity indicators at a satisfactory level, improve Group-level profitability, and minimise market and sovereign risk.

6.1. MERKANTIL GROUP

The primary objective of Merkantil Bank is to remain among the top three players in the vehicle-financing market, and to retain its market share of approximately 20%. In 2004 Merkantil Bank intends to increase its share of the new vehicle market, and plans to pursue car-financing operations outside Hungary, primarily in Slovakia, as well as to intensively sell the services of the OTP Bank Group, especially the products of OTP-Garancia Insurance.

In the production-equipment financing business, the Company plans to increase its market share still further, and in order to achieve this, it is essential that it continues to pursue the direct customer-acquisition activities begun in 2003. A key objective is to win over multinational companies and large Hungarian corporations, as well as capital-strong medium-sized corporations, through the offering them preferential pricing structures. Besides increasing business volumes, considerable emphasis must be placed on achieving cost efficiencies, and thus, for example, it aims to maintain its Mobile Deposit portfolio in order to keep the cost of funds to a minimum.

6.2. OTP BUILDING SOCIETY LTD.

In 2004, no major changes in regulations or market participants are expected that would influence the operation of home savings banks.

The 2004 business policy objective of the Building Society (LTP) is to assure its mid-term and long-term liquidity and the balance of its portfolio, to improve customer satisfaction, and to retain and reinforce its market position, which can be achieved by selling products that are common to other members of the Group (LTP Mortgage Bank, LTP-OTP Bank), and by continuing to conclude a large number of home savings contracts related to loans for public water utilities.

6.3. OTP MORTGAGE BANK LTD.

Due to the reduction in subsidies available for housing loans, and the tightening of the relevant regulations with effect from 22 December 2003, less dynamic growth is expected for 2004 in the housing loans market. However, due to the backlog of as-yet undisbursed loans approved before the amendment to the regulations went into force, a further significant increase can be expected in the portfolio.

The Bank's objective is to maintain (at Group level) its market share in housing loans. In order to achieve this and to ensure the profitability of this business, in 2004 the emphasis must be placed on continuously assuring the handover and acceptance of subsidised housing loans placed through the Bank's sales network, as well as the rateability of regular collateral pledged for the loans thus taken over, and also on ensuring, through the issue and public sale of mortgage bonds, that the Mortgage Bank has access to the funding it requires, as well as on monitoring the Mortgage Bank's loan portfolio, analysing collection and recovery activities and, if necessary, taking measures to prevent the deterioration of the portfolio.

6.4. DSK BANK

Since its general meeting that brought to a close the acquisition formalities in early October 2003, the Bulgarian DSK Bank has been fully owned by OTP Bank. The project aimed at restructuring DSK, improving its competitiveness and integrating it into the OTP Group was launched in the summer of 2003, and its implementation will be our most important priority in 2004.

The strategic objective of DSK Bank is to become a leading financial service provider among Bulgarian banks. In the bank's traditional markets, the aim is to retain its leading position, while in the other areas such as in the corporate business, the goal is to substantially increase its market share.

To achieve this, it will be necessary in 2004 to carry out, or launch, various development and restructuring projects in relation to the bank's IT systems, products and services, and banking procedures, aimed at improving overall competitiveness and efficiency, and to do so by taking advantage of the experience and know-how of OTP Bank and of the Bank Group. The objective of the retail business is to retain customers and reduce the decline in market share, while in the corporate business, a dynamic increase in customer numbers is required.

6.5. OTP BANKA SLOVENSKO, A.S.

In the Slovak bank sector, the trends towards globalisation and integration are continuing, and after the country's accession to the EU, foreign banks are expected to expand their presence in the domestic market. From January 2004 changes that are expected in the structure of savings (an increased predominance of pension fund savings due to pension reform, and the introduction of investment funds) will increase the proportion of non-bank savings.

Although in 2004 the Bank's customer target group is small and medium-sized enterprises, acquiring new customers is a task of fundamental importance in all other areas too. In order to achieve the strategic objectives, in 2004 the product offering aimed at the target group must be expanded (through the development of new account packages and loan products), sales of OTP Group-member products (e.g. insurance) must be stepped up, the distribution network must be expanded (in particular, the branch and ATM network), electronic services must be introduced, and customer-handling procedures must be rationalised and service quality improved.

