

Offering Circular



OTP Bank Rt.

(incorporated with limited liability in the Republic of Hungary)

€125,000,000

Floating Rate Subordinated Notes due March 2015

Issue price: 100 per cent.

The €125,000,000 Floating Rate Subordinated Notes due March 2015 (the **Notes**) are issued by OTP Bank Rt. (the **Issuer** or the **Bank**).

Interest will be payable quarterly in arrear on 4th March, 4th June, 4th September and 4th December of each year (each an **Interest Payment Date**) subject to adjustment in accordance with the modified following business day convention. Interest will accrue from and including 4th March, 2005 to but excluding the interest payment date falling in March 2015 and will be at a rate of 0.55 per cent. per annum above three month EURIBOR as further described, and except as mentioned, under "*Conditions of the Notes — Interest*".

The Issuer may redeem the Notes at par on any Interest Payment Date in the event of certain tax changes. The Notes mature on the interest payment date falling in March 2015. See "*Conditions of the Notes — Redemption and Purchase*".

Application has been made for the listing of the Notes on the Luxembourg Stock Exchange.

The Notes will initially be represented by a temporary global note (the **Temporary Global Note**), without interest coupons, which will be deposited on or about 4th March, 2005 (the **Closing Date**) with a common depositary for Euroclear Bank S.A./N.V., as operator of the Euroclear System (**Euroclear**) and Clearstream Banking, société anonyme (**Clearstream, Luxembourg**). Interests in the Temporary Global Note will be exchangeable for interests in a permanent global note (the **Permanent Global Note** and, together with the Temporary Global Note, the **Global Notes**), without interest coupons, on or after 14th April, 2005 (the **Exchange Date**), upon certification as to non-U.S. beneficial ownership. Interests in the Permanent Global Note will be exchangeable for definitive Notes only in certain limited circumstances — see "*Summary of Provisions relating to the Notes while represented by the Global Notes*".

JPMorgan

The Issuer accepts responsibility for the information contained in this Offering Circular. To the best of the knowledge and belief of the Issuer (having taken all reasonable care to ensure that such is the case) the information contained in this Offering Circular is in accordance with the facts and does not omit anything likely to affect the import of such information. The Issuer, having made all reasonable enquiries, confirms that this Offering Circular contains or incorporates all information which is material in the context of the Notes, that the information contained or incorporated in this Offering Circular is true and accurate in all material respects and is not misleading, that the opinions and intentions expressed in this Offering Circular are honestly held and that there are no other facts the omission of which would make this Offering Circular or any of such information or the expression of any such opinions or intentions misleading. The Issuer accepts responsibility accordingly.

No person has been authorised to give any information or to make any representation other than those contained in this document in connection with the offering of the Notes and, if given or made, such information or representations must not be relied upon as having been authorised by the Issuer or J.P. Morgan Securities Ltd. as Manager. Neither the delivery of this document nor any sale made hereunder shall, under any circumstances, constitute a representation or create any implication that there has been no change in the affairs of the Issuer or the Group since the date hereof. This document does not constitute an offer of, or an invitation by, or on behalf of, the Issuer or the Manager to subscribe for, or purchase, any of the Notes. This document does not constitute an offer, and may not be used for the purpose of an offer to, or a solicitation by, anyone in any jurisdiction or in any circumstances in which such an offer or solicitation is not authorised or is unlawful. This Offering Circular may only be used for the purposes for which it has been published.

The Manager has not separately verified the information contained herein. Accordingly, no representation, warranty or undertaking, express or implied, is made and no responsibility or liability is accepted by the Manager as to the accuracy or completeness of the information contained in this Offering Circular or any other information provided by the Issuer in connection with the Notes or their distribution.

This Offering Circular is not intended to provide the basis of any credit or other evaluation and should not be considered as a recommendation by the Issuer or the Manager that any recipient of this Offering Circular should purchase any of the Notes. Each investor contemplating purchasing Notes should make its own independent investigation of the financial condition and affairs, and its own appraisal of the creditworthiness, of the Issuer.

*The Notes have not been and will not be registered under the United States Securities Act of 1933, as amended, (the **Securities Act**) and are subject to U.S. tax law requirements. Subject to certain exceptions, the Notes may not be offered, sold or delivered within the United States or to U.S. persons. For a further description of certain restrictions on the offering and sale of the Notes and on distribution of this document, see "Subscription and Sale" below.*

IN CONNECTION WITH THE ISSUE OF THE NOTES, J.P. MORGAN SECURITIES LTD. OR ANY PERSON ACTING FOR IT MAY OVER-ALLOT OR EFFECT TRANSACTIONS WITH A VIEW TO SUPPORTING THE MARKET PRICE OF THE NOTES AT A LEVEL HIGHER THAN THAT WHICH MIGHT OTHERWISE PREVAIL FOR A LIMITED PERIOD. HOWEVER THERE MAY BE NO OBLIGATION ON J.P. MORGAN SECURITIES LTD. OR ANY AGENT OF ITS TO DO THIS. SUCH STABILISING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME AND MUST BE BROUGHT TO AN END AFTER A LIMITED PERIOD.

*All references in this document to **EUR**, **euro** and **€** refer to the currency introduced at the start of the third stage of European economic and monetary union pursuant to the Treaty establishing the European Community (signed in Rome on 25th March, 1957), as amended, all references to **HUF** and **Forint** are to Hungarian Forint, all references to **BGN** are to Bulgarian leva and all references to **SKK** are to Slovakian koruny.*

As of 2nd March, 2005:

the exchange rate for HUF to EUR is HUF 242.144 to EUR 1;

the exchange rate for BGN to EUR is BGN 1.94477 to EUR 1; and

the exchange rate for SKK to EUR is SKK 37.8508 to EUR 1.

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Incorporation by Reference

The audited consolidated and unconsolidated financial statements of the Issuer as at and for the years ended 31st December, 2002 and 2003 and the unaudited consolidated and unconsolidated financial statements of the Issuer for the year ended 31st December, 2004 are incorporated by reference into this Offering Circular and may be obtained free of charge at the specified office of J.P. Morgan Bank Luxembourg S.A. as Luxembourg listing agent.

All figures in this Offering Circular are derived from statements prepared in accordance with IFRS, unless otherwise indicated.

When used in this Offering Circular HAR means the Hungarian National Accounting Regulations.

Any figures included with reference to the "Bank" shall be derived from unconsolidated data and any figures included with reference to the "Group" shall be derived from consolidated data.

Conditions of the Notes

The following is the text of the Conditions of the Notes which (subject to modification) will be endorsed on each Note in definitive form:

The €125,000,000 Floating Rate Subordinated Notes due March 2015 (the **Notes**, which expression shall in these Conditions, unless the context otherwise requires, include any further notes issued pursuant to Condition 12 and forming a single series with the Notes) of OTP Bank Rt. (the **Issuer**) are issued subject to and with the benefit of an Agency Agreement dated 4th March, 2005 (such agreement as amended and/or supplemented and/or restated from time to time, the **Agency Agreement**) made between the Issuer, JPMorgan Chase Bank, National Association as fiscal agent, principal paying agent and agent bank (the **Fiscal Agent**) and the other initial paying agents named in the Agency Agreement (together with the Fiscal Agent, the **Paying Agents**).

The statements in these Conditions include summaries of, and are subject to, the detailed provisions of and definitions in the Agency Agreement. Copies of the Agency Agreement are available for inspection during normal business hours by the holders of the Notes (the **Noteholders**) and the holders of the interest coupons appertaining to the Notes (the **Couponholders** and the **Coupons** respectively) at the specified office of each of the Paying Agents. The Noteholders and the Couponholders are entitled to the benefit of, are bound by, and are deemed to have notice of, all the provisions of the Agency Agreement applicable to them. References in these Conditions to the Fiscal Agent and the Paying Agents shall include any successor appointed under the Agency Agreement.

1. Form, Denomination and Title

1.1 Form and Denomination

The Notes are in bearer form, serially numbered, in the denomination of €50,000 each with Coupons attached on issue.

1.2 Title

Title to the Notes and to the Coupons will pass by delivery.

1.3 Holder Absolute Owner

The Issuer and any Paying Agent may (to the fullest extent permitted by applicable laws) deem and treat the bearer of any Note or Coupon as the absolute owner for all purposes (whether or not the Note or Coupon shall be overdue and notwithstanding any notice of ownership or writing on the Note or Coupon or any notice of previous loss or theft of the Note or Coupon).

2. Status and Subordination

The Notes and the Coupons constitute unconditional, unsecured and subordinated obligations of the Issuer (*alárendelt kölcsöntőke*, as defined in Point 10 of Annex 5 to Act CXII of 1996 on Credit Institutions and Financial Enterprises, as amended from time to time) and, subject to the provisions of the following paragraph, rank *pari passu* without any preference among themselves. The Notes will be treated equally and all amounts paid by the Issuer in respect of principal and interest thereon will be paid *pro rata* on all the Notes.

In the event of the liquidation (*felszámolás*) of the Issuer in accordance with Act XLIX of 1991 on Bankruptcy, Liquidation and Voluntary Winding-up Proceedings, the payment obligations of the Issuer under the Notes and the Coupons will rank in right of payment after unsubordinated unsecured creditors (including depositors) of the Issuer but at least *pari passu* with all other subordinated obligations of the Issuer which do not rank or are not expressed by their terms to rank junior to the Notes and in priority to the claims of shareholders of the Issuer.

Each holder of a Note unconditionally and irrevocably waives any right of set-off, counterclaim, abatement or other similar remedy which it might otherwise have, under the laws of any jurisdiction, in respect of such Note.

3. Interest

3.1 Interest Payment Dates

The Notes bear interest from and including 4th March, 2005 (the **Interest Commencement Date**), and interest will be payable on 4th March, 4th June, 4th September and 4th December in each year (each an **Interest Payment Date**). If any Interest Payment Date would otherwise fall on a day which is not a Business Day (as defined below) it shall be postponed to the next day which is a Business Day unless it would then fall into the next

calendar month in which event the Interest Payment Date shall be brought forward to the immediately preceding Business Day. The first Interest Payment Date will fall in June 2005.

The period from and including the Interest Commencement Date to but excluding the first Interest Payment Date and each successive period from and including an Interest Payment Date to but excluding the next succeeding Interest Payment Date is called an **Interest Period**.

3.2 *Interest Accrual*

Each Note will cease to bear interest from and including the due date for redemption unless, upon due presentation, payment of the principal in respect of the Note is improperly withheld or refused or unless default is otherwise made in respect of the payment. In such event, interest will continue to accrue until whichever is the earlier of:

- (a) the date on which all amounts due in respect of such Note have been paid; and
- (b) five days after the date on which the full amount of the moneys payable in respect of such Notes has been received by the Fiscal Agent and notice to that effect has been given to the Noteholders in accordance with Condition 10.

3.3 *Rate of Interest*

The rate of interest payable from time to time in respect of the Notes (the **Rate of Interest**) will be determined on the basis of the following provisions:

- (a) On each Interest Determination Date (as defined below), the Fiscal Agent or its duly appointed successor (in such capacity, the **Agent Bank**) will determine the Screen Rate (as defined below) at approximately 11.00 a.m. (Brussels time) on that Interest Determination Date. If the Screen Rate is unavailable, the Agent Bank will request the principal Euro-zone (as defined below) office of each of the Reference Banks (as defined below) to provide the Agent Bank with the rate at which deposits in euro are offered by it to prime banks in the Euro-zone interbank market for three months at approximately 11.00 a.m. (Brussels time) on the Interest Determination Date in question and for a Representative Amount (as defined below).
- (b) The Rate of Interest for the Interest Period shall be the Screen Rate plus the Margin (as defined below) or, if the Screen Rate is unavailable, and at least two of the Reference Banks provide such rates, the arithmetic mean (rounded if necessary to the fifth decimal place, with 0.000005 being rounded upwards) as established by the Agent Bank of such rates, plus the Margin.
- (c) If fewer than two rates are provided as requested, the Rate of Interest for that Interest Period will be the arithmetic mean of the rates quoted by major banks in the Euro-zone, selected by the Agent Bank, at approximately 11.00 a.m. (Brussels time) on the first day of such Interest Period for loans in euro to leading European banks for a period of three months commencing on the first day of such Interest Period and for a Representative Amount, plus the Margin. If the Rate of Interest cannot be determined in accordance with the above provisions, the Rate of Interest shall be determined as at the last preceding Interest Determination Date.
- (d) The Margin (the **Margin**) in relation to the Notes is 0.55 per cent. per annum.
- (e) In these Conditions (except where otherwise defined), the expression:
 - (i) **Business Day** means a day which is both a day on which commercial banks and foreign exchange markets settle payments and are open for general business (including dealing in foreign exchange and foreign currency deposits) in London and a TARGET Settlement Day;
 - (ii) **Euro-zone** means the region comprised of the member states of the European Union that have adopted the single currency in accordance with the Treaty establishing the European Community (signed in Rome on 25th March, 1957) as amended;
 - (iii) **Interest Determination Date** means the second TARGET Settlement Day before the commencement of the Interest Period for which the rate will apply;
 - (iv) **Reference Banks** means the principal Euro-zone office of each of four major banks engaged in the Euro-zone interbank market selected by the Agent Bank provided that, once a Reference Bank has been selected by the Agent Bank, that Reference Bank shall not be changed unless and until it ceases to be capable of acting as such;
 - (v) **Representative Amount** means, in relation to any quotation of a rate for which a Representative Amount is relevant, an amount that is representative for a single transaction in the relevant market at the relevant time;

(vi) **Screen Rate** means the rate for three month deposits in euro which appears on the Telerate Page 248 (or such replacement page on that service which displays the information); and

(vii) **TARGET Settlement Day** means any day on which the Trans-European Automated Real-Time Gross Settlement Express Transfer (TARGET) System is open.

3.4 Determination of Rate of Interest and Interest Amount

The Agent Bank shall, as soon as practicable after 11.00 a.m. (Brussels time) on each Interest Determination Date, but in no event later than the third Business Day thereafter, determine the euro amount (the **Interest Amount**) payable in respect of interest on each €50,000 principal amount of Notes for the relevant Interest Period. The Interest Amount shall be determined by applying the Rate of Interest to such principal amount, multiplying the sum by the actual number of days in the Interest Period concerned divided by 360 and rounding the resultant figure to the nearest cent (half a cent being rounded upwards).

