



# *B* BUSINESS *Review*

# BUSINESS REVIEW

In 2003 OTP 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.

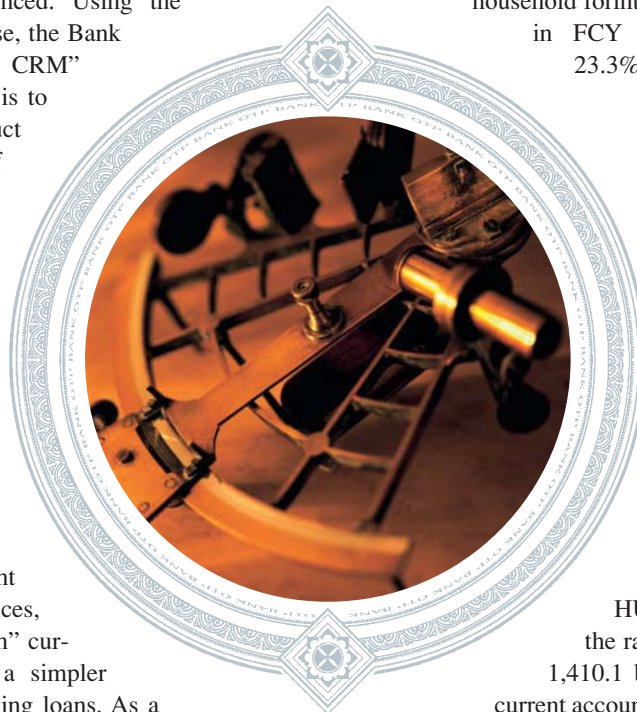
In 2002 the implementation of a *transaction data warehouse* (TDW) began, to support product development and sales activities. In 2003, the range of inputted source data was expanded, the layout of standard reports finalised and reports themselves entered into the data warehouse, and continuous operation 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.

In the frame of the *BOR* (*Back Office Rationalisation*) Project as a result of the comprehensively streamlining and centralising of back-office processes, 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-loan" 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.

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 DIVISION

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 35.8% (2002: 39.2%) in household forint deposits, 35.9% (2002: 35.4%) 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 December 31, 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

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passbook deposits amounted to HUF 382.9 billion as of December 31, 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 1.6%, to HUF 260.8 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.

Within the framework of anti-money laundering effort, based on regulations, the bank has sized up those clients on whom it did not have sufficient information meeting the regulation and initiated an effort to collect the data missing.

### RETAIL LOANS

Changes (on June 16 and December 22) 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. Retail loans of total banking system grew dynamically by almost 60% during 2003 similarly to previous years. Within these housing loans increased by around 92% to almost HUF 1,510 billion while consumer loans were 22.5% higher.

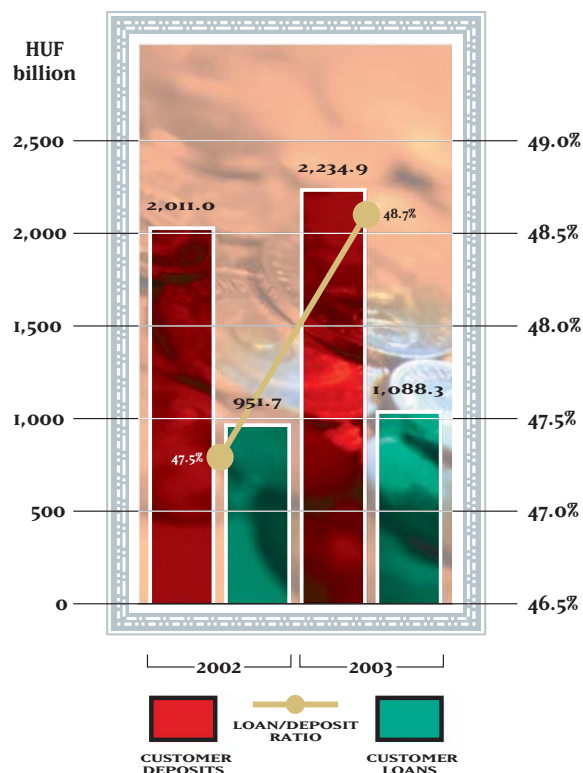
By the end of December 2003, the volume of housing loans provided by the OTP Bank was HUF 318.2 billion, 3.5% lower than at year-end 2002, due to the fact that the majority of the loans extended by the Bank were subsidised loans, later transferred to OTP Mortgage Bank.