6.6. OTP-GARANCIA INSURANCE LTD.

Based on the targets set out in the Company's mid-term strategy, the objective in terms of market position in 2004 is to increase market share, primarily through the life insurance business, where the Company aims to secure itself second place in the market in 2004. To achieve the target growth in market share, it will be necessary to increase premium revenues, for which it will be essential to meet the targets for insurance-product sales in the branch network of OTP Bank. The range of life insurance products sold through the Bank's network must be steadily expanded to include long-term, traditional life insurance policies with regular premium payments, which allow policy holders to save on tax, and which satisfy certain customer needs with respect to which the Bank is unable to offer a competitive product.

In accordance with the objectives set with regard to market share, the proportion of life and bank insurance premium revenue within total premium revenue must be increased further, while within the life division, the aim is to steadily increase the proportion of traditional, regular premium-payment life insurance policies. In the interest of improving profitability, the losses on car-liability insurance and other loss-making non-life insurance lines must be reduced or eliminated altogether.

6.7. OTP FUND MANAGEMENT LTD. AND OTP REAL ESTATE FUND MANAGEMENT LTD.

The last quarter of 2003 saw a dramatic fall in the net asset value of investment funds due to developments in the macroeconomic environment, which also meant a fall in the value of the portfolio for the year as a whole. The unfavourable trends affected the market-leading Optima Fund more than most. In 2004, the aim with regard to the OTP funds is to prevent any further loss in the overall value of the respective portfolios, and for the end of the year, to maintain a share of 45-50% in the securities fund market.

In order to increase the volume of managed assets, efforts must be made to exploit more intensively co-operation opportunities with private banking customers, using various materials and model portfolios prepared specifically for this target group. With regard to municipality customers, the degree of their receptivity to the portfolio management of municipality assets must be examined.

The real estate fund market is expected to grow more quickly than average in 2004, and therefore, the goal here is to reinforce market position. In 2004, an important task at Real Estate Fund Management, aimed at improving efficiency, is to develop a system for keeping records and preparing reports related to its real estate properties.

6.8. OTP REAL ESTATE LTD.

In 2004 the rate of growth of the housing market is expected to slow somewhat. In the framework of the national housing program known as "At Home in Europe", even more emphasis will be placed on the development of a tenement-dwelling program, and on PPP (Public Private Partnership) projects to be realised jointly by local municipalities, non-profit organisations and businesses. Real Estate Ltd. aims to retain its market-leading position by participating in PPP projects (such as the construction of college dormitories and prisons etc.) as a general contractor, and by playing a major role in the tenement-flat construction program.

The Company's primary objective is to shift the centre of its activities outside the capital, and to exploit all the opportunities offered by the Group for this purpose. Another important objective is to formulate a marketing strategy that is in harmony with the marketing activities of the Group, which will involve developing marketing tools and strategies that are in line with the Group's uniform marketing approach and ensuring that these are consistently adopted across the various units of Real Estate's business.

6.9. OTP FACTORING LTD. AND OTP FACTORING ASSET MANAGEMENT LTD.

The primary objective for 2004 is to maintain the return on collection activities so as to ensure a profitable operation, which will require a significantly higher rate of recovery than before. Among the 2004 activities of the Company, the management and collection of a large volume of terminated and overdue loans, taken over from the Bank before the end of 2002, will be of particular importance.

Besides this, the Company intends to step up its purchases of overdue receivables from sources other than the Bank Group as well as participate more in commission-based collections, which it will engage in to the extent that capacities permit and provided that the potential risk-to-return ratio is appropriate.

The core activity of OTP Factoring Asset Management will continue to be the management of receivables, and its primary objectives to be the fastest and most effective assessment, appraisal and utilisation of the collaterals behind the various receivables, with the aim of recovering the purchase price of the new housing and mortgage loans. The effectiveness of OTP Factoring Asset Management's activities will be measured primarily in the degree of success it has in recovering the receivables of its parent company, Factoring Ltd.