3.5 Publication of Rate of Interest and Interest Amount

The Agent Bank shall cause the Rate of Interest and the Interest Amount for each Interest Period and the relative Interest Payment Date to be notified to the Issuer, the Fiscal Agent and to any stock exchange or other relevant authority on which the Notes are at the relevant time listed and to be published in accordance with Condition 10 as soon as possible after their determination, and in no event later than the second Business Day thereafter. The Interest Amount and Interest Payment Date may subsequently be amended (or appropriate alternative arrangements made by way of adjustment) without notice in the event of an extension or shortening of the Interest Period.

3.6 Notifications, etc. to be Final

All notifications, opinions, determinations, certificates, calculations, quotations and decisions given, expressed, made or obtained for the purposes of the provisions of this Condition, whether by the Reference Banks (or any of them) or the Agent Bank, will (in the absence of wilful default, bad faith or manifest error) be binding on the Issuer, the Agents and all Noteholders and Couponholders and (in the absence of wilful default, bad faith or manifest error) no liability to the Issuer or the Noteholders or the Couponholders shall attach to the Reference Banks (or any of them), the Agent Bank in connection with the exercise or non-exercise by it of its powers, duties and discretions under this Condition.

3.7 Agent Bank

The Issuer shall procure that, so long as any of the Notes remains outstanding, there is at all times an Agent Bank for the purposes of the Notes and the Issuer may terminate the appointment of the Agent Bank. In the event of the appointed office of any bank being unable or unwilling to continue to act as the Agent Bank or failing duly to determine the Rate of Interest and the Interest Amount for any Interest Period, the Issuer shall appoint the Euro-zone office of another major bank engaged in the Euro-zone interbank market to act in its place. The Agent Bank may not resign its duties or be removed without a successor having been appointed.

4. Payments

4.1 Payments in respect of Notes

Payments of principal and interest in respect of each Note will be made against presentation and surrender (or, in the case of part payment only, endorsement) of the Note, except that payments of interest due on an Interest Payment Date will be made against presentation and surrender (or, in the case of part payment only, endorsement) of the relevant Coupon, in each case at the specified office outside the United States of any of the Paying Agents.

4.2 Method of Payment

Payments will be made by credit or transfer to a euro account (or any other account to which euro may be credited or transferred) specified by the payee or, at the option of the payee, by euro cheque.

4.3 Missing Unmatured Coupons

Upon the date on which any Note becomes due and repayable, all unmatured Coupons appertaining to the Note (whether or not attached) shall become void and no payment shall be made in respect of such Coupons.

4.4 *Payments subject to Applicable Laws*

Payments in respect of principal and interest on Notes are subject in all cases to any fiscal or other laws and regulations applicable in the place of payment, but without prejudice to the provisions of Condition 6.

4.5 *Payment only on a Presentation Date*

A holder shall be entitled to present a Note or Coupon for payment only on a Presentation Date and shall not, except as provided in Condition 3, be entitled to any further interest or other payment if a Presentation Date is after the due date.

Presentation Date means a day which (subject to Condition 7):

- (a) is or falls after the relevant due date;
- (b) is a Business Day in the place of the specified office of the Paying Agent at which the Note or Coupon is presented for payment; and
- (c) in the case of payment by credit or transfer to a euro account as referred to above, is a TARGET Settlement Day.

In this Condition, **Business Day** means, in relation to any place, a day on which commercial banks and foreign exchange markets settle payments and are open for general business (including dealing in foreign exchange and foreign currency deposits) in that place.

4.6 *Initial Paying Agents*

The names of the initial Paying Agents and their initial specified offices are set out at the end of these Conditions. The Issuer reserves the right at any time to vary or terminate the appointment of any Paying Agent and to appoint additional or other Paying Agents provided that:

- (a) there will at all times be a Fiscal Agent;
- (b) there will at all times be at least one Paying Agent (which may be the Fiscal Agent) having its specified office in a European city which so long as the Notes are listed on the Luxembourg Stock Exchange shall be Luxembourg; and
- (c) the Issuer undertakes that it will to the extent possible and permitted by law ensure that it maintains a Paying Agent in a Member State of the European Union that is not obliged to withhold or deduct tax pursuant to European Council Directive 2003/48/EC or any other Directive implementing the conclusions of the ECOFIN Council meeting of 26th-27th November, 2000 or any law implementing or complying with, or introduced in order to conform to, such Directive.

Notice of any termination or appointment and of any changes in specified offices shall be given to the Noteholders promptly by the Issuer in accordance with Condition 10.

5. **Redemption and Purchase**

5.1 *Redemption at Maturity*

Unless previously redeemed or purchased and cancelled as provided below, the Issuer will redeem the Notes at their principal amount on the Interest Payment Date falling in March 2015.

5.2 *Redemption for Taxation Reasons*

If:

- (a) as a result of any change in, or amendment to, the laws or regulations of the Republic of Hungary, or any change in the official interpretation of the laws or regulations of the Republic of Hungary, which change or amendment becomes effective after 3rd March, 2005, on the next Interest Payment Date the Issuer would be required to pay additional amounts as provided or referred to in Condition 6; and
- (b) the requirement cannot be avoided by the Issuer taking reasonable measures available to it,

the Issuer may at its option (but subject to the prior approval of the Hungarian Financial Supervisory Authority (*Pénzügyi Szervezetek Állami Felügyelete*) (the **Regulator**, which expression shall include any successor to the Hungarian Financial Supervisory Authority (*Pénzügyi Szervezetek Állami Felügyelete*) as the relevant regulator of banks operating in the Republic of Hungary) where required), having given not less than 30 nor more than 60 days' notice to the Noteholders in accordance with Condition 10 (which notice shall be irrevocable), redeem all the Notes, but not some only, on the next Interest Payment Date at their principal amount. Prior to the publication

of any notice of redemption pursuant to this paragraph, the Issuer shall deliver to the Fiscal Agent a certificate signed by two Directors of the Issuer stating that the requirement referred to in (a) above will apply on the next Interest Payment Date and setting forth a statement of facts showing that the conditions precedent to the right of the Issuer so to redeem have occurred and cannot be avoided by the Issuer taking reasonable measures available to it and an opinion of independent legal advisers of recognised standing to the effect that the Issuer has or will become obliged to pay such additional amounts as a result of the change or amendment.

5.3 Purchases

The Issuer or any of its subsidiaries may, subject to the prior approval of the Regulator where required, at any time purchase Notes (provided that all unmatured Coupons appertaining to the Notes are purchased with the Notes) in any manner and at any price.

5.4 Cancellations

All Notes which are (a) redeemed or (b) purchased by or on behalf of the Issuer or any of its Subsidiaries will forthwith be cancelled, together with all relative unmatured Coupons attached to the Notes or surrendered with the Notes, and accordingly may not be reissued or resold.

5.5 Notices Final

Upon the expiry of any notice as is referred to in paragraph 5.2 above the Issuer shall be bound to redeem the Notes to which the notice refers in accordance with the terms of such paragraph.

6. Taxation

6.1 Payment without Withholding

All payments in respect of the Notes by or on behalf of the Issuer shall be made without withholding or deduction for, or on account of, any present or future taxes, duties, assessments or governmental charges of whatever nature (**Taxes**) imposed or levied by or on behalf of the Republic of Hungary or any political subdivision or any authority thereof or therein with power to tax, unless the withholding or deduction of the Taxes is required by law. In that event, the Issuer will pay such additional amounts as may be necessary in order that the net amounts received by the Noteholders and Couponholders after the withholding or deduction shall equal the respective amounts which would have been receivable in respect of the Notes or, as the case may be, Coupons in the absence of the withholding or deduction; except that no additional amounts shall be payable in relation to any payment in respect of any Note or Coupon:

- (a) presented for payment by or on behalf of a holder who is liable to the Taxes in respect of the Note or Coupon by reason of his having some connection with the Republic of Hungary other than the mere holding of the Note or Coupon; or
- (b) presented for payment in the Republic of Hungary; or
- (c) where such withholding or deduction is imposed on a payment to an individual and is required to be made pursuant to European Council Directive 2003/48/EC or any other Directive implementing the conclusions of the ECOFIN Council meeting of 26th-27th November, 2000 on the taxation of savings income or any law implementing or complying with, or introduced in order to conform to, such Directive; or
- (d) presented for payment by or on behalf of a holder who would have been able to avoid such withholding or deduction by presenting the relevant Note or Coupon to another Paying Agent in a Member State of the European Union; or
- (e) presented for payment more than 30 days after the Relevant Date (as defined below) except to the extent that a holder would have been entitled to additional amounts on presenting the same for payment on the last day of the period of 30 days assuming that day to have been a Presentation Date (as defined in Condition 4).

In these Conditions **Relevant Date** means the date on which the payment first becomes due but, if the full amount of the money payable has not been received by the Fiscal Agent on or before the due date, it means the date on which, the full amount of the money having been so received, notice to that effect has been duly given to the Noteholders by the Issuer in accordance with Condition 10.

6.2 Additional Amounts

Any reference in these Conditions to any amounts in respect of the Notes shall be deemed also to refer to any additional amounts which may be payable under this Condition.

7. Prescription

Notes and Coupons will become void unless presented for payment within periods of 10 years (in the case of principal) and five years (in the case of interest) from the Relevant Date in respect of the Notes or, as the case may be, the Coupons, subject to the provisions of Condition 4.

8. Events of Default

8.1 Liquidation

If a judgment is made for the dissolution and liquidation of the Issuer and is not cancelled within a period of 14 days from the date of such judgment or an effective resolution is passed for the dissolution and liquidation of the Issuer, the holder of any Note may give written notice to the Fiscal Agent at its specified office that such Note is due and payable, whereupon the same shall become forthwith due and payable at its principal amount, together with accrued interest (if any) to the date of repayment without presentation, demand, protest or other notice of any kind.

8.2 Non Payment

If default is made for more than 60 days in the payment of any interest due under the Notes or any of them, any Noteholder may institute proceedings in the Republic of Hungary (but not elsewhere) in accordance with Act XLIX of 1991 on Bankruptcy, Liquidation and Voluntary Winding-up Proceedings for the dissolution and liquidation of the Issuer.

8.3 Breach of Obligations

To the extent permitted by applicable law and by these Conditions, a Noteholder may at its discretion institute such proceedings against the Issuer as it may think fit to enforce any obligation, condition, undertaking or provision binding on the Issuer under the Notes or the Coupons, but the institution of such proceedings shall not have the effect that the Issuer shall be obliged to pay any sum or sums sooner than would otherwise have been payable by it.

8.4 Other Remedies

No remedy against the Issuer, other than the institution of the proceedings referred to in Condition 8.2 or 8.3 and the proving or claiming in any dissolution and liquidation of the Issuer, shall be available to the Noteholders or the Couponholders whether for the recovering of amounts owing in respect of the Notes or the Coupons or in respect of any breach by the Issuer of any other obligation, condition or provision binding on it under the Notes or the Coupons.

9. Replacement of Notes and Coupons

Should any Note or Coupon be lost, stolen, mutilated, defaced or destroyed it may be replaced at the specified office of the Fiscal Agent or the Paying Agent in Luxembourg, upon payment by the claimant of the expenses incurred in connection with the replacement and on such terms as to evidence and indemnity as the Issuer may reasonably require. Mutilated or defaced Notes or Coupons must be surrendered before replacements will be issued.

10. Notices

10.1 Notices to the Noteholders

All notices to the Noteholders will be valid if published in a leading English language daily newspaper published in London or such other English language daily newspaper with general circulation in Europe as the Issuer may decide and, so long as the Notes are listed on the Luxembourg Stock Exchange and the rules of that exchange so require, in one daily newspaper published in Luxembourg. It is expected that publication will normally be made in the *Financial Times* and the *Luxemburger Wort* or the *Tageblatt*. The Issuer shall also ensure that notices are duly published in a manner which complies with the rules and regulations of any stock exchange or other relevant authority on which the Notes are for the time being listed. Any such notice will be deemed to have been given on the date of the first publication or, where required to be published in more than one newspaper, on the date of the first publication in all required newspapers.

11. Meetings of Noteholders and Modification

11.1 Meetings of Noteholders

The Agency Agreement contains provisions for convening meetings of the Noteholders to consider any matter affecting their interests, including the modification by Extraordinary Resolution of any of these Conditions or any of the provisions of the Agency Agreement. The quorum at any meeting for passing an Extraordinary Resolution will be one or more persons present holding or representing more than 50 per cent. in principal amount of the Notes for the time being outstanding, or at any adjourned meeting one or more persons present whatever the principal amount of the Notes held or represented by him or them, except that at any meeting the business of which includes the modification of certain of these Conditions the necessary quorum for passing an Extraordinary Resolution will be one or more persons present holding or representing not less than two-thirds, or at any adjourned meeting not less than one-third, of the principal amount of the Notes for the time being outstanding. An Extraordinary Resolution passed at any meeting of the Noteholders will be binding on all Noteholders, whether or not they are present at the meeting, and on all Couponholders.

11.2 Modification

The Fiscal Agent may agree, without the consent of the Noteholders or Couponholders, to any modification of any of these Conditions or any of the provisions of the Agency Agreement either (i) for the purpose of curing any ambiguity or of curing, correcting or supplementing any manifest or proven error or any other defective provision contained herein or therein or (ii) in any other manner which is not materially prejudicial to the interests of the Noteholders. Any modification shall be binding on the Noteholders and the Couponholders and, unless the Fiscal Agent agrees otherwise, any modification shall be notified by the Issuer to the Noteholders as soon as practicable thereafter in accordance with Condition 10.

12. Further Issues

The Issuer may from time to time without the consent of the Noteholders or Couponholders create and issue further notes, having terms and conditions the same as those of the Notes, or the same except for the amount of the first payment of interest, which may be consolidated and form a single series with the outstanding Notes.

13. Governing Law and Submission to Jurisdiction

13.1 Governing Law

The Agency Agreement, the Notes and the Coupons are governed by, and will be construed in accordance with, English law except for Condition 2 which is governed by, and shall be construed in accordance with, the laws of the Republic of Hungary.