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 housing loans of OTP Bank and OTP Mortgage Bank amounted to HUF 788 billion thus the total market share held by OTP Bank Group – including the almost HUF 9 billion loans provided by OTP Building Society as well – 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 December 31, 2003.

Within consumer loans, the volume of “A-, B-, and C-loan” 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 31.3 billion at year-end 2003.

CUSTOMER ASSETS AND LIABILITIES



In order to maintain the competitiveness of the lending activity and to improve the standard of customer service the Bank took noteworthy steps in year 2003. In the frame of the Back Office Rationalisation Project the process of lending services was reorganised. Main objectives of the changes were to reduce the duration of disbursement process and to simplify the product range.

The “A-loan” current account overdraft facility was overhauled in 2003. The improvements included automatic loan approval, an easing of the related administrative

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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, 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 37.2% higher in 2003 than in 2002, amounting to a total of HUF 5.6 billion.

In order to increase customer satisfaction the closing balance mailed at the end of each month has been modified and expanded with the data related to the turnover on cash account.

#### PRIVATE BANKING SERVICES

On January 1, 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 11.7%. At year-end 2003, the number of private banking customers was over 8,000. It should be noted that 42.5% of the increase in the number of customers was attributable to new customer acquisitions, whose assets totalled almost HUF 14 billion.

The average assets per private banking customer increased by 25% over 2002. The closing volume of the private banking portfolio on December 31, 2003 was 40% higher over one year.

Based on the number of customers, OTP Bank's private banking services have an estimated market share of approximately 35%, while in terms of the volume of its managed portfolio the Bank presumably leads the market with a share of approximately 30% for 2003.

From November 2003 our Private Banking website is also available for private banking customers to gain information about banking products and services and also about stock markets.

### BANKCARD BUSINESS

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



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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-loan” and “C-loan” overdraft facilities was 173,000 and 136,000 respectively at the end of the year 2003. There were 89,000 of the various other types of retail bankcard used at year-end 2003.

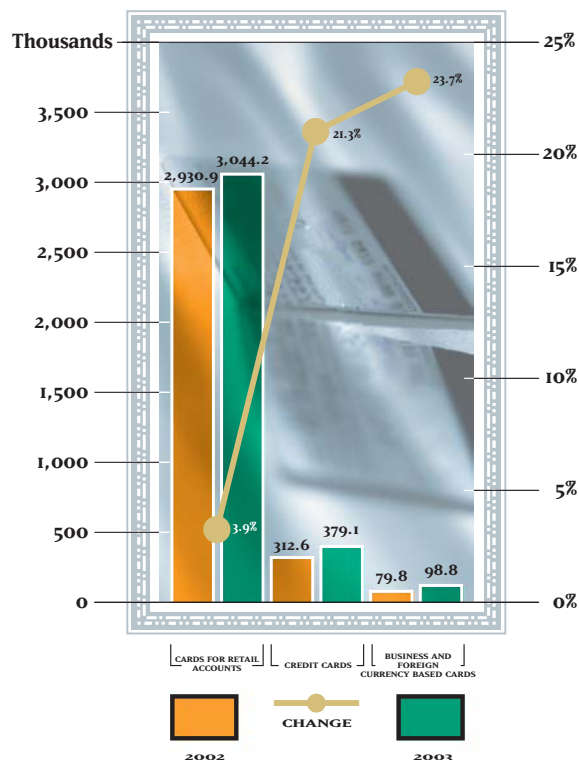
The last quarter of 2003 saw the introduction of a traditional credit card product, aimed specifically at retail customers, and of which 5,885 were distributed between October and December 2003. The other very successful product was the Multipont bank card. In the frame of Multipont program owing to the proper marketing campaign and the expansion of the network the number of new cards issued in 2003 was 80,000, it means 66% growth. The number of Gold debit cards grew considerably as well (by 4,180).