6.10. OTP FUND SERVICES LTD.

The activities of Fund Services Ltd. in 2004, and the assets and number of members in the Funds, will be affected by the relevant statutory regulation, which limits access to private pension funds to new entrants to the labour market, and reduces the number of potential solvent members of voluntary (pension and health) funds. Consequently, only moderate growth is expected for 2004 in this market, and thus the principal aim is for Fund Services Ltd. to maintain its market share in terms of managed assets and number of members, and to strengthen its market share in the case of the Private Pension Fund.

With respect to the increasing of market share and member numbers, an important task is to exploit the synergies between pension and health funds, which will include unification of the co-ordinator network and the running of joint sales campaigns targeting employers. A major role in product sales will continue to be played by the Bank's network and OTP-Garancia Insurance, and in addition to this, special emphasis will be placed on increasing the number of agents engaged in the recruitment of new members.

6.11. OTP TRAVEL LTD.

The objective of OTP Travel Ltd. in 2004 is to maintain its position as one of the leading tour operators in Hungary, and to continue offering reliable, high quality, and good value-for-money services to its customers. Another objective is to strengthen the Company's positive image and increase brand awareness, an objective to which the Company, celebrating its 20th anniversary in 2004, will contribute with an intensive marketing campaign. In 2004, OTP Travel plans to expand the range of tours offered to Hungarians going abroad and to foreigners visiting Hungary, and, by adding relevant supplementary services (such as various types of insurance), aims to offer a comprehensive travel service.

7. BALANCE SHEET, INCOME STATEMENT AND MAJOR RATIOS OF OTP BANK GROUP

HUF billion	31 Dec 2003 Actual	31 Dec 2004 Plan	Change HUF billion	Change %
Consolidated balance sheet total	3,503	4,087	584	16.7%
Consolidated loans	2,026	2,386	360	17.8%
Consolidated deposits	2,698	2,988	290	10.8%
Consolidated equity capital	305	366	61	19.9%
Loans/total assets	57.8%	58.4%		
Deposits/total funds	77.0%	73.1%		
Loans/deposits	75.1%	79.8%		
Equity/balance sheet total	8.7%	8.9%		

HUF million	31 Dec 2003 Actual	31 Dec 2004 Actual	Change HUF million	Change %
Net interest income	177,062	196,302	19,240	10.9%
Non-interest income	132,352	181,700	49,348	37.3%
Total income	309,414	378,002	68,588	22.2%
Non-interest expenses	191,899	230,490	38,591	20.1%
Operating profit	117,515	147,512	29,997	25.5%
Provisioning	13,412	14,311	899	6.7%
Goodwill	2,020	10,242	8,222	407.0%
Consolidated pre-tax profit	102,751	122,959	20,208	19.7%
Consolidated after-tax profit	83,022	102,845	19,823	23.9%
Inflation	4.7%	7.2%		
ROAA (nominal)[16]	2.66%	2.71%		
ROAE (nominal)[17]	30.6%	30.7%		
Real ROAE	25.9%	23.5%		
Non-interest income/total income	42.8%	48.1%		
Cost/income ratio	62.0%	61.0%		

[16] Calculated based on the mathematical average of the balance sheet total at the beginning and at the end of the year, and the after-tax profit including dividend received.
[17] Calculated based on the mathematical average of the equity total at the beginning and at the end of the year, and the after-tax profit including dividend received.

ELECTION OF THE COMPANY'S AUDITOR, APPROVAL OF THE APPOINTED OFFICIAL RESPONSIBLE FOR AUDITING, SETTING THE REMUNERATION

ELECTION OF THE COMPANY'S AUDITOR, APPROVAL OF THE APPOINTED OFFICIAL RESPONSIBLE FOR AUDITING, SETTING THE REMUNERATION

Based on Section 3 Para 66 Law CXII of 1996 (Law on Credit Institutions and Financial Enterprises) the Supervisory Board proposes – concerning the audit of the OTP Bank Ltd.'s non-consolidated and consolidated 2004 accounts – that the General Meeting:

1. elects Deloitte Auditing and Consulting Ltd. (000083)
   H-1051 Budapest
   Nádor u. 21.

   and approves the appointment of Gyula Köbli (005394) chartered auditor, as the individual in charge of auditing

   In the event any circumstance should arise which ultimately precludes the activities of as appointed auditor in this capacity, proposes the appointment of Zoltán Nagy (005027) chartered auditor, to be the individual in charge of auditing.