13.2 Jurisdiction of English Courts

The Issuer has irrevocably agreed for the benefit of the Noteholders and the Couponholders that the courts of England are to have exclusive jurisdiction to settle any disputes which may arise out of or in connection with the Notes or the Coupons and accordingly has submitted to the exclusive jurisdiction of the English courts. The Issuer waives any objection to the courts of England on the grounds that they are an inconvenient or inappropriate forum.

The Noteholders and the Couponholders may take any suit, action or proceeding arising out of or in connection with the Notes or the Coupons respectively (together referred to as Proceedings) against the Issuer in any other court of competent jurisdiction and concurrent Proceedings in any number of jurisdictions.

13.3 Appointment of Process Agent

The Issuer hereby irrevocably and unconditionally appoints Hungarian International Finance Ltd. at its registered office for the time being (being on 3rd March, 2005, 9 King Street, London EC2V 8EA) as its agent for service of process in England in respect of any Proceedings and undertakes that in the event of such agent ceasing so to act it will appoint another person as its agent for that purpose.

13.4 Other Documents

The Issuer has in the Agency Agreement submitted to the jurisdiction of the English courts and appointed an agent in England for service of process, in terms substantially similar to those set out above.

14. Rights of Third Parties

No rights are conferred on any person under the Contracts (Rights of Third Parties) Act 1999 to enforce any term of this Note, but this does not affect any right or remedy of any person which exists or is available apart from that Act.

Summary of Provisions relating to the Notes while Represented by the Global Notes

The following is a summary of the provisions to be contained in the Temporary Global Note and the Permanent Global Note (together the **Global Notes**) which will apply to, and in some cases modify, the Terms and Conditions of the Notes while the Notes are represented by the Global Notes.

1. Exchange

The Permanent Global Note will be exchangeable in whole but not in part (free of charge to the holder) for definitive Notes only upon an Exchange Event.

Exchange Event means that:

- (a) an event of default (as set out in Condition 8) has occurred and is continuing; or
- (b) the Issuer has been notified that both Euroclear and Clearstream, Luxembourg have been closed for business for a continuous period of 14 days (other than by reason of holiday, statutory or otherwise) or have announced an intention permanently to cease business or have in fact done so and no successor clearing system is available; or
- (c) the Issuer has or will become subject to adverse tax consequences which would not be suffered were the Notes in definitive form.

The Issuer will promptly give notice to Noteholders if an Exchange Event occurs. In the case of (a) or (b) above, the holder of the Permanent Global Note, acting on the instructions of one or more of the Accountholders (as defined below), may give notice to the Issuer and the Fiscal Agent and, in the case of (c) above, the Issuer may give notice to the Fiscal Agent of its intention to exchange the Permanent Global Note for definitive Notes on or after the Exchange Date (as defined below).

On or after the Exchange Date the holder of the Permanent Global Note may or, in the case of (c) above, shall surrender the Permanent Global Note to or to the order of the Fiscal Agent. In exchange for the Permanent Global Note the Issuer will deliver, or procure the delivery of, an equal aggregate principal amount of definitive Notes (having attached to them all Coupons in respect of interest which has not already been paid on the Permanent Global Note), security printed in accordance with any applicable legal and stock exchange requirements and in or substantially in the form set out in the Agency Agreement. On exchange of the Permanent Global Note, the Issuer will procure that it is cancelled and, if the holder so requests, returned to the holder together with any relevant definitive Notes.

For these purposes, **Exchange Date** means a day specified in the notice requiring exchange falling not less than 30 days after that on which such notice is given, being a day on which banks are open for general business in the place in which the specified office of the Fiscal Agent is located and, except in the case of exchange pursuant to (b) above, in the place in which the relevant clearing system is located.

2. Payments

On and after 14th April, 2005, no payment will be made on the Temporary Global Note unless exchange for an interest in the Permanent Global Note is improperly withheld or refused. Payments of principal and interest in respect of Notes represented by a Global Note will, subject as set out below, be made against presentation for endorsement and, if no further payment falls to be made in respect of the Notes, surrender of such Global Note to the order of the Fiscal Agent or such other Paying Agent as shall have been notified to the Noteholders for such purposes. A record of each payment made will be endorsed on the appropriate part of the schedule to the relevant Global Note by or on behalf of the Fiscal Agent, which endorsement shall be *prima facie* evidence that such payment has been made in respect of the Notes. Payments of interest on the Temporary Global Note (if permitted by the first sentence of this paragraph) will be made only upon certification as to non-U.S. beneficial ownership unless such certification has already been made.

3. Notices

For so long as all of the Notes are represented by one or both of the Global Notes and such Global Note(s) is/are held on behalf of Euroclear and/Clearstream, Luxembourg, notices to Noteholders may be given by delivery of the relevant notice to Euroclear and/or Clearstream, Luxembourg (as the case may be) for communication to the relative Accountholders rather than by publication as required by Condition 10, provided that, so long as the Notes are listed on the Luxembourg Stock Exchange, notice will also be given by publication in a daily newspaper

published in Luxembourg if and to the extent that the rules of the Luxembourg Stock Exchange so require. Any such notice shall be deemed to have been given to the Noteholders on the second day after the day on which such notice is delivered to Euroclear and/or Clearstream, Luxembourg (as the case may be) as aforesaid.

4. Accountholders

For so long as all of the Notes are represented by one or both of the Global Notes and such Global Note(s) is/are held on behalf of Euroclear and/or Clearstream, Luxembourg, each person (other than Euroclear or Clearstream, Luxembourg) who is for the time being shown in the records of Euroclear or Clearstream, Luxembourg as the holder of a particular principal amount of Notes (each an **Accountholder**) (in which regard any certificate or other document issued by Euroclear or Clearstream, Luxembourg as to the principal amount of such Notes standing to the account of any person shall be conclusive and binding for all purposes) shall be treated as the holder of that principal amount for all purposes (including but not limited to, for the purposes of any quorum requirements of, or the right to demand a poll at, meetings of the Noteholders and giving notices to the Issuer pursuant to Condition 8) other than with respect to the payment of principal and interest on the principal amount of such Notes, the right to which shall be vested, as against the Issuer solely in the bearer of the relevant Global Note in accordance with and subject to its terms. Each Accountholder must look solely to Euroclear or Clearstream, Luxembourg, as the case may be, for its share of each payment made to the bearer of the relevant Global Note.

5. Prescription

Claims against the Issuer in respect of principal and interest on the Notes represented by a Global Note will be prescribed after 10 years (in the case of principal) and five years (in the case of interest) from the Relevant Date (as defined in Condition 6).

6. Cancellation

Cancellation of any Note represented by a Global Note and required by the Terms and Conditions of the Notes to be cancelled following its redemption or purchase will be effected by endorsement by or on behalf of the Fiscal Agent of the reduction in the principal amount of the relevant Global Note on the relevant part of the schedule thereto.

7. Euroclear and Clearstream, Luxembourg

Notes represented by a Global Note are transferable in accordance with the rules and procedures for the time being of Euroclear and Clearstream, Luxembourg, as appropriate. References in the Global Notes and this summary to Euroclear and/or Clearstream, Luxembourg shall be deemed to include references to any other clearing system through which interests in the Notes are held.

Use of Proceeds

The net proceeds of the issue of the Notes, amounting to approximately €124,562,500 (before deduction of expenses), will be applied by the Issuer for its general corporate purposes.

Capitalisation of the Issuer

The following table shows the unconsolidated unaudited capitalisation of the Issuer as at 31st December, 2004

	31st December, 2004 (in HUF millions) (IFRS)
Short-term liabilities	2,532,703
Long-term liabilities	132,187
Total liabilities	2,664,890
Share Capital	28,000
Reserves	-13,808
Retained Earnings	375,166
Total stockholders' equity	389,358
Total Capitalisation	3,054,248

Notes:

- (1) There has been no material change in the unconsolidated capitalisation of the Issuer since 31st December, 2004.
- (2) The Issuer's authorised nominal share capital is HUF 280 million ordinary shares and the Issuer's issued share capital is HUF 28 billion. Each share has a par value of HUF 100 and is fully paid.

OTP Bank Rt.

History

OTP Bank Rt. (the **Bank**) is the largest bank in terms of assets in Hungary. The National Savings Bank, the predecessor of the Bank, was established in 1949 as a nationwide, state-owned, banking entity providing current and savings account services and loans. In the ensuing years, the Bank's activities and the scope of its authority were gradually widened to include housing loans and, later, domestic foreign currency accounts and foreign exchange services and banking services for Hungarian municipal governments.

Since 1989, the Bank has operated as a multi-functional commercial bank, providing deposit account services and loans not only to retail customers and municipal governments, but also to businesses through its commercial loan and deposit account services, as well as other banking services such as inter-bank and export-import transactions.

In 1990, the Bank was converted from a state corporation into a company with limited liability with the Hungarian government maintaining 100 per cent. ownership. Subsequently, non-banking activities were separated from the Bank, along with their supporting organisational units.

The Bank's privatisation began in 1992 with a sale of a share package representing 5 per cent. of the registered capital of the Bank to public investors. At the beginning of 1994 another package was sold to public investors against compensation notes. This package represented 20 per cent. of the registered capital of the Bank. In April 1994 the Ministry of Finance raised the share-capital of the Bank by HUF 5 billion, thus the total share-capital of OTP Bank is HUF 28 billion. During 1994 and 1995 a share package representing 22 per cent. of the registered capital of the Bank was transferred to social security and local municipalities which meant that the government's holding of the Bank decreased to 58.43 per cent. In 1995, the State Privatisation and Holding Company sold a share package representing 33.43 per cent. of the Bank's total share capital to the Hungarian public, to the Bank's management and employees and by way of an international private placement. It thus reduced its shareholding to 25 per cent. plus one share of the total share capital of the Bank. Following the sale, the shares were listed on the Budapest Stock Exchange and the GDRs then issued were listed on the Luxembourg Stock Exchange and were quoted on SEAQ International. In 1997, the state's ownership in the Bank decreased to one HUF 1,000 face value voting preference share. In 1998 the Hungarian government took over the assets of social security municipalities (such assets including shares in the Bank) and assigned the Hungarian Privatisation and State Holding Company to sell the shares.

In October 1999 the Hungarian Privatisation and State Holding Company sold the package the government received in 1998. This package contained 3,946,562 OTP shares and represented 14.7 per cent. of the registered capital (HUF 28 billion). The shares were sold to national and international institutions and to national private investors. After the successful issuance the state's ownership in the Bank decreased again to one voting preference golden share.

In 2002, the Bank started to supplement organic growth with acquisitions and achieved international growth by expanding within the Eastern European region. As a first step, the Bank acquired Slovakia's IRB Bank in 2002, followed by the acquisition of Bulgaria's DSK Bank in 2003 and Romania's RoBank and Croatia's Nova Banka in 2004.

The Bank also began to realise efficiency and profitability gains through the implementation of measures designed to consolidate its market position. Consequently, the Bank has not only maintained its leading position in the Hungarian banking market, but has been able to redefine itself as a full service financial and related services group. Main subsidiaries of the Bank include OTP-Garancia Insurance Ltd., OTP Real Estate Ltd., OTP Faktoring Ltd., OTP Building Society Ltd., HIF Ltd., Merkantil Bank Ltd., and Merkantil Car Ltd. as well as OTP Fund Management Ltd., OTP Mortgage Bank Ltd., OTP Pension Fund Ltd., OTP Banka Slovensko, DSK Bank (Bulgaria) and OTP Travel Ltd.

Strengths

The Bank is the largest bank in Hungary and is widely considered to be the most successful Central European Bank. Management of the Bank estimates that it is number 1 in retail and municipal banking and number 3 in the corporate market by market share. The Bank is also a leader in mutual and pension fund management and an active participant in brokerage and insurance (management of the Bank estimates that its subsidiary OTP Garancia Ltd. at the end of September 2004 was number 5 overall, number 4 in life insurance and number 1 in bank assurance by market share).

The following tables demonstrate the strong position of the Bank in the Hungarian market:

Estimated Market Share of the Bank in total assets*:	In Bank System	In Credit institutions
31st December, 2003	20.4%	19.1%
31st December, 2004	19.4%	18.1%

Estimated Market Share of the Group in total assets*:	In Bank System	In Credit institutions
31st December, 2003	26.2%	24.5%
31st December, 2004	25.8%	24.2%

* Based on aggregate balance sheet, and OTP HAR figures

Market shares of the Bank in lending and deposits as of 31st December, 2004 are included in the following tables (Hungarian National Accounting Regulations (**HAR**), unconsolidated).

Market shares of the Bank in lending:	In Bank System	In Credit institutions
Loans:	13.1%	12.5%
Retail loans	14.7%	13.0%
Housing loans	9.7%	9.0%
HUF	9.9%	9.2%
FX	6.9%	6.9%
Consumer loans	24.6%	20.0%
Corporate loans	12.4%	12.1%
Municipal loans	53.4%	52.0%

Market shares of the Bank in deposits:	In Bank System	In Credit institutions
Deposits:	29.5%	26.4%
Retail deposits	40.2%	33.6%
HUF	40.8%	33.3%
FX	36.0%	36.0%
Bank	50.1%	46.1%
Term	34.4%	31.2%
Corporate deposits	13.6%	13.2%
Municipal deposits	70.4%	66.2%

(Source: Based on aggregate balance sheet and OTP HAR figures)

The Bank has a strong capital base, high profitability and is a market leader in innovation and distribution. It is a pioneer in telephone and mobile banking and was voted best Hungarian Internet Bank in 2001.

Management believes the Bank is the only fully independent bank in the region and is converged to Western standards in terms of operating efficiency, risk management and marketing.

Management further believe the key factor in the Bank's expansion strategy is to enhance the synergy between the Bank and its subsidiaries.

In the past few years the Bank achieved satisfactory levels of profitability and gained valuable experience in the field of providing services to customers. Based on this experience the Bank believes it is capable of transferring this knowledge to its targeted and acquired companies abroad.