At year-end 2003, the number of business cards was 92,000, representing an increase of 23.5%. 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 December 31, 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

**BANKCARDS ISSUED**



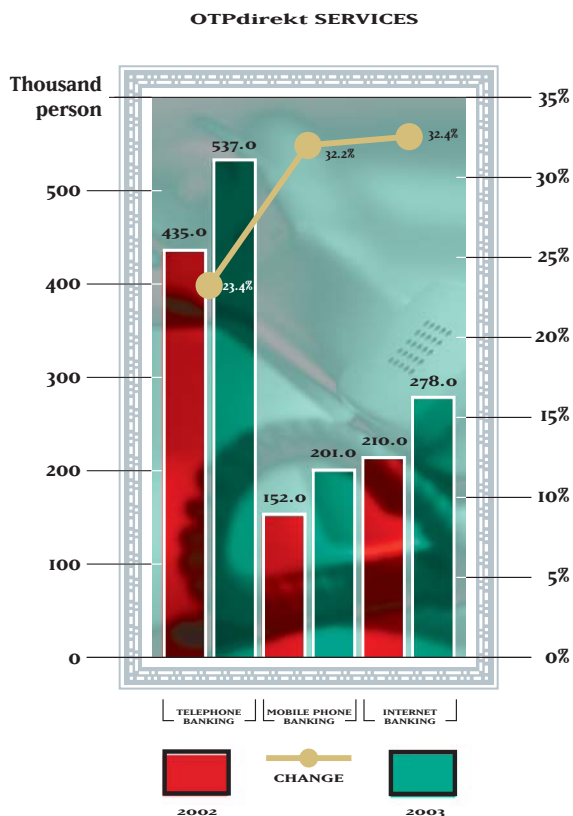
34% in the number of transactions and a 35% increase turnover. On the issuer side, both the number of transactions and turnover increased by 35% compared to 2002. Thus, the 34.7 million transactions carried out by OTP Bank’s customers resulted in a turnover of close to HUF 260 billion.

OTP Bank intends to expand further the range of its bank cards in the future. The objective is to set up – through the monitoring of trends in the world market and through surveying the domestic special demand – a high level card selection which meets all the requirements.

## 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).

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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-loan overdraft, credit cards, housing loans).

### COMMERCIAL BANKING DIVISION

In 2003, the Bank retained its leading position in the corporate banking market. As at December 31, 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 entrepreneurs 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 entrepreneurs reached HUF 11.2 billion, representing an increase of 21.3%.

As of December 31, 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 pur-

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chases, 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 the Bank developed preferential account holding packages and loan products for condominiums and housing cooperatives.

At the year-end 2003 almost 8,000 customer terminals were in use among entrepreneurs disposing over large account turnover. 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

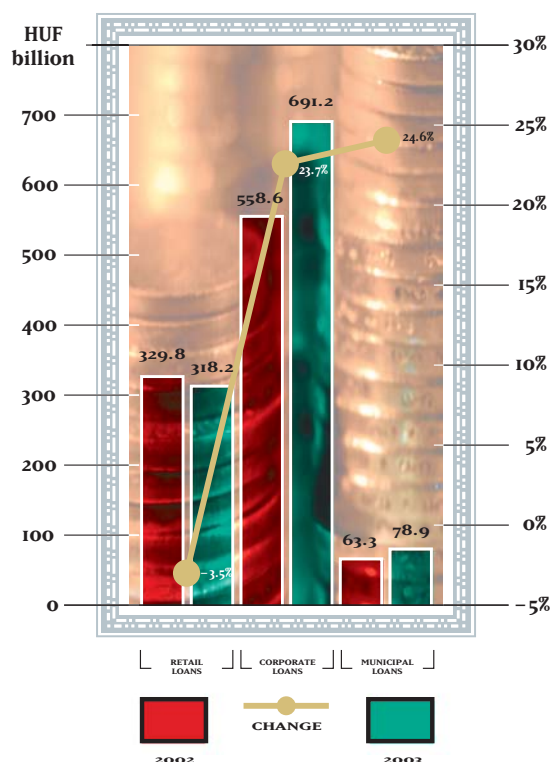
The year 2003 was the most successful year for OTP's customs services since their introduction in 1998. The

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.