2. The General Meeting establishes the total amount of forty-four million Hungarian Forint (HUF 44,000,000) + VAT as the auditor's remuneration for the audit of the annual accounts of 2004, prepared pursuant to Hungarian accounting regulations as applicable to credit institutions and the audit of the consolidated annual accounts to be performed in accordance with Act C of 2000 on Accounting, of which HUF 38,000,000 + VAT shall be paid in consideration of the audit of the non-consolidated annual accounts, and HUF 6,000,000 + VAT shall be the fee payable for the audit of the consolidated annual accounts.

ELECTION OF A MEMBER OF THE SUPERVISORY BOARD

VERBAL PROPOSAL

ESTABLISHING THE REMUNERATION OF THE MEMBERS OF THE BOARD OF DIRECTORS AND SUPERVISORY BOARD

THE ESTABLISHING THE REMUNAERATION OF THE MEMBERS OF THE BOARD OF DIRECTORS AND SUPERVISORY BOARD.

The Board of Directors in agreement with the Supervisory Board proposes to the AGM that the monthly remuneration for the members of the Board of Directors and of the Supervisory Board to establish a honorarium increase of which volume is equal with the planned growth at the companies listed on the stock exchange and with the salary increase of the employees, and take into consideration the rounding differences as well.

Accordingly the monthly remuneration are proposed to establish as of May 1, 2004 as follows:

	Actual	Proposed	
Chairman and Vice-Chairman of the Board of Directors	HUF 485,000	HUF 535,000	10.3%
Members of the Board of Directors	HUF 420,000	HUF 465,000	10.7%
Chairman and Vice-Chairman of the Supervisory Board	HUF 350,000	HUF 385,000	10.0%
Members of the Supervisory Board	HUF 280,000	HUF 310,000	10.7%

PROPOSAL FOR AMENDMENTS TO BY-LAWS

PROPOSAL FOR AMENDMENTS TO THE BY-LAWS
(By-Laws of OTP Bank Ltd. are available for downloading at www.otpbank.hu)

1./ The point 5.2. a) of the By-Laws to be replaced with the following provision:

’280,000,010 that is Two hundred and eighty million ten number of dematerialized ordinary shares having a nominal value of HUF 100 each, and a total nominal value of HUF 28,000,001,000., that is HUF Twenty eight billion and one thousand’

Explanation: The result of the cancellation of the voting preference share

2./ The point 5.2. c) of the By-Laws to be replaced with the wording

’Deleted’

Explanation: The result of the cancellation of the voting preference share

3./ The points 5.5., 5.5.1., 5.5.2, 5.5.3. of the By-Laws to be replaced with the wording

’Deleted’

Explanation: The result of the cancellation of the voting preference share

4./ In the point 5.12. c) of the By-Laws the following wording to be deleted:

‘and serial number’

Explanation Technical change, the dematerialized share has no serial number

5./ The point 5.15. e) of the By-Laws to be replaced with the wording

’Deleted’

Explanation: Due to changes in the Financial Institutions Act relating to the calculation of indirect ownership, this regulation became obsolete (Schedule No. 4. Computation of Indirect Ownership of the Act CXII of 1996 on Credit Institutions and Financial Enterprises will change with the effect of 1 May 2004.)

6./ The point 5.16. c) of the By-Laws to be replaced with the wording

’Deleted’

Explanation: Due to changes in the Financial Institutions Act relating to the calculation of indirect ownership, this regulation became obsolete

7./ The first paragraph of point 5.17. of the By-Laws to be replaced with the following wording:

‘The Board of Directors shall conditionally enter the shareholder into the Share Register, within four days from the receipt of the application.’

Explanation: It is a consequence of the changes under Para 5.16.

8./ The point 5.20. of the By-Laws to be replaced with the following wording:

‘The owner of shares shall be liable for all damages caused to anyone by giving false information in the application for the registration into the Share Register.’

Explanation: It is a consequence of the changes under Para 5.16.

9./ The point 6.2. of the By-Laws to be replaced with the following provision:

Authorization by the General Meeting is not required for the acquisition of own shares if it is necessary to prevent an imminent injury to which the Company is directly exposed.