Awards credited to the Bank by recognised international financial forums:

2004	Among the 400 best investment opportunities	Forbes
2004	Best Bank in Hungary	Global Finance
2004	Among the 1,000 companies in the world with the biggest stock exchange capitalisation	Business Week
2004	Best Bank in Hungary	EUROMONEY
2004	Best bank of EU joining countries	Emerging Markets
2004	Among the world's 1,000 best companies	Forbes
2003	The Best Bank of the year	Figyelő
2003	Best Bank in Emerging Markets	The Banker

2003	Best Bank in Hungary	EUROMONEY
2002	The Best Issuer	Budapest Stock Exchange
2002	Best Bank in Hungary	EUROMONEY
2002	Best Bank in Hungary	Global Finance
2002	Best Bank in Hungary	The Banker
2002	Mobile Bank of the Year	Index, HP, International Training Center for Bankers

Strategy

The focus of the Bank and its subsidiaries (the **OTP Group**) in creation of shareholder value remains unchanged. After the record-breaking years of 2003 and 2004, the Group's aim is not only to preserve but also to improve its value generation that stands out from the Emerging European banking sector. The financial objectives below characterise the Group's business policy:

The Bank's main strategic objective in the Hungarian banking market is to increase its group market share to 27.4 per cent. by the end of 2005. (At the end of 2004 the estimated market share of OTP Group was 25.8 per cent. within the Hungarian banking system.) This would require the Group's domestic balance sheet to grow by around 20 per cent. in 2005. A faster than average total asset growth target is set for the foreign subsidiaries in Bulgaria and Slovakia and for domestic non-banking subsidiaries.

In the domestic market the following need to be addressed by the OTP Group to reach the above objectives:

- Since the banking market penetration is relatively high in Hungary which hinders the further growth in the number of customers, increasing sales to existing customer base will be vital for retaining and gaining market share. Therefore segmentation, development of segment-specific value proposals and improvement of service quality gain further importance.
- Operational efficiency should remain under continuous monitoring in order to increase flexibility, service quality and quality and speed of information supply. Centralisation, automatisisation, branch-network optimisation, extension of electronic channels' service functions and process redesign are the major tools in this area.
- In the next years, the greatest challenge for risk management is the preparation for Basel II, the selection of the right risk management approach, the creation of the infrastructure-related conditions and the launching of the modified processes.
- In the human resource management area the reformulation and enhancement of the incentive system to support the sales activities is a major task of the coming year. Besides that, extensive effort is to be put into organisation of professional training for the Group's employees in order to reinforce a sales-oriented mindset and approach.

The Bank plans to make only such strategic investments that are directly related to its banking operations. 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. 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 profits, exploit its banking know-how and minimise market and country risk.

As a first step, the Bank acquired Slovakia's IRB Bank (which was renamed to OTP Banka Slovensko) in 2002, followed by the acquisition of Bulgaria's DSK Bank in 2003 and Romania's RoBank and Croatia's Nova Banka in 2004.

Retail Banking Division

The Bank continues to be the largest participant in Hungary's retail banking market. The Bank provides a full range of commercial banking services through a nationwide network consisting of 427 branches and more than 1,400 automated teller machines.

Retail Deposits*

By year-end 2004 the volume of retail deposits managed by the Bank reached HUF 1,737.8 billion, representing a 4.9 per cent. increase over last year's figure. Retail deposits accounted for 75 per cent. of customer deposits.

*Figures in this section were prepared in accordance with HAR

Within retail deposits, HUF deposits increased by 6.8 per cent., in which retail current account deposits, a key product line, showed the greatest increase of 13.5 per cent.

The volume of foreign currency deposits fell by 5.9 per cent. in 2004. Household sector foreign currency deposits in Hungary have been declining since 2003, which is mainly due to the favourable interest rates on retail HUF deposits and the strengthening of the HUF exchange rate.

Based on the combined balance sheet of monetary institutions, at year-end 2004 the Bank had a market share of 33.3 per cent. in household HUF deposits, and 36.0 per cent. in foreign currency deposits.

Retail Loans*

By year-end 2004, the volume of housing loans in OTP Bank's balance sheet decreased by 7.2 per cent. to HUF 170.4 billion, due to the fact that the majority of the loans extended by the Bank were subsidised loans, later transferred to OTP Mortgage Bank. The total housing loans of OTP Bank and OTP Mortgage Bank amounted to HUF 934 billion. The management have estimated that at year-end 2004, the total market share held by OTP Bank Group — including almost HUF 8 billion of loans provided by OTP Building Society — was 50 per cent.

In 2004 the volume of consumer loans provided by the Bank increased by 70.9 per cent. to HUF 176.7 billion. At the same time, according to aggregate balance sheet figures, the Hungarian banking sector grew by 30 per cent., which altogether resulted in a 2.5-percentage-point increase in market share, to 20 per cent. at 31st December, 2004.

Within consumer loans, personal loans proved to be exceptionally popular in 2004: between the introduction on 3rd May, 2004 of the Bank's personal loan products and year-end, volume grew to HUF 73.7 billion. Simultaneously, the aggregate volume of B- and C-overdraft facilities went down from HUF 68.7 billion to HUF 49.4 billion. B- and C-loans are permanently available overdraft facilities designed to satisfy customers' needs for large amounts. The maximum amount of the loan depends on the solvency of the client. This decrease was exclusively due to the forecasted fall of B- and C-loan utilisations, as clients holding such facilities started to migrate towards the new personal loan and credit card products of the Bank.

Investment Services, Securities Trading and Securities Account Management*

Changes to the macroeconomic environment had a negative impact on the investment markets in 2003. Increases in June and November 2003 in the Hungarian central bank base rate caused the volume of investment funds, especially bond and money market funds, to decline.

As a result, in 2003 the assets of Hungarian investment funds declined for the first time in their history. In the first half of 2004 the unfavourable conditions in which the Group's investment fund business operates continued to prevail. A large volume of the flagship OTP Optima Fund units were redeemed at the end of 2003, and in the first half of 2004. As at 31st December, 2004 the total assets of OTP Optima Fund amounted to HUF 317.9 billion.

Relatively high interest rates and a buoyant stock market in 2004 prompted investors to seek equities and fixed-rated investments, such as bank deposits, government securities and other securities such as covered mortgage bonds. In 2004, OTP Mortgage Bank issued HUF 67 billion covered mortgage bonds to retail investors.

Due to the increase in mortgage bonds issued by OTP Mortgage Bank and the more than doubled amount of stock holdings of OTP clientele, the market value of the investment portfolio managed by the Bank exceeded HUF 1,525 billion as at year-end 2004, which represents an increase of 36.2 per cent. over 2003.

Private Banking Services

In 2003 and 2004 the Bank introduced a new range of private banking options, further expanding the range of services and investment advice on offer. Simultaneously, customer acquisition activity commenced, targeting potential new private banking and preferred private banking customers.

Due to the new customer acquisition strategy adopted in 2003, and despite an increase in fees, the number of private banking customers increased and reached 9,500 at year-end 2004. Although the number of the customers grew by 15 per cent., the amount of the total portfolio increased by 42 per cent. to HUF 241.7 billion. The Bank's management have estimated that its private banking services have a 30-32 per cent. share of the Hungarian market.

*Figures in this section were prepared in accordance with HAR

Bankcard Business

At year-end 2004, the number of HUF-based bankcards issued in the Hungarian retail sector exceeded 3,529,000, representing a rise of 3.1 per cent. over the 3,423,000 cards issued at the year-end of 2003. Within this, the number of the traditional debit cards issued to current-account holders was 2,865,000, the number of Multipoint cards was 275,000 and the number of cards associated with "B-loan" and "C-loan" overdraft facilities was 113,000 and 114,000 respectively. There were 110,000 of the various other types of retail bankcards in use as at year-end 2004.

2004 saw the development of a traditional credit card product, aimed specifically at retail customers, of which 52,000 were issued over the year. The other successful product was the Multipoint loyalty bank card which, as a result of a marketing campaign and the expansion of the network, saw 37 per cent. growth with the issue of 73,000 new cards in 2004. The number of Gold debit cards grew by 31 per cent.

At year-end 2004, the number of business cards was 102,000, representing an increase of 11.7 per cent. The majority of these (a total of 78,000) were domestic corporate and business cards. The Bank also issued 6,800 Széchenyi Cards. The number of foreign currency cards issued by the Bank increased by 2,065 to 8,845 in 2004.

By year-end 2004, the number of OTP-operated ATMs had increased to 1,400, from 1,305 in the previous year. In 2004, the number of transactions carried out using ATMs owned by OTP was 75.1 million, and the total volume of those transactions was HUF 2,027 billion. The number of ATM transactions carried out using cards issued by the Bank was 68 million, with a total volume of HUF 1,777 billion. Compared with the previous year, the number of transactions increased by 3.0 per cent. and 7.3 per cent. respectively and turnover was up by 9.5 per cent. and 14.2 per cent. respectively on the acceptor and issuer side.

By 31st December, 2004, the number of POS (Place of Sale) terminals was 21,744, which represents an increase of 1,292 compared with the previous year. The Bank operated 2,990 of these terminals in its own branches, 13,812 at commercial outlets and 4,942 at post offices. The number of POS terminals at commercial outlets grew by 6.31 per cent. in 2004. In 2004, the number of transactions made using OTP Bank's own POS network was 51.8 million, with a volume of HUF 433 billion, which represents a 21.7 per cent. growth in the number of transactions and a 22.5 per cent. increase in turnover. Thus, the 42.4 million transactions carried out by OTP Bank's customers, resulted in a turnover of close to HUF 316 billion.

The Bank intends to further expand the range of its bank cards in the future through monitoring trends in the world market and surveying domestic-specific demands.

Electronic Services

The Bank retained its market-leading position with respect to all electronic banking channels (estimated market shares: 61 per cent. in internet services, 38 per cent. in mobile banking and 41 per cent. in telephone banking services). The number of customers with a contract pertaining to the use of the Bank's electronic channels increased sharply in 2004 (by 14 per cent. both for Internet and telephone banking services, and by 35 per cent. in the case of mobile phone banking services).

In 2004, 600,000 customers made over 1.2 million phone calls to the Call-Centre. The 300,000 users of internet banking services initiated nearly 8.6 million transactions, while 270,000 customers used mobile phone based services with a turnover of over 60 million SMS text messages.

In 2004, the operation of electronic banking channels underwent major changes; a new unified and channel independent intelligent and technical background was introduced, enabling unified contract registration and a unified package and fee structure, creating the OTPdirekt customer. By the end of 2004, the number of OTPdirekt contracts were close to 700,000.

New functions were introduced in the OTPdirekt internet banking services, such as the mobile phone signature to enhance security, prepaid top-up, electronic account statements and personalised services (postbox, broadcast, change of personal data).

The Call-Centre for outbound calls experienced rapid growth, the number of calls exceeded 570,000 in 2004 and activities were diversified to nine loan products and three types of marketing calls.

A new service, direct debit control, was introduced for the mobile banking service enabling control for customers over direct debits initiated by the service provider.

The spectrum of automated telephone banking (IVR) services was widened with an English language service and a separate line was introduced for OTP Health Fund customers.

Commercial Banking Division*

In 2004, the Bank retained its leading position in the Hungarian corporate banking market. As at 31st December, 2004, the Bank's share of corporate deposits and corporate loans was 12.1 per cent. and 13.2 per cent. respectively (source: OTP Bank Stock Exchange Report 2004). Total corporate deposits stood at HUF 421.1 billion, representing a 0.1 per cent. decrease over the previous year. Deposits of legal entities decreased by 2.9 per cent. in HUF and grew 63.3 per cent. in foreign currencies. HUF deposits of small businesses and individual entrepreneurs declined by 22.4 per cent. and foreign currency deposits grew from HUF 0.4 billion to HUF 5.1 billion.

Total corporate loans increased by 16.7 per cent. to more than HUF 806.6 billion. The total of loans to economic entities was HUF 603.4 billion representing an increase of 9.4 per cent. over the previous year. Within this the volume of foreign currency loans grew by 28.2 per cent. to HUF 267.5 billion and represented 44.3 per cent. of the total compared with 37.8 per cent. a year earlier. Loans granted to other financial agents grew by 52.5 per cent. to HUF 142.2 billion. By year-end 2004 the volume of loans to small businesses and individual entrepreneurs reached HUF 38.6 billion, representing an increase of 85.4 per cent.

In 2004 the Bank continued to monitor customer demands. Besides developing products OTP is shifting emphasis to selling the products. The new sales model is to be implemented in 2005.

In 2004 the Bank faced challenges and opportunities as a result of Hungary's EU accession. In this regard OTP Bank has set up an EU assistant system and created a web site to assist accessing EU funds and regulated bank services for municipalities and corporates.

One of the most successful products arising from Hungary's EU accession was the pre-financing of agricultural land-based subsidised financing. The Bank provided factoring services to 83,000 clients for a total of HUF 19 billion.

The Bank also introduced a new product for the small/medium-sized enterprise (SME) sector which is called the Europe Plan Project Subsidised Loan (for EU applications) and Medical Loan Program (for SMEs in the medical sector).

The Széchenyi Programme (a subsidised system for SMEs introduced by the Ministry of Economy and Transport) continued its success in the SME sector: the maximum loan amount in association with the card was raised to HUF 10 million. This resulted in about 7,000 cardholders and in a HUF 19 billion loan portfolio.

In 2004, business specifications were set for providing notional pool, multi-currency cash-pool and fixed deposit pooling. Also a new business terminal application was introduced called the OTP Electra Terminal that provides multi-functional transaction and interactive services in different languages. An electronic bank account management product was expanded in terms of transactions to provide a fuller range of services to our SME clients.

Municipality Banking*

In 2004, the Bank continued to retain its leading position in the Hungarian municipality banking sector. In 2004 over 77 per cent. of this customer group, a total of 2,456 municipalities, together with the institutions that they financed, held their current accounts at the Bank. As of year-end 2004, the total amount of deposits held by municipalities and their institutions was HUF 159.7 billion, a 1.6 per cent. increase on the previous year. Despite intensive customer acquisition campaigns by competitors, the Bank's market share of municipality deposits only decreased from 74.9 per cent. to 66.2 per cent.