CUSTOMER LOANS



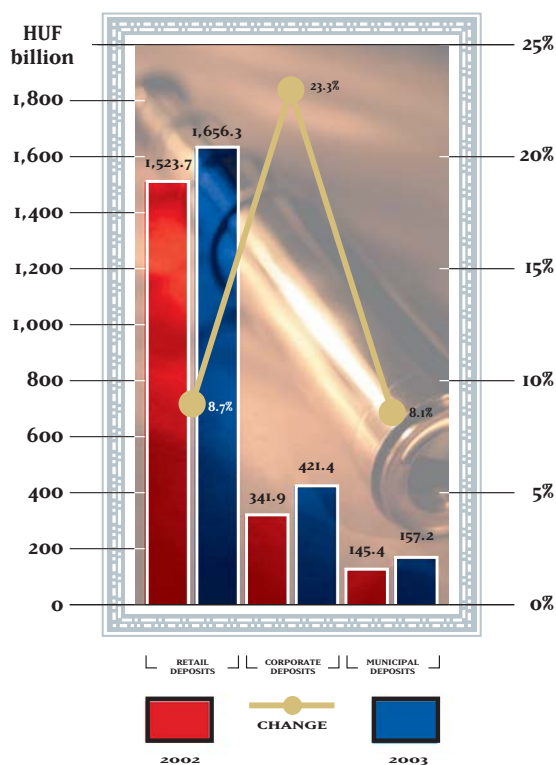
In 2003 this business area commenced preparations to expand its range of services in order to continue serving customers to the exacting standards that they have come to expect, even in the changing regulatory and economic environment resulting from EU accession and customs harmonisation.

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### INTERNATIONAL BANKING

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.

CUSTOMER DEPOSITS



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%.

The interest rate revenue from the investment portfolio were HUF 61 billion, while the corresponding figures for the trading portfolio were HUF 2.9 billion.

However, in terms of sales 2003 was a successful year, with the number of customers over 400. Volume also increased by almost 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 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.

Based on voting by the investors and distributors OTP has been awarded third place on the contest for the BEST in government papers trading, organized by the Government Debt Management Agency Ltd. (AKK Rt.).

### STRUCTURED FINANCE

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 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,



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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, to meet the long-term funding requirements of the Bank and the Group the structured finance division developed tailored refinancing credit facilities for Merkantil Bank and the application for a subordinated loan from EBRD to finance 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 December 31, 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.

### EQUITY INVESTMENTS

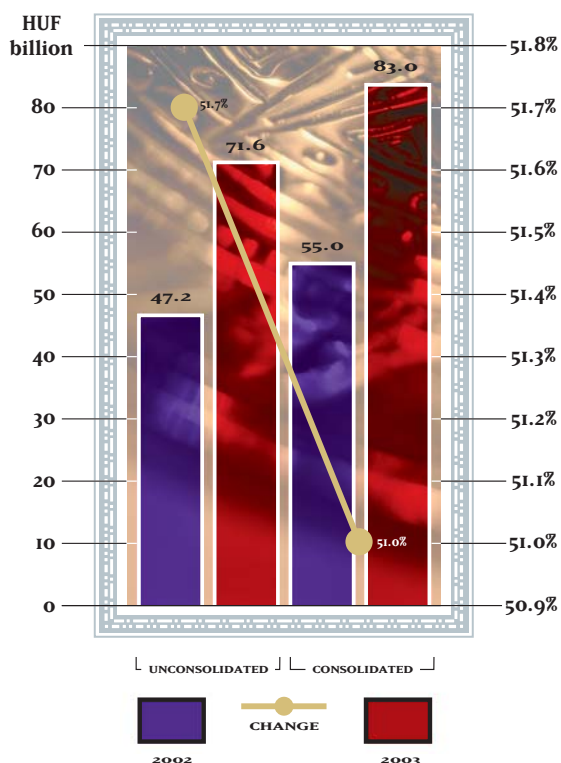
In 2003 the gross book value of the Bank's investments in various companies grew from HUF 49.4 billion to HUF 106.8 billion. As of 31 December 2003, OTP group investments, which constitute the bulk of the Bank's strategic investments, totalled HUF 105.5 billion.