Explanation: The result of the regulation related to own shares (Act CXLIV of 1997 on Business Associations [Section 226(B)(1)]

10./ The point 6.3. of the By-Laws to be replaced with the wording ’Deleted’.

’Deleted’.

Explanation: The result of the cancellation of the voting preference share

11./ The By-Laws to be supplemented with the new point 6.7.3.:

The voting rights - according to Para 6.7.1. - exercised based on Depositary Receipts issued by foreign Depository may not exceed 25%.

Explanation: Due to the changes in the in the computation of indirect ownership such amendment is necessary to maintain the GDR program of OTP Bank.

12./ The point 8.2. of the By-Laws to be replaced with the following provision:

‘Ordinary shares of the Company provide for one vote per share.’

Explanation: The result of the cancellation of the voting preference share

13./ The point 8.18. of the By-Laws to be replaced with the following provision:

‘If the General Meeting convened in compliance with rules does not have a quorum one (1) hour after the commencement time indicated in the invitation, the repeated General Meeting shall have a quorum regarding items on the original agenda regardless of the number of attendees.’

Explanation: The result of the cancellation of the voting preference share

14./ The point 8.26.1. of the By-Laws to be replaced with the following provision:

‘Unless otherwise regulated in the By-Laws, if the Company has issued shares of different series and Law prescribes that the agreement of the holders of certain series of shares is required for the passing and validity of the resolutions of the *General Meeting*, this case *General Meeting* resolutions are considered conditional and will become final and valid if the majority of the holders of those series of shares present at the AGM are voting in favor of the resolution.’

Explanation: The result of the changes in the regulation related to voting procedure for shares of different series (Act CXLIV of 1997 on Business Associations [Section 238(1)]

15./ The points 8.26.2. and 8.26.3. of the By-Laws to be replaced with the wording 'Deleted'.

'Deleted'

Explanation: The result of the changes in the regulation related to voting procedure for shares of different series (Act CXLIV of 1997 on Business Associations [Section 238(1)]

16./ The second indented paragraph of point 8.32. of the By-Laws to be replaced with the following provision:

'the capital increase - except for the case covered by the authority of the Board of Directors -'

Explanation: The result of the changes in the regulation related to capital increase, whereby capital increase can be enacted by the General Meeting with simple majority (Act CXLIV of 1997 on Business Associations [Section 245(1) and Section 233(K)]

17./ The fifth indented paragraph of point 8.32. of the By-Laws to be replaced with the following provision:

'- the capital decrease; (qualified majority)'

Explanation: The decrease of capital can be enacted by the General Meeting with qualified majority (Act CXLIV of 1997 on Business Associations [Section 233(l) and Section 237(1)]

18./ The 14th indented paragraph of point 8.32. of the By-Laws to be replaced with the following provision:

'decisions to abolish preemptive subscription rights; (qualified majority)'

Explanation: in case of capital increase, existing shareholders have preemptive rights, but the modification of the Law provides for the abolishment of this right with decision by qualified majority on the General Meeting (Act CXLIV of 1997 on Business Associations [Section 233(m) and Section 237(1)]

19./ The 15th and 16th indented paragraph of point 8.32. of the By-Laws to be replaced with the wording 'Deleted'.

'Deleted'

Explanation: The result of the cancellation of the voting preference share

20./ The 19th indented paragraph of point 8.32. of the By-Laws to be replaced with the following provision:

'decisions - unless this By-Law provides otherwise - on the payment of partial dividend'

Explanation: The result of the changes in the regulation allowing the Board of Directors to make decisions on the distribution of interim dividend (Act CXLIV of 1997 on Business Associations [Section 207(2)(h) and Section 212(3)(j)]

21./ The point 8.36. of the By-Laws to be replaced with the following provision:

‘In the event of transforming types, classes and series of shares issued by the Company into other types, classes or series of shares that will be transformed shall be governed by the provisions of the point 8.26.1. by these By-Laws. The General Meeting makes resolution of the main conditions of the transformation.’

Explanation: The result of the changes in the regulation related to voting procedure for shares of different series (Act CXLIV of 1997 on Business Associations [Section 238(1)]

22./ The fourth indented paragraph of the first article of point 9.13. of By-Laws to be replaced with the wording ’Deleted’.