The Bank's portfolio of municipality loans, which has been continuously increasing since the end of 2003, grew by 20 per cent. in 2004, reaching HUF 94.9 billion. However, the Bank's share of the municipality loan market fell to around 52 per cent.

2004 brought a steady increase in the number of municipality customers using customer terminals, from 3,972 customers in 2002 to 4,581 customers at year-end 2004. This was accompanied by an increase in the number of customers using the Bank's treasury and cash management systems.

Customs Services

In accordance with its contract with the Hungarian Customs Authority (VPOP) and the Hungarian Treasury, the Bank has been offering its customs payment services since 1989. As of 1st May, 2004, the Bank had a contract

*Figures in this section were prepared in accordance with HAR

meeting the criteria of the relevant EU regulations, concerning the handling of payments falling in the scopes of EU customs revenue and the Hungarian Customs Authority.

Between 1st May, 1998 and 1st May, 2004, the bank issued 1.5 million certificates of payment and dealt with the transfer of the sum of HUF 650 billion, of which HUF 350 billion was made via bank card (so-called customs card) transactions. This turnover was generated by approximately 3,000 customs cards. During this period, approximately 48,000 enterprises and 18,000 individuals used this service.

Following the customs union consequent to Hungary's accession to the EU, there has been a substantial fall in the number of clients paying customs duty. Therefore, besides offering customs payment services, the Bank is planning to introduce further modern banking products connected to the electronic public administration, suitable for various official procedures.

International Banking

In 2004, the Bank transacted a total of HUF 4,678.3 billion in international payments and increased the volume by 14.5 per cent. over the previous year. A significant part of the turnover continued to be attributable to international forint payments. In 2004, the Bank opened five new HUF-based correspondent accounts for its foreign partner banks, thus increasing the number of such accounts to 44.

In 2004, in conjunction with the Bank's foreign subsidiaries, OTP Banka Slovensko and DSK Bank, the international division introduced an express transfer service, which allows transfers denominated in euro, US dollars and HUF — as well as Slovakian crowns in Slovakia — to be debited to the beneficiary account on the day of submission of the transfer order, similar to intra-bank transfers.

Commission revenue on international payment transactions amounted to HUF 1,066.5 million, representing an increase of approximately 15 per cent. over the previous year.

Treasury

In 2004, the average balance of the investment portfolio managed by the treasury was HUF 863.6 billion, which represents an increase of 13.4 per cent. over the previous year. The average 2004 balance of the trading securities portfolio was HUF 28.4 billion, representing a decrease of 13 per cent.

Interest income from the investment portfolio was HUF 79 billion, while the corresponding figures for the trading portfolio were HUF 2.5 billion.

Regarding trading activities, the treasury focused on the Hungarian Forint market. The Bank is a market maker for the HUF-denominated Hungarian government securities. In 2004, the results of foreign exchange and securities trading was over HUF 900 million. Treasury sales brought an additional HUF 340 million in fee income.

Structured Finance

The Bank retained its leading position in the Hungarian syndicated lending market: participating in 27 syndicated loan transactions in the value of HUF 72 billion, leading the consortium in 12 of these transactions. Major recipients of syndicated loans in 2004 included companies such as DSK Bank, MÁV Rt (Hungarian National Railways), Bulgar Telecom, Strabag, Vegyépszer, Slovenské Elektrárň. The Bank also issued bank guarantees for corporations and banks in the region.

The Bank launched a corporate finance unit in 2003. In 2004, the Bank participated in the Bulgarian energy sector privatisation as the financial advisor of the Austrian EVN, the eventual winner of the tender.

The Bank managed the issue of the mortgage bonds issued by OTP Mortgage Bank amounting to HUF 531 billion in 2003 and HUF 390 billion in 2004. A significant proportion of these mortgage bonds issued were subscribed for by the Bank, totalling HUF 488 billion in 2003 and HUF 198 billion in 2004.

To meet the long-term funding requirements of the Bank and the Group, the structured finance division has arranged syndicated and bilateral loans in the amount of EUR 650 million during 2004.

Project Finance

Due to the expansion of the Bank's activities in Slovakia, Bulgaria, Romania and Croatia during recent years, the project finance division covers not only Hungary but also international markets. In 2004, 13 per cent. of total project finance commitments were provided to foreign projects such as Nessebar Hotel, Sofia Mall, Poznan Plaza, MobilTel and Atlas Telecom, the Ledo acquisition and Jeans Club.

Besides the increase in number and volume of cross-border transactions, the local market has also maintained its significance: over HUF 166.6 billion (EUR 680.1 million) in financing was provided to Hungarian projects. Deals included the refinancing of Kispeszt and Újpest Power Plants, ZuglóTherm Power Station to Ispotály Project, Siotour, Olajterv and Air-Invest.

As at 31st December, 2004 the project finance portfolio totalled HUF 175.4 billion (EUR 715.9 million) which represented an increase of almost 10 per cent. compared with the previous year. The portfolio of the Bank project financing amounted to over 25 per cent. of total corporate loans.

Project financing is expected to continue to experience steady growth in all markets during 2005.

Equity Investments

In 2004, the gross book value of the Bank's equity investments grew from HUF 138.8 billion to HUF 154.3 billion on an unconsolidated basis. The 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. After the integration of the Bulgarian DSK Bank bought in 2003, the Bank purchased the Romanian RoBank and the Croatian Nova Banka in 2004. The Bank plans to acquire further banks in the region over the coming period in order to strengthen and diversify growth. Ideal acquisition targets are retail banks:

- with a 5-8 per cent. market share (ranked number 5 or 6 in its country);
- which are profitable operations capable of achieving 16 per cent. ROE in three years;
- with IT synergy;
- with a countrywide distribution network; and
- with compatible subsidiaries (eg fund management; insurance).

Information Technology

In 2003 and 2004, the Bank carried out large-scale capital investments in order to strengthen its competitiveness, rationalise and streamline its operations, cut costs and improve the quality of services. In 2003 and 2004, major development projects were concentrated on the controlling area. The Bank introduced a business solution for optimisation of business processes (**SAP**), 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. The Bank has also installed a transaction data warehouse (TDW) in order to support product development and sales activities. The Bank has also implemented a Back Office Rationalisation (BOR) project as well. As a result of the comprehensive streamlining and centralising of back-office processes under the BOR project, the labour requirement in the affected areas decreased significantly.

After finishing SAP development in the Bank the next step is to implement it at subsidiary level. Consequently in 2004 OTP Banka Slovensko started the preparation process. The planned launch date of the system is the first quarter of 2005

In order to maintain the competitiveness and efficiency of the Bank and to enhance the Bank's reaction time to market movements, there is a great need to align development of sales activity within the branch network simultaneously with organisational, infrastructural and workflow related changes.

The aim of the Branch Management Programme — launched on the basis of the findings of the Bank, START (a model to monitor administrators' sales activity), BOR II and Branch Optimisation projects — is to improve the quality of customer service and to fully utilise cross-selling opportunities.

The renewal of the branch network will continue in 2005. Besides the biggest offices, middle-sized and small offices will also be affected.

Management

Board of directors

Under Hungarian Law, the Board of Directors is responsible for the day-to-day management of the Bank. The Board of Directors reports to the shareholders on the Bank's management, financial position and business policy. According to the Bank's articles of association, the Board of Directors may not consist of less than five or more than eleven members. The Board of Directors is elected for a term of five years and the members may be re-elected. Each member of the Board of Directors has a single vote at Board meetings, in the event of voting tie, the vote of the Chairman would be decisive.

Members of the Board of Directors are the following:

Dr. Sándor Csányi has served as Chairman and Chief Executive Officer of the Bank since 1992 and is responsible for the strategy and overall operations of the Bank. Dr. Csányi has held senior positions in the banking sector, including Head of Department at Hungarian Credit Bank Ltd. from 1986 until 1989, and Deputy Chief Executive Officer at K&H Bank, from 1989 until 1992. He previously worked in the Revenue Directorate and the Secretariat of the Hungarian Ministry of Finance and as Head of Division at the Hungarian Ministry of Agriculture and Food Industry. He is financial economist, a certified price analyst and a chartered accountant. He is a member of the board of Europay, Mol and holds the presidency of the Hungarian Banking Association.

Dr. Zoltán Spéder has been a member of the Board since 1991, has served as Vice Chairman of the Board since 1995, and as Chief Financial Officer and Deputy Chief Executive Officer of the Bank since 1996. From 1987 to 1990, he was employed at the Financial Research Institute as research fellow in banking and corporate finance. Between 1991 and 1992, Dr. Spéder was adviser to the Minister of Finance. Dr. Spéder has a PhD and MSc from the Budapest University of Economics.

Mr. Mihály Baumstark has been a member of the Bank's Board since April 1999 and has been Chairman and Chief Executive Officer of Csányi Vinery Ltd. since 1999. Mr. Baumstark holds degrees in agricultural engineering and agricultural economy. Mr. Baumstark was employed between 1978 and 1989 at the Ministry of Agriculture and Food, his last position being Deputy Head of the Accounting Department.

Dr. Tibor Bíró has been a member of the Bank's Board since May 1992, and is currently head of department at the College of Economics in Budapest, where he has taught since 1992. Dr. Bíró has a degree in economics from the Budapest University of Economics and was head of the Financial Department of Tatabánya City Council from 1978 to 1982. Dr. Bíró is a registered auditor and a member of the Council of Experts of the Hungarian Chamber of Auditors.

Mr. Péter Braun was a Deputy Chief Executive Officer and head of the IT and Logistics Division from 1993 until 2001, and he has been a member of the Board since 1997. Mr. Braun earned a degree in electrical engineering at the Budapest Technical University. Between 1954 and 1989, Mr. Braun was employed at the Research Institute for Electrical Energy, his last position being Head of Department. Thereafter, Mr. Braun was the Managing Director of K&H Bank, working in its Computer and Information Centre. Mr. Braun is also a member of the Board of Directors of Giro Ltd.

Dr. István Kocsis has been a member of the Bank's Board since 1996. Dr. Kocsis is a graduate of the Budapest Technical University and between 1991 and 1993, worked at the Ministry of Industry and Trade as Head of Department and later as Deputy Undersecretary of the Hungarian State. He served as Deputy Chief Executive Officer, and subsequently acting Chief Executive Officer at the ÁPV Rt. from 1993 until 1996, at which time he once again acquired the position of Deputy Chief Executive Officer. Dr. Kocsis was Head of Division of RWE Energie AG., General Director at ÉMÁSZ Rt. and CEO of Paks Nuclear Power Plant. From 2005, he has been CEO of Hungarian Power Companies Ltd. (MVM Rt.)

Mr. Csaba Lantos has been a member of the Board since 2001. He has served as Deputy Chief Executive Officer of the Bank since 2000. He was employed at Budapest Bank as a bond dealer from 1987. Thereafter, he was Head of Securities Trading at Creditanstalt Securities Ltd. until 1994 and the Deputy CEO until 1997. At the same time he served as a managing director of Creditanstalt Securities Investment Fund Management Ltd. Between 1997 and 2000, he was CEO and Chairman of the Board of CA IB Securities. He has been a member of the Council of the Budapest Stock Exchange since 1990 and Chairman of the Board of Central Clearing House and Depository Ltd. (KELER) since 1993.

Mr. Géza Lenk has been a member of the Board since 2001. He has served as Deputy Chief Executive Officer of the OTP Bank since 2000. He was employed at the National Bank of Hungary, and was CEO of the General Enterprise Bank until 1988. Thereafter, he served as Chairman CEO of the K&H Bank until 1995. From 1996

Mr. Lenk was Vice Chairman and Deputy CEO of the Trigon Bank in Vienna. From 1998 until 2000, he was the head of MKB Leasing and Financial company group, and Chairman CEO at Reorg Rt. Mr. Lenk is a graduate of the Budapest University of Economics and the International Banker School in London.

Dr. Antal Pongrácz has been a member of the Board since 2002. He has served as Managing Director and later Deputy Chief Executive Officer of the Bank since 2001. From 1969 he worked as an analyst, from 1976 he was employed at the Ministry of Finance, where he was head officer of several departments. Thereafter, he was deputy Chairman of the State Youth and Sport Office. From 1988 till 1990, he served as Deputy CEO of the Bank. He was CEO and later Chairman CEO of European Commercial Bank Ltd. until 1994. After that, he was Chairman of Szerencsejáték Rt. and thereafter CEO of Hungarian Airlines Ltd. Dr. Pongrácz has a PhD and MSc from the Budapest University of Economics.

Dr. László Utassy has been a member of the Bank's Board since 2001. He has served as Chairman CEO of OTP-Garancia Insurance Ltd. since 1996. From 1978 to 1995, he was employed at State Insurance Company and ÁB-AEGON Insurance Company. Dr. Utassy has a law degree from ELTE Budapest and also a degree in economics from the Budapest University of Economics.

Dr. József Vörös has been a member of the Bank's Board since 1992. Currently, Dr Vörös is the General Deputy Rector at the University of Pécs, where he has taught since 1994. Dr. Vörös acquired a degree in economics from the Budapest University of Economic Sciences in 1974 and holds a PhD and DSc from the Hungarian Academy of Sciences, gained in 1984 and 1993, respectively. Dr. Vörös was Dean of the Faculty of Business and Economics at the Janus Pannonius University from 1990 to 1993 and AMP at the Harvard Business School in 1993.

Supervisory Board

The Supervisory Board is responsible for monitoring the managerial and administrative affairs of the Bank and for ensuring that the Bank complies with Hungarian law and its own constitutive documents. It reviews all important reports submitted at the General Meeting, proposals by the Board of Directors, the financial statements and recommendations concerning the distribution of profits, the report of the independent auditors and prepares a written report for the General Meeting. All of the Supervisory Board members are elected by simple majority vote at the General Meeting, though one third are nominated by the Workers' Council from the employees (and the shareholders are required to elect such nominees). According to the Bank's Articles of Association, the Supervisory Board may not have less than three nor more than nine members. Under the Banking Act, a bank's supervisory board may not have more than nine members.