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

The operations of the subsidiaries in 2003 essentially met the targets and other requirements set by the Bank

PROFIT AFTER TAXATION



and its owners. The aggregate balance sheet totals of the fully consolidated subsidiaries of the OTP Group amounted to HUF 1,550 billion and their combined consolidated pre-tax profits were HUF 25.2 billion in 2003. (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<sup>1</sup> respectively at year-end 2003.)

### MERKANTIL BANK LTD.

Competition in the car financing 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

<sup>1</sup> Q4 profits, since the Bank purchased DSK Group on 1 October 2003.

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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%. 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.

### *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.

### *OTP BUILDING SOCIETY LTD.*

OTP Building Society Ltd. closed 2003 with a total assets 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%.

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.

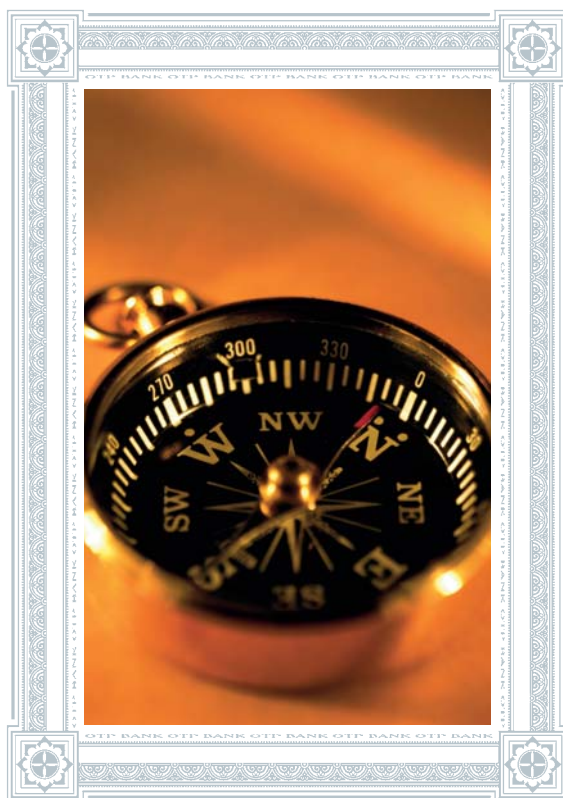
OTP Building Society's share of the building society savings market, which has come to be dominated by two main players, was 45% in terms of the number of contracts, 42% in terms of their volume, and 44% in terms of its deposit portfolio.

### *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, 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 605 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). Market share of OTP Mortgage Bank in total housing loans of the banking system was almost 41%.



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### DSK BANK EAD

The purchase of Bulgaria's DSK Bank Group in 2003 was an important step towards the successful implementation of OTP Bank's acquisition strategy. DSK Bank and its subsidiaries, 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 February 1, 2004, DSK Bank unveiled its new image, which reflects its status as a member of the OTP Bank Group.

### 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.

### 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%. The premium income of unit-linked insurance



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products reached HUF 21.8 billion and was 7.4% higher than in 2002. Income from simple life insurances – in accordance with the strategy of the Company – increased by 43.8% compared to the previous year. Revenue from non-life insurance was HUF 32.1 billion, which is the result of an outstandingly high growth rate of 19.2%. The premium of home insurances, travel insurance Casco insurance and of agricultural insurance increased considerably. 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 claims totalled HUF 27.1 billion. Together with the change in reserves, claim 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 December 31, 2003.

In 2003, in the context of the cooperation between the Insurance Company and OTP Bank, the revenue from the premiums of bank insurance products exceeded HUF 21 billion within this almost HUF 20 billion was the life insurance premium. Thus nearly 35% of the premium income of the Insurance Company accrued from the sale in the OTP Bank's network. The Bank sold more than 471 thousand insurance product, from this 382 thousand was bank card related accident insurance. Home insurance products sold by the Bank exceeded 41 thousand due to the increasingly intensive home-financing activities. The number of the popular Generáció X insurance products sold in 2003 almost reached 27 thousand. At the same time, the Insurance Company concluded more than 10,000 private pension-fund and 5,000 voluntary pension-fund agreement.