’Deleted’

Explanation: The result of the cancellation of the voting preference share

23./ The second indented paragraph of the second article of point 9.13. of By-Laws to be replaced with the wording ’Deleted’.

’Deleted’.

Explanation: Experience shows that it is not reasonable to place under the exclusive authority of the Board of Directors all actions necessary to remedy the resolutions of the NBH and the Hungarian Financial Supervisory Authority. If the seriousness of the issue so requires, the Board can summon it under its supervision.

24./ The point 9.13. of the By-Laws to be supplement with the following title and indented paragraphs:

’The Board of Directors shall be entitled

- in cases listed in the Company Act to approve the interim balance sheet of the company, subject to the prior consent of the supervisory board
- to approve the payment of interim dividends, subject to the prior consent of the supervisory board’

The changes in the Company Act allow the establishment of such authorization for the Board of Directors (Act CXLIV of 1997 on Business Associations [Section 227(2)(h)])

25./ The point 13.4. of By-Laws to be replaced with the following provision:

‘Shareholders shall be entitled to receive a share from the Company's taxed profit established in accordance with the Accounting Act that is available and has been ordered for distribution by the General Meeting’

Explanation: Following the new wording of the Law (Act CXLIV of 1997 on Business Associations [Section 224(1)])

26./ The wording ’Deleted’ in the point 13.8. to be replaced with the following provision:

‘According to the dividend policy of the company as approved and made public the dividend to be set based on the results of the Company each year shall be corrected by the dividend which is related to the number of shares to be considered own shares as established based on the ownership registry on the first day of the dividend payment after the results of FY 2003 to be paid in 2004. The Board of Directors of the Company shall propose to the General Meeting payment of such increased dividend which includes the dividend on those shares to be considered own shares.’

Explanation: According to the modification of the Law, if there is no other provision in the By-Laws, the dividend for the own shares shall be distributed among the shareholders. The proposed modification allows for the shareholders the possibility to calculate the expected dividend for each year, in spite of fluctuation in the actual number of own shares. (Act CXLIV of 1997 on Business Associations [Section 226(E)])

27./ The By-Laws to be supplemented with the new point 13.12.:

‘13.12. In case it complies with conditions set by the Law, and using procedures set in the By-Laws, the Company may pay interim dividend. If the shareholder accepts such dividend disbursement in cash, and does not return it to the Company within 5 calendar days from the receipt thereof, this act is considered as commitment to repay the interim dividend, if based on the annual report prepared according to the Accounting Act the disbursement of such dividend would be illegal.’

Explanation: According to the modification of the Law it is obligatory to establish the procedure for such commitment by the shareholders. (Act CXLIV of 1997 on Business Associations [Section 225(1) and (3)])

28./ The point 12.2. of By-Laws to be replaced with the wording ’Deleted’.

’Deleted’

Explanation: Due to the modification of the Law Para 14.9. is regulating in details the preemptive rights.

29./ The point 14.4. of By-Laws to be replaced with the following provision:

’The Board of Directors shall be entitled to increase the capital of the Company until April 29, 2009 by maximum 100% compared to the registered capital on April 29, 2004.’

Explanation: According to the modification of the Law the General Meeting can authorize the Board to effect any kind of capital increase. (Act CXLIV of 1997 on Business Associations [Section 245(A)(1)])

30./ The point 14.5. of By-Laws to be replaced with the wording ’Deleted’.

’Deleted’

Explanation: Due to the modification of the Law the limitation became obsolete

31./ The point 14.6. of By-Laws to be replaced with the following provision:

‘If the shares of a joint-stock company are issued in different series, the resolution of the general meeting adopted for the increase of the share capital shall be valid only if the shareholders of the each share series effected by the capital increase and present at the General Meeting have separately granted their consent with simple majority vote as per point 8.26.1.’

Explanation: The result of the changes in the regulation related to voting procedure for shares of different series (Act CXLIV of 1997 on Business Associations [Section 246(1)]

32./ The point 14.7. of By-Laws to be replaced with the following provision:

'If the shares of a joint-stock company are issued in different series, the resolution of the general meeting adopted for the decrease of the share capital shall be valid only if the shareholders of the each share series effected by the capital decrease and present at the General Meeting have separately granted their consent with qualified majority vote as per point 8.26.'