Members of the Supervisory Board are the following:

Dr. Tibor Tolnai is the Chairman of the Supervisory Board and has been a member of the Supervisory Board since 1992. Dr. Tolnai is currently Chief Executive Officer of Magyar Építők Ltd., a position he has held since 1972. Dr. Tolnai earned a degree in architecture from the Technical University of Budapest and a degree in economics from the Budapest University of Economics.

Dr. Gábor Nagy has been a member of the Supervisory Board since 1991. Dr. Nagy is a registered auditor with a degree from the Budapest University of Economics. From 1974 to 1977, he worked at the Institute for Further Education at the Ministry of Finance of Hungary. Since 1977, Dr. Nagy has worked in a variety of positions in the accounting division of the Hungarian Ministry of Finance and is currently Head of the Accounting Division.

Dr. Gábor Horváth is a member of the Supervisory Board. Dr. Horváth has a law degree from ELTE Budapest. From 1983 to 1986, Dr. Horváth worked for the Hungarian State Development Bank. From 1986 to 1990, he worked for a legal co-operative office. Since 1990, Dr. Horváth has worked as a private, independent lawyer, and his clients include the Hungarian Ministry of Finance, the Hungarian State Institute for Research and the Budapest Municipality.

Mr. Antal Kovács is a member of the Supervisory Board since 2004. Mr. Kovács has a degree from Budapest University of Economics. He started his professional career at K&H Bank, where he was a branch director from 1993 to 1995. From 1995, he was employed by the Bank as county director and from 1998 he became the regional director of the South Transdanubian Region.

Dr. Sándor Pintér has been a member of the Supervisory Board since 2003. Dr. Pintér has a degree from the Police Officer Training College and gained a law degree from ELTE University Budapest in 1986. From 1970, he worked for the Home Office. In December 1996, he was retired as police superintendent. From 1998 till 2002, he served as Home Secretary of the Hungarian Republic. Between 1997 and 1998, he was a member of the Board of Directors at the Bank.

Ms. Klára Vécsei is a member of the Supervisory Board and is the Deputy Managing Director of the Bank's Northern Hungary Region. Ms. Vécsei joined the bank in 1970 and has held a variety of senior positions, including Deputy Head of the Accounting and Controlling Department and Chief Accountant. She received a degree in economics from the Budapest University of Economics.

Senior Management

The Chairman and CEO, Dr. Sándor Csányi and the six Deputy CEOs manage the Bank's course of business on a daily basis. The Deputy CEOs are:

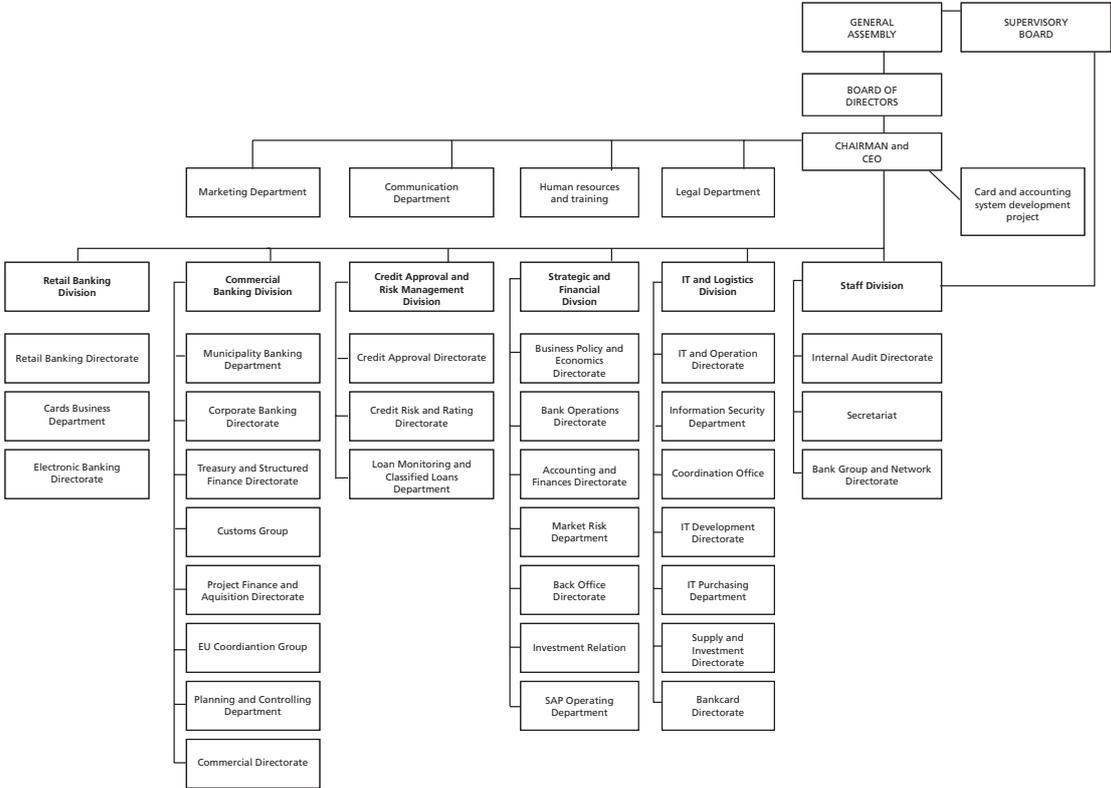
- Dr. Zoltán Spéder Strategic and Financial Division
- Csaba Lantos Retail Banking Division
- Géza Lenk Credit Approval and Risk Management Division
- Gyula Pap IT and Logistics Division
- Dr. Antal Pongrácz Staff Division
- László Wolf Commercial Banking Division

Organisational Structure, Employees

The Bank's operations are divided between the Bank's headquarters in Budapest and the Bank's branches throughout Hungary. The main banking activities of the Bank are carried out at the branches. The functions of the headquarters in Budapest include, among other things, the overall management of the business, the monitoring of the performance and activities of the branches, the development of new products and supporting the branches in their customer relations efforts.

The Bank has recently been further restructured to streamline its operations. As a result, the Bank currently consists of two core operational divisions and three functional divisions, each headed by a Deputy Chief Executive Officer. The core operational divisions are the Retail Banking Division and the Commercial Banking Division. The Retail Banking Division is responsible for retail services such as savings and current account services and consumer loans. The Commercial Banking Division is responsible for the corporate, municipal, international, securities and treasury and structured finance businesses. The principal non-operational divisions of the Bank are the Loan Approval and Risk Management Division, the Finance and Strategy Division and the Information Technology and Logistics Division.

The chart below sets out the Bank's organisational and responsibility structure.



Employees

The table shows the total number of employees as of 31st December, of the year represented.

	1999	2000	2001	2002	2003	2004
Full time employees	8,131	7,735	7,895	8,296	7,353	7,113
Part-time employees	366	402	398	474	627	664
Total number of employees	8,497	8,137	8,293	8,770	7,980	7,777

Due to the Bank's strong labour market position the employment fluctuation is relatively low. The Bank operates a training programme consisting of three levels: one for new employees, one for specialists and one for management. Training focuses on developing competencies needed for the given position.

According to changes in the Hungarian pension system, an increasing number of employees must pay 6 per cent. of their gross salary into the Private Pension Fund. The fund founded by the Bank began operating in 1998. In the case of its own employees, the Bank makes a further contribution of 4 per cent. to this fund. Moreover, in 1995 the Bank established a voluntary private pension fund. The employees' contribution amounts to 12 per cent. of gross salary, from which 10 per cent. is paid by the Bank and 2 per cent. by the employee. Presently, the number of fund members is near to the total number of employees.

The Bank also established a health fund which has been operating since May 2002. Presently, the monthly contribution of employees to the health fund is HUF 7,700 (approximately EUR 31), of which 78 per cent. is paid by the Bank.

Furthermore, in 1995 an independent employee trade union was founded, which set up the Alliance of Financial Employee's Trade Unions.

Loans, Risk Management

Loan Portfolio¹

The Bank's total assets as at 31st December, 2004 were HUF 3,044,545 million, 10.4 per cent. higher than a year earlier. The increase is higher than the inflation resulting in real asset growth for the preceding 12 months, but was lower than the average growth rate of the banking sector.

Estimated market shares of the Bank are:

	31st December, 2003		31st December, 2004	
	In Bank system	In Credit institutions	In Bank system	In Credit institutions
Total assets.....	20.4%	19.1%	19.4%	18.1%

Receivables from customers were HUF 1,272.4 billion, which was 16.9 per cent. higher than a year earlier and represented 41.8 per cent. (39.5 per cent. on 31st December, 2003), of total assets. Within the loan portfolio, in the last 12 months retail lending grew by 16.7 per cent., corporate lending also by 16.7 per cent. and loans to municipalities increased by 19.9 per cent. In the loan portfolio, the share of retail loans was 29.2 per cent., corporate loans represented 63.4 per cent. and municipal loans 7.4 per cent.

Corporate lending reached HUF 806.6 billion by the end of December 2004, of which loans extended to economic entities was 9.4 per cent. higher than a year earlier reaching HUF 603.4 billion. Loans for investment purposes fell by 38.1 per cent. to HUF 47.0 billion resulting in the proportion of investment loans falling to 7.8 per cent. Current asset financing loans fell by 12.1 per cent. and represented a 15.8 per cent. proportion of loans to economic entities. Housing loans for companies reached HUF 31.7 billion at the end of 2004, reflecting a 34.9 per cent. growth year on year. Foreign currency loans grew by 28.2 per cent. to HUF 267.5 billion and represented 44.3 per cent. of the total compared with 37.8 per cent. a year earlier. Overdrafts decreased by 0.6 per cent. to HUF 47.3 billion during the past 12 months. Loans granted to other financial agents grew by 52.5 per cent. to HUF 142.2 billion from HUF 93.2 billion as at the end of December 2003. Loans granted to small businesses and individual entrepreneurs increased by 85.9 per cent. or by HUF 17.8 billion and the share of loans to small and individual businesses within the corporate loan portfolio was 4.8 per cent., compared with a 3.0 per cent. share a year earlier.

Retail loans increased by HUF 53.1 to HUF 371.3 billion from a year earlier. Within this, the volume of housing loans declined by 7.2 per cent. to HUF 170.4 billion. The volume of FX housing loans (introduced in July 2004) exceeded HUF 9.9 billion at the end of December 2004. The volume of mortgage loans remaining with the Bank (Forrás loans and 2003 and 2004 condition loans) amounted to HUF 51.7 billion on 31st December, 2004. The volume of 2000 condition loans decreased by 15.5 per cent. to HUF 59.2 billion during 12 months to December 2004. Old loans continued to decline, all in all, to HUF 29.9 billion. The granted building society loans grew from HUF 10.1 billion on 31st December, 2003 to HUF 19.6 billion on 31st December, 2004. The volume of mortgage-based home equity loans fell by 22.5 per cent. to HUF 24.2 billion over last 12 months. Consumer loans were 70.9 per cent. higher and reached HUF 176.7 billion at the end of December 2004. Loans financing consumer purchases increased from HUF 2.5 billion to HUF 7.1 billion and personal loans, due to new products being introduced in the spring, increased from HUF 4 million a year earlier to HUF 73.7 billion at the end of December 2004. Within consumer loans current account related loans decreased by 9.4 per cent. reaching HUF 82.4 billion. Volume of lombard loans declined from HUF 8.8 billion as on 31st December, 2003 to HUF 8.4 billion as on 31st December, 2004.

The volume of municipal loans increased further and reached HUF 78.9 billion from HUF 94.6 billion. Loans to budgetary organisations decreased to HUF 0.6 billion during 2004.

⁽¹⁾Figures in this section are based on the unconsolidated balance sheet according to the Hungarian National Accounting Regulations (HAR)

Market shares of the Bank in lending are:

	31st December, 2003		31st December, 2004	
	In Bank system	In Credit institutions	In Bank system	In Credit institutions
Loans.....	13.1%	12.5%	13.1%	12.5%
Retail loans.....	16.1%	14.2%	14.7%	13.0%
Housing loans.....	13.3%	12.3%	9.7%	9.0%
HUF.....	13.5%	12.4%	9.9%	9.2%
FX.....	0.0%	0.0%	6.9%	6.9%
Consumer loans.....	21.9%	17.5%	24.6%	20.0%
Corporate loans.....	12.3%	12.0%	12.4%	12.1%
Municipal loans.....	55.9%	54.3%	53.4%	52.0%

(Source: Based on aggregate balance sheet and OTP HAR figures)

Quality of Loan Portfolio, Provisions*

Compared with 31st December, 2003, total receivables increased by 17.3 per cent. (customer receivables by 18.0 per cent.) and total qualified outstanding was 28.3 per cent. higher (increase in customer qualified receivables reached 28.8 per cent.), thus the portion of qualified receivables changed from 4.4 per cent. at 31st December, 2003 to 4.8 per cent. at 31st December, 2004. To-be-monitored loans increased by HUF 21.9 billion during the year, of this HUF 19.8 billion was in corporate business. Problem loans decreased from HUF 41.7 billion as at 31st December, 2003 to HUF 35.7 billion or by 14.6 per cent., mainly due to the HUF 6.2 billion decrease in below average loans, to the HUF 5.4 billion decline of doubtful loans and the increase in corporate bad loans and retail, below average and doubtful loans. For HUF 71.6 billion of qualified outstanding, total provisions created were HUF 20.8 billion resulting, in line with the structural change of the qualified portfolio, in a falling coverage ratio to 29.0 per cent. (36.9 per cent. at the end of December 2003). Provisions created on HUF 35.7 billion problem loans were HUF 18.3 billion, which represents a 51.4 per cent. coverage ratio (47.2 per cent. at the end of December 2003).