### *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

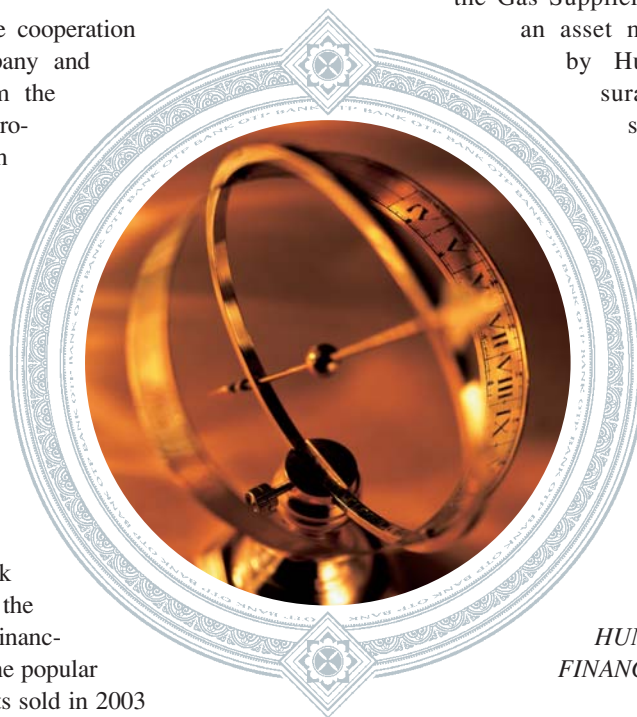
to sustain a portfolio loss. OTP Fund Management also suffered as a result of the unfavourable developments. Owing to withdrawals of capital in November and December, the total volume of managed assets was HUF 644 billion at year-end 2003, representing an increase of only 1.6% in the course of 2003.

The volume of assets managed in the investment funds decreased by 16.5%, or HUF 78.2 billion, while the market shrank by 4.1%. As a result, OTP Fund Management lost 4.3 percentage points of its market share in 2003. Thus, its market share at year-end 2003 was 47.6%.

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.

### *HUNGARIAN INTERNATIONAL FINANCE LTD.*

In 2003 HIF's geographic reach included 13 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.



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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.*

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%).

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 ASSET 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. Therefore matured and recalled loans with less than HUF 10 million amount are automatically transferred to the Factoring Ltd. from the branches of OTP Bank.

In 2003, the Company bought 43.5 thousand qualified receivables from the Bank, in a gross value of HUF 14.5 billion.

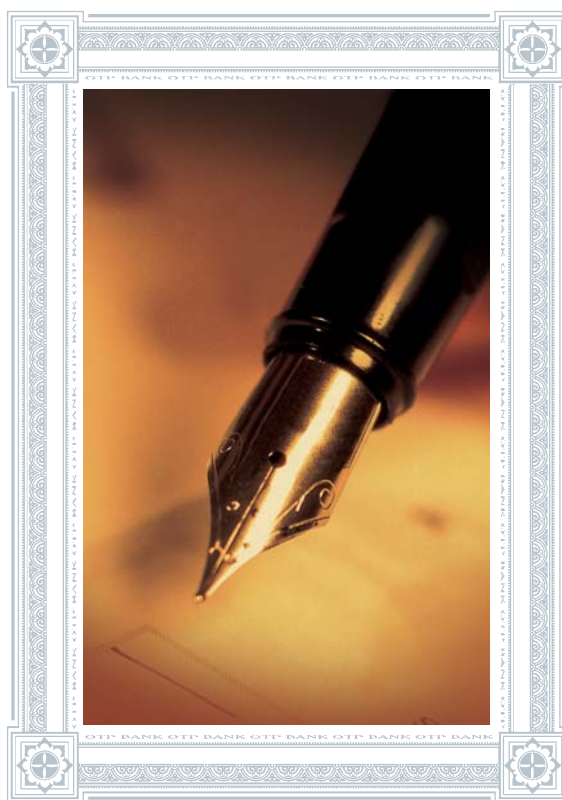
The gross value of the 15,000 receivables purchased from third parties, and that of 3,600 not-yet-overdue receivables from municipalities exceeded HUF 1.5 billion and HUF 1 billion respectively.

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%.

### *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 36.3% to HUF 193.9 billion by year-end 2003, with the number of its members increasing 7.2% to 836,000. 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



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its managed assets. The assets of the Health Care Fund was HUF 732 million, while its membership increased by 48.8% to more than 11,500.

### *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.

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.