Explanation: The result of the changes in the regulation related to voting procedure for shares of different series (Act CXLIV of 1997 on Business Associations [Section 259(4)]

33./ The By-Laws to be supplemented with the following new point 14.9.:

'In case of a capital increase through private issue of shares preferential subscription shall be offered to these shareholders (in case the Company issued convertible bonds or bonds with subscription rights – furthermore Bonds – those bondholders – furthermore Bondholders -) who on the day set by the Board, but at least 15 days prior to the General Meeting deciding on the capital increase (preferential day) were shareholders/bondholders of the Company. The Company will request share registry update from Keller.

In case of a capital increase through public issue of shares preferential subscription shall be offered to these Shareholders/Bondholders who on the first day of subscription (preferential day) were shareholders/bondholders of the Company. The Company will request share registry update from Keller.

The Shareholder/Bondholders within the groups enumerated under Para a) to d) below have same preferential subscription right related to each other while the Shareholders/Bondholders belonging to different groups have preferential subscription right based on the following order:

b) shareholders of shares belonging to the same series as the new shares issued
c) all shareholders of shares not belonging to the same series as the new shares issued
d) bondholders of convertible bonds
e) bondholders of bonds with subscription rights

Those having the same preferential subscription right can exercise this right among each other for the shares to be issued during capital increase as follows:

a) All subscriptions with preferential subscription right have to be satisfied if it is possible based on the number of shares to be issued
b) If within the same group not all subscriptions with preferential subscription right can be satisfied then the competing subscriptions have to be satisfied based on the card dealing system, with the subscription randomly put in sequence by a computer. When dealing, at eventual subsequent rounds the satisfied shareholders shall not be considered when establishing the sequence. The detailed rules of exercising the preferential subscription right shall be established by the Board of Directors and will be published in an announcement.'

Explanation: The rules of exercising the preferential subscription right shall be established by the By-Laws. (Act CXLIV of 1997 on Business Associations [Section 246(A)(1)]

34./ The By-Laws to be supplemented with the following new point 14.10.:

‘14.10., the board of directors shall publish a written proposal on the motion for excluding preemptive subscription rights prior to the day of the General Meeting according to Para 16 of the By-Laws. The issue of excluding preemptive subscription rights will be debated by the general meeting according to its rules. The motion should include detailed reasons for the given disallowing of preemptive subscription rights and the description, the number and the total issue value of shares related to the given capital increase.’

Explanation: According to the modification of the Law, the general meeting may decide to disallow the exercise of preemptive subscription rights, but the detailed rules governing the contents of such motions and the order of debating shall be laid down in the deed of foundation (statutes). (Act CXLIV of 1997 on Business Associations [Section 246(A)(3)]

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Proposal for resolutions

‘The General Meeting accepts the amendments of the Company’s By-Laws in accordance with the proposal, according to the enclosure of the AGM’s minutes with the note that modification under points 1./, 2./, 3./, 10./, 12./, 13./ 19./ and 22./ shall become valid if and when the Law governing the transformation of the voting preference (golden) share enters into force.’

AUTHORIZATION OF THE BOARD OF DIRECTORS TO THE ACQUISITION OF OWN SHARES

AUTHORIZATION OF THE BOARD OF DIRECTORS TO THE ACQUISITION OF OWN SHARES

Pursuant to the Companies Act the authorization of the Board of Directors to the acquisition of own shares pertains to the exclusive authority of the General Meeting.

The creation of supply necessary for the administration of the option and bonus share programs operating at the OTP Bank Ltd. and the prevention of price fluctuations of the shares require that the General Meeting authorize the Board of Directors to the acquisition of own shares.

Proposal:

The General Meeting authorize the Board of Directors in order to create the necessary supply for the administration of the option and bonus share programs operating at the OTP Bank Ltd. and to prevent the price fluctuations of the shares to purchase up to 28,000,000 shares on the Budapest Stock Exchange. The purchase price of the shares at each transaction shall not be higher than the price registered on the BSE on the day of the transaction. The Board of Directors is entitled to the acquisition of own shares until April 30, 2005.