	Audited		Unaudited		Change		
	31st December, 2003		31st December, 2004				
	HUF mn	Distribution	HUF mn	Distribution	HUF mn	%	Distribution
Total receivables.....	1,272,442	100.0%	1,492,955	100.0%	220,513	17.3%	0.0%
No problem loans.....	1,216,685	95.6%	1,421,399	95.2%	204,714	16.8%	-0.4%
To-be-monitored loans.....	14,015	1.1%	35,896	2.4%	21,881	156.1%	1.3%
Below average.....	19,267	1.5%	14,591	1.0%	-4,676	-24.3%	-0.5%
Doubtful.....	14,885	1.2%	12,185	0.8%	-2,700	-18.1%	-0.4%
Bad.....	7,591	0.6%	8,884	0.6%	1,293	17.0%	0.0%
Total qualified.....	55,758	4.4%	71,556	4.8%	15,798	28.3%	0.4%
Provision.....	20,593	1.6%	20,762	1.4%	169	0.8%	-0.2%
Coverage (%).....	36.9%		29.0%			-7.9%	
NPL.....	41,743	3.3%	35,660	2.4%	-6,083	-14.6%	-0.9%
Provision.....	19,710	1.5%	18,342	1.2%	-1,368	-6.9%	-0.3%
Coverage (%).....	47.2%		51.4%			4.2%	

Since 31st December, 2003, the share of the corporate business in the qualified portfolio declined from 78.8 per cent. to 74.7 per cent. and, parallel with this, the proportion of retail business line in the qualified portfolio grew from 20.6 per cent. to 25.2 per cent. At the same time 58.7 per cent. of the provisions were generated in the corporate and 41.2 per cent. in the retail business.

*Figures in this section were prepared in accordance with HAR

The breakdown of receivables, qualified loans and provisions by businesses, as a proportion of total receivables, were at 31st December, 2004 and 2003 as below:

31st December, 2004 Unaudited				
	Retail	Corporate	Interbank	Municipal
Total	25.3%	54.7%	12.4%	7.7%
No problem	25.3%	53.6%	13.0%	8.1%
Qualified	25.2%	74.7%	0.0%	0.1%
Provisions	41.2%	58.7%	0.0%	0.1%

31st December, 2003 Audited				
	Retail	Corporate	Interbank	Municipal
Total	25.2%	53.9%	12.9%	8.0%
No problem	25.5%	52.8%	13.5%	8.3%
Qualified	20.6%	78.8%	0.3%	0.2%
Provisions	32.3%	66.5%	0.9%	0.3%

The provisioning and loan losses on customer receivables for 2004 were HUF 9,326 million (a decrease of 10.7 per cent. from a year earlier).

The HUF 7.9 billion loan loss provisioning represented 0.67 per cent. (annualised) of the average customer receivables (HUF 1,170.5 billion) compared with 0.76 per cent. for 2003.

Provisions/loan losses in HUF millions:

HUF million	Audited 2003	Unaudited 2004	2004 Y-o-Y %
Provision/depreciation and loan losses.....	13,261	13,344	0.6%
● Provisioning according to Credit Institution Act.....	10,448	9,326	-10.7%
From this provision on loans at OTP Mortgage Bank with repurchase guarantee.....	2,400	1,434	-40.2%
● General risk provision.....	2,803	4,509	60.9%
● Provision on uncovered derivative positions (without options).....	-708	395	155.8%
● Provision on option deals.....	0	0	—
● Provision for early retirements and severance payments.....	545	-806	-247.9%
● Other provision.....	173	-80	-146.2%

Lending Policy, Credit Approval Methodology

The Bank has a detailed lending policy, which is based on a middle-term strategy and business plan for each business area. The purposes of the credit policy are:

- Improvement of the quality of the loan portfolio;
- Enhancement of profit;
- Increase and maintenance of market share; and
- Reflecting market and product changes.

Personal responsibility on the preparatory and credit approval process is regarded as having a key role in minimising the number of qualified loans. The personal motivation is supported by a performance based incentive system. Sharing of competencies is defined in the SZMSZ (Organisational and Operating Regulations).

At the corporate and municipality business unit the credit approval is made by one competent person in the case of loans under HUF 2.5 billion. In case of loan amounts higher than HUF 2.5 billion, but smaller than 10 per cent. of the regulatory capital, the decision is made by the Credit Approval Committee, while in other cases the decision is made by the Board of Directors.

The interbank credit information system (BAR) provides useful information for the preparation of credit approval decisions and for the continuous monitoring of receivables. For the purpose of analysing risks properly, besides its own resources, the Bank uses external databases like the public database of the Ministry of Justice, Dun&Bradstreet's database, public notary registry on pledges and registry of mortgagees.

In the recent years the Bank has set up an Integrated Credit Approval and Risk Management System (EHKR), which can be reached from all the branches. This system effectively supports both credit approval and risk management,

and business areas providing accounting and other information on corporate and municipal clients, and containing debtor qualifications.

Management of Qualified Assets

According to Hungarian law the evaluation and qualification of loans, off balance sheet items and investments should be made at least quarterly. The law details the rules of provisioning and the write off methodology that are fully implemented by the internal rules of the Bank.

The Bank continuously covers the expected losses arising from credit deterioration by appropriate provisioning. The provisioning policy of the Bank is considered by management to be prudent and appropriate. The internal rules on and credit insurance methods should be assented to by the auditor of the Bank. The credit approval and credit monitoring system of the Bank is continuously developed and upgraded.

Although the Bank has a department for collecting bad receivables, it has also established two subsidiaries to collect the bad loans and assets: OTP Factoring Ltd. deals with bad financial receivables, while OTP Factoring Asset Ltd. collects bad receivables in connection with real estates and fixed assets.

Risk Management

Asset-Liability Management

The supreme forum for asset-liability management and market risk management within the Bank is the Asset-Liability Committee (ALCO). Each year the Committee reviews, at both OTP Group and Bank level, the applied evaluation methods and predetermined limits, which are defined on the basis of maximum acceptable losses. A report on the Bank's and Banking Group's liquidity, interest rate risk and market risk exposure is received by ALCO on a quarterly basis, and by the Bank's senior management every month. The Bank monitors the Group members' market risk exposure on a daily basis. The Group-level market risk management regulations are approved by the Bank's Board of Directors.

Liquidity Management

The Bank's liquidity policy is to meet all payment obligations as and when they fall due, to carry out the necessary transactions and at the same time to maintain profitability. For the purpose of calculating its liquidity exposure, the Bank analyses the balance of the compulsory reserve account and Treasury's portfolio on a daily basis and prepares a cash flow analysis for eight days ahead. It prepares a maturity balance sheet each month and determines Treasury's fund placement opportunities or its funding requirement on the basis of plans. The competent organisational units and managers receive reports on risk exposure and the degree to which limits have been utilised. The Bank's rules for determining what it regards as large deposits are stricter than those required by law. While the statutory provisions define a large deposit as being higher than 15 per cent. of the Bank's adjusted capital, the Bank considers all deposits in excess of HUF 2 billion to be large deposits.

Interest rate risk

The Bank aims to keep potential losses from unfavourable interest rate trends, and from decreases in interest income and the market value of the portfolio, within predetermined limits. To this end, the Bank continuously measures its interest rate risk exposure and informs management of any breaches of the limit. The Bank's level of exposure to interest risk is largely limited by the fact that the greater part of the forint deposit portfolio can be re-priced within three months, partly because the majority of deposits have a short maturity and partly because their interest is not fixed-rate or pegged to money-market instruments, but is repricable at the Bank's discretion on the basis of market trends.

Foreign exchange rate risk

In 2003 the statutory limitation restricting the potential maximum (gross) open position to 30 per cent. of adjusted capital was lifted. The purpose of the restriction was to prevent potential losses due to unfavourable exchange rate movements, although the change in regulation did not result in any significant changes from the Bank's point of view, since it already possessed detailed internal regulations on exchange rate risk management, which are reviewed on an annual basis. The level of exposure is restricted by the limit set by the Asset-Liability Committee (ALCO) for the total open position, which is defined in Government Decree of 244/2000. (XII. 24.) on the Trading Book as the aggregate net foreign currency position, as well as other position (overnight and intraday) stop-loss limits set by ALCO. Individual position limits have also been determined for each currency.

Capital Adequacy*

Shareholders' equity of the Bank on 31st December, 2004 reached HUF 325.0 billion, an increase of 24.1 per cent. compared with the same period a year ago. The increase of HUF 63.2 billion was a result of an additional HUF 10.5 billion in general reserves, as well as a HUF 46.9 billion increase in retained earnings, a HUF 0.3 billion increase in fixed reserves and a HUF 5.5 billion growth in net profits. As at 31st December, 2004 the unaudited book value per share was HUF 1,161.

On 31st December, 2004, the HAR guarantee capital of the Bank (after adjustment for capital requirement of the trading book and FX open position) stood at HUF 186,663 million (HUF 193,027 million including after tax profits for the period) of which HUF 174,204 million was considered Tier 1 and HUF 12,459 million was considered as Tier 2 capital (the depreciated value of the subordinated loan from the EBRD).

With HUF 1,725.7 billion risk weighted assets (a 26.5 per cent. growth compared with 31st December, 2003) the capital adequacy ratio (**CAR**) — calculated according to Hungarian regulations with "intra-year method" (including the audited results of the first nine months of 2004) — was 10.82 per cent. as at 31st December, 2004 consisting of 10.10 per cent. for Tier 1 and 0.72 per cent. for Tier 2.

The CAR of the Bank using both methods of calculation was in excess of the 8 per cent. required by the Credit Institutions Act.

HUF mn		Audited	Unaudited	
		31st December, 2003	31st December, 2004	
			w/o 4Q 04 profits	with 4Q 04 profits
I.	Primary capital elements	261,435	322,155	328,519
	A) subscribed capital	28,000	28,000	28,000
	B) capital reserve	52	52	52
	C) general reserve	41,325	50,118	51,809
	D) general risk reserve**	13,987	18,115	18,115
	E) profit reserve	130,465	177,400	177,400
	F) balance sheet profit	47,606	48,470	53,143
II.	Negative components of primary capital	43,961	51,950	51,950
	A) capital subscribed not yet paid	—	—	—
	B) intangible assets	43,961	51,950	51,950
III.	Primary capital (I-II)	217,474	270,205	276,569
IV.	Secondary capital	15,413	12,459	12,459
V.	Guarantee capital before deductions (III+IV)	232,887	282,664	289,028
VI.	Book value of investment in financial institutions, insurance and investment services companies and subordinated loans to them	84,884	90,099	90,099
VII.	Guarantee capital according to the rules of prudence (V-VI)	148,003	192,565	198,929
VIII.	Capital requirement of limit breaches and sovereign risk	4,186	5,902	5,902
IX.	Capital for the trading book and foreign currency exchange rate	5,733	4,786	4,786
X.	Guarantee capital for calculating the capital adequacy ratio	143,817	186,663	193,027
XI.	Risk-weighted total asset	1,364,573	1,725,703	1,725,703
XII.	Capital adequacy ratio	10.54%	10.82%	11.19%
	Tier 1	9.41%	10.09%	10.46%
	Tier 2	1.13%	0.72%	0.72%

*Figures in this section were prepared in accordance with HAR

**General risk reserve without corporate tax

Subsidiaries*

The operations of the subsidiaries in 2004 essentially met the targets and other requirements set by the Bank and its owners. The pre-tax profits of the fully consolidated major subsidiaries that materially affect the profit figures of the consolidated report were as follows for 2004:

	Audited 2003	Unaudited 2004	Change
	<i>(In HUF million under HAR)</i>		
<i>Merkantil Bank Ltd.</i>	2,646	3,115	17.7%
<i>Merkantil-Car Ltd.</i>	1,452	1,458	0.4%
<i>Merkantil Bérlet Ltd.</i>	159	368	131.4%
<i>NIMO 2002 Ltd.</i>	-37	6	—
Merkantil Group	4,220	4,947	17.2%
OTP Building Society Ltd.	360	783	117.5%
OTP Mortgage Bank Ltd.	8,548	13,272	55.3%
OTP Banka Slovensko a.s.	-207	-58	—
<i>DSK Bank EAD</i>	1,587	11,032	—
<i>DSK subsidiaries</i>	-14	-165	—
DSK Group	1,573	10,867	590.8%
RoBank S.A.	—	70	—
OTP-Garancia Insurance Ltd.	2,604	4,005	53.8%
OTP Fund Management Ltd.	4,338	3,313	-23.6%
HIF Ltd.	259	175	-32.4%
OTP Real Estate Ltd.	1,347	1,008	-25.2%
<i>OTP Factoring Real Estate Ltd.</i>	1,321	723	-45.3%
<i>OTP Factoring Ltd.</i>	64	20	-68.8%
OTP Factoring Group	1,385	743	-46.4%
Bank Center No.1 Ltd.	81	138	70.4%
OTP Fund Servicing and Consulting Ltd.	225	101	-55.1%
OTP Mérleg Ltd.	196	-36	-118.4%
Inga Ltd.	104	142	36.5%
Concordia Info Ltd.	167	56	-66.5%
OTP Card Manufacturing Co.	—	43	—
Subsidiaries total	25,200	39,569	57.0%

Merkantil Group

The Merkantil Group is one of the market-leaders in car and asset financing. Merkantil Car Ltd. finances productive assets and cars. Merkantil Lease Ltd. is involved in the administration of long-term leasing transactions. The separation of these activities was made necessary by the requirements of the Hungarian Credit Institutions Act.

The aggregated balance sheet total of Merkantil Group exceeded HUF 198.9 billion at 31st December, 2004. Members of the Group financed 60,447 car purchases during 2004 (an increase of 5,817 contracts from 2003) totalling HUF 94.9 billion (a 27.3 per cent. increase), of which 10,253 were bank loans at Merkantil Bank, 49,901 were FX loans; 97 financial leases at Merkantil Car and 196 operating leases at Merkantil Bérlet. HUF denominated new loans represented 9.4 per cent. of the total during 2004.

As at 31st December, 2004 Merkantil Bank Ltd. had total assets of over HUF 59.4 billion. Net interest income for 2004 reached HUF 6.6 billion, while the cost income ratio fell to 48 per cent. from 48.1 per cent. a year earlier. ROA reached 4.42 per cent. while ROE was 25.6 per cent. Within total assets car loans represented 65.4 per cent. and dealer financing represented 12.9 per cent. Outstanding balances of car loans reached HUF 38.9 billion, a decrease of HUF 10.4 billion from 2003. On the liability side, Stabil and Mobil CDs represented HUF 35.1 billion. Equity of Merkantil Bank Ltd. grew by 13.5 per cent. to HUF 11.4 billion from 2003. Capital adequacy under HAR reached 17.80 per cent., compared with 15.52 per cent. at the end of 2003.

*Figures in this section were prepared in accordance with HAR except as otherwise indicated

Total assets of Merkantil Car Ltd. were over HUF 136.6 billion at the end of December 2004 which resulted in an annual increase of 47 per cent., of which financial leasing of cars was HUF 7.5 billion (a decrease of 52.5 per cent.), foreign currency car loans was HUF 115.5 billion (an increase of 84.9 per cent.) and leasing of equipment remained stable at approximately HUF 7 billion. Net interest income was HUF 10.6 billion, an increase of 32.7 per cent. compared with 2003. The cost-income ratio was 33.1 per cent. in 2004, compared with 36.5 per cent. in 2003. In 2004, the company's shareholders' equity rose by 32.9 per cent. to HUF 1.9 billion.

OTP Building Society Ltd.

OTP Building Society Ltd. provides saving services for retail customers, blocks of flats and municipalities. The company granted 3,847 loans during 2004. The volume of loans granted in 2004 amounted to HUF 2,255 million, while the volume of customer deposits was more than HUF 59.5 billion as at 31st December, 2004. Total assets exceeded HUF 65.9 billion, net interest income was over HUF 3.6 billion and the cost-income ratio reached 65.2 per cent.

OTP Mortgage Bank Ltd.

At 31st December, 2004 OTP Mortgage Bank's (**OTP MB**) total receivables from customers amounted to HUF 770.2 billion purchased in its entirety from OTP Bank's loan portfolio. The number of loans was close to 179,300, of which approximately 122,000 were smaller than HUF 5 million each. Meanwhile, by 31st December, 2004, the face value of OTP Mortgage Bank's issued mortgage bonds reached HUF 789.5 billion, of which HUF 598.5 billion were purchased by the parent Bank.

Total assets of OTP MB were over HUF 886.4 billion and its pre-tax profit reached HUF 13.3 billion, which is a 55.3 per cent. increase over a year earlier. Net interest income was over HUF 39.4 billion, producing a net interest margin of 5.08 per cent. (during 2003 it was 5.34 per cent.). Part of the decrease was as a result of accounting changes because in 2004, the bank booked HUF 11.4 billion (HUF 7.4 billion in 2003) of account management fees paid to the parent Bank as interest expense. The yield of loans was over 15.7 per cent., while funding costs increased from 8.4 per cent. to 9.2 per cent. due to the higher interest rate environment. During 2004, OTP MB paid the parent Bank fees and commissions of HUF 37.5 billion, which is an increase of 77.6 per cent. over 2003; HUF 11.4 billion of account management fees (an increase of 54.5 per cent.) and HUF 1.1 billion of cost remuneration and transfer fees (a decrease of 20 per cent.). The cost-income ratio was 22 per cent. (27.6 per cent. in 2003) and capital adequacy was maintained at 8.9 per cent. For 2004 annualised ROA was 1.43 per cent. (1.59 per cent. in 2003) and its market share among Hungarian mortgage banks based on bonds issued reached 64.7 per cent. (Source: OTP Bank Rt. 2004 Stock Exchange Report).

DSK Bank EAD

DSK Bank has been a fully owned subsidiary of OTP Bank since the beginning of October 2003. Since its acquisition a transformation programme has been implemented by the parent Bank. At the end of December 2004, the market share of DSK by total assets stood at 13.1 per cent. (source: OTP Bank Stock Exchange Report 2004). DSK managed accounts for 6.3 million clients, of which 6.1 million were retail and 246,000 were corporate. As at 31st December, 2004, total assets of DSK reached HUF 408.4 billion, of which 66.2 per cent. or HUF 270.6 billion were customer receivables.

The following table sets out the IFRS main financial data of DSK Bank in BGN million:

	Audited 2003	Unaudited 2004	2004 Y-o-Y
Interest income	189.3	249.2	31.6%
Interest expense	48.5	47.6	-1.9%
Net interest income	140.8	201.6	43.2%
Non interest income	27.9	43.7	57.0%
Non interest income in total income	16.5%	17.8%	1.3%
Total income	167.6	245.4	46.4%
Operating costs	104.6	121.9	16.6%
Cost income ratio	62.4%	49.7%	-12.7%
Operating income	63.0	123.4	95.9%
Provisions and loan losses	0.0	20.6	
Cost of reorganisation	-2.2	-14.8	-572.7%
Income before income taxes	60.8	88.1	44.8%
After tax profit	46.5	70.6	51.7%
ROAA	2.09%	2.58%	0.49%
ROAE	16.5%	20.6%	4.1%

The loans to assets ratio grew to 66.2 per cent. and retail loans stood at BGN 1,681.3 million (an increase of 12.9 per cent. and 68.3 per cent. respectively), representing 77.1 per cent. of total loans. Corporate loans grew by 15.9 per cent. in the fourth quarter of 2004 and by 94.2 per cent. compared with the figure for year end 2003 and reached BGN 497.5 million. OTP Bank regards the quality of DSK's loan book as very good, with BGN 14.8 million provisioning during 2004 representing a 2.2 per cent. annualised ratio of average loans (2.8 per cent. in 2003).

Customer deposits were BGN 2.6 billion representing an increase of 28.3 per cent. with respect to 2003, while annual growth of retail deposits was 29.3 per cent. (BGN deposits increased by 26 per cent.; FX deposits increased by 40.3 per cent.) and corporate deposits were 53.6 per cent. higher than a year earlier. The loan to deposit ratio of DSK reduced to 59.8 per cent. at year-end 2004 from 81.3 per cent. at the end of December 2003.

In 2004 interest income grew by 31.6 per cent. and interest expenses were 1.9 per cent. below 2003 figures. Net interest income increased 43.2 per cent. to BGN201.6 million. Yield on interest earning assets reached 11 per cent. while the cost of funding on interest bearing liabilities was 2.1 per cent., resulting in a spread of 8.86 per cent. and margin over total assets of 7.73 per cent. (6.52 per cent. in 2003). Non-interest income grew by 57.0 per cent. year-on-year partially as a result of repricing in February 2004 and the significant increase in loan volumes.

Evolution of DSK Bank's market shares:

	31st December, 2004
Deposits	15.0%
Retail	25.9%
BGN	43.3%
FX	11.4%
Corporate	5.0%
Loans	15.7%
Retail	41.0%
Consumer	47.9%
Housing	38.0%
Corporate	4.1%

The number of managed retail current accounts increased during the fourth quarter by 65,000 and reached 725,000 at year end 2004, which was 9.8 per cent. above the figure for 31st December, 2003. On the growing bank card market DSK market share was 20 per cent. at year end 2004, a slight decrease from 20.3 per cent. at year end 2003, while the number of ATMs of the bank grew by 107 to 351 and the bank operated POS terminals increased to 462 reaching 20 per cent. and 6.8 per cent. market share respectively. The number of employees at DSK Bank was 3,837 and 4,528 at the Group level.

DSK Rodina AD, 97 per cent. owned subsidiary of DSK Bank is managing two mandatory and one voluntary pension funds. The balance sheet of Rodina at the end of September 2004 reached BGN 3.13 million. The 2004 results equalled BGN 0.57 million losses. At the beginning of 2003 DSK Bank founded DSK Tours which had total assets of BGN 9.8 million at year end December 2004. During 2004 the company realized a loss of BGN 0.58 million. The holding of DSK in DSK Trans Security EOD was sold during 2004 to DSK Tours. DSK Trans Security EOD is providing security and cash transport services for the Bank. Income is generated from the parent bank only, resulting in pre-tax losses of BGN 0.17 million for 2004 with total assets of BGN 2.6 million.

OTP Banka Slovensko a.s.

The Bratislava-based OTP Banka Slovensko a.s. (OBS) has been a member of the OTP Group since April 2002. The primary goal of the company is to increase the sale of retail and corporate banking services. As at 31st December, 2004, OBS's total assets were HUF 215 billion representing a 34.5 per cent. growth over 31st December, 2003. Customer receivables were over HUF 133.8 billion, which represents 62.2 per cent. of total assets.

During 2004, OBS recorded HUF 9.8 billion interest income and nearly HUF 4.9 billion of interest expenses resulting in HUF 4.9 billion of net interest income. Interest income was 3.1 per cent., and interest expenses were 0.7 per cent. higher than a year earlier, resulting in net income growth of 5.5 per cent. Based on average total assets, the margin was 2.86 per cent., 66 basis points lower than for 2003. Non-interest income grew by 12.5 per

cent. within which net fees and commissions exceeded the figure of 2003 by 20.4. per cent. Results of securities trading grew significantly, from a HUF 96 million loss in 2003 to a HUF 147 million gain in 2004. Total income was 7.5 per cent., non-interest expenses 0.9 per cent. higher than in 2003. Increase in non-interest expenses is explained by the 15.9 per cent. growth of personnel expenses, which was counter-weighted by a 7.6 per cent. decrease of operating costs.

The pre-tax losses of OTP Banka Slovensko a.s. were HUF 57.7 million in 2004 as a result of HUF 46.8 million of operating income and HUF 129.7 million of provisioning (including general risk provisions according to HAR), and HUF 25.2 million of dividends received.

Main financial data of OBS according to HAR in HUF millions:

	Audited 2003	Unaudited 2004	2004 Y-o-Y
Total interest income	9,495.8	9,788.1	3.1%
Total interest expense.....	4,823.4	4,856.8	0.7%
Net interest income.....	4,672.4	4,931.3	5.5%
Net fees and commissions.....	1,037.9	1,249.9	20.4%
Non interest income	1,880.1	2,115.5	12.5%
Share of non interest income in total income.....	28.7%	30.0%	1.3%
Total income	6,552.4	7,046.8	7.5%
Personnel expenses.....	2,240.1	2,595.4	15.9%
Depreciation	777.4	782.2	0.6%
Other non interest expenses	3,920.6	3,622.3	-7.6%
Non interest expense	6,938.2	6,999.9	0.9%
Cost/income ratio	105.9%	99.3%	-6.6%
Operating income	-385.7	46.8	-112.1%
Diminution in value, provisions and loan losses	-129.0	129.7	-200.6%
Dividend received	49.5	25.2	-49.2%
Profit before tax/after tax profit	-207.2	-57.7	-72.1%
ROA		-0.03%	0.0%
ROE		-0.4%	-0.4%

Total assets of OBS based on SAS (Slovak Accounting Standards) were SKK33.8 billion (2.9 per cent. market share), net customer receivables were SKK21.1 billion, a growth of 33.3 per cent. and 34.2 per cent. respectively year-on-year. Within customer receivables, corporate loans amounted to SKK16.7 billion (23 per cent. increase), retail loans grew by 108.1 per cent. to SKK4.2 billion and loans granted to municipalities increased by 47.8 per cent. to SKK172.5 million. The quality of the loan portfolio improved significantly. In the fourth quarter of 2004 "to-be-monitored" loans fell by SKK170 million, non-performing loans grew by SKK19.9 million and the ratio of qualified portfolio reached 9.55 per cent., NPL 6.3 per cent. as at 31st December, 2004 while these rates were 11 per cent. and 6.7 per cent. respectively, as of 30th September, 2004. The coverage of qualified loans increased from 62.3 per cent. to 64.5 per cent. at the end of December 2004.

OBS's deposits increased during the same period, by 26 per cent. to SKK22.2 billion. Within this, retail deposits grew by 7 per cent. to SKK9.7 billion, municipal deposits grew by 71.4 per cent. to SKK3.1 billion and corporate deposits increased by 39.7 per cent. to SKK9.4 billion compared with the previous year. Since 30th September, 2004, the balance sheet total grew by 9.7 per cent., deposits by 5.3 per cent. and net loans by 8.5 per cent.

The return-on-assets of OBS based on SAS was 0.29 per cent. and return on equity was 3.4 per cent. for 2004. The guarantee capital of OBS was SKK 2,399.5 million and risk weighted assets were SKK12,697 million, thus capital adequacy based on SAS was 18.9 per cent. at the end of December 2004.

The number of retail managed current accounts exceeded 86,600 and there were more than 19,200 loan accounts. The number of cards issued was over 100,000 and OBS operated 102 ATMs and 479 POS terminals at the end of December 2004. The number of employees of OBS stood at 765 as at 31st December, 2004, an increase of 29 employees over the quarter. Estimated market shares are as below:

	31st December, 2004
<i>Deposits</i>	2.6%
Retail	2.7%
—SKK	2.8%
—FX	2.0%
Securities	9.2%
Municipal	2.0%
Corporate	2.7%
<i>Loans</i>	5.0%
Retail	3.6%
—housing	4.1%
—consumer	2.9%
Municipal	0.5%
Corporate	6.1%

Source: OTP Bank Stock Exchange Report 2004

RoBank S.A.

The Bank acquired 100 per cent. of the Bucharest-based Romanian RoBank S.A. on 30th July, 2004, for US\$47.5 million. Following a capital increase of the equivalent of EUR10 million in September 2004, total assets of RoBank reached HUF 44.5 billion as at 31st December, 2004 of which 54.7 per cent. is due from financial institutions and 35.8 per cent. is due from customers. Pre-tax profit of RoBank after the acquisition amounts to HUF 70.4 million.

Nova Banka d.d.

The acquisition of Nova Banka, Croatia's seventh biggest bank, is scheduled for conclusion in March 2005. All necessary permissions from the Hungarian Financial Supervisory Authority, the Gazdasági Versenyhivatal (Hungarian Office of Economic Competition) and from the Croatian National Bank have been obtained.

OTP-Garancia Insurance Ltd.

Pre-tax profit for 2004 exceeded HUF 4.0 billion which is an increase of 53.8 per cent. over 2003, while total assets increased by 18 per cent. to HUF 116.8 billion. Premium income was 9 per cent. lower than in 2003 and reached HUF 55.8 billion, driven by the decrease in non-banking savings and low demand for bank assurance products. Life insurance premium income fell by 8.6 per cent., caused by a 31 per cent. decrease in single payment unit linked insurance products. Annuity-type life insurance grew by 28 per cent. Non-life insurance fee income was 8.6 per cent. lower than a year earlier, caused by a 75 per cent. drop in agricultural insurance, due to unfavourable changes in the regulatory environment. Significant gains were achieved in residential property (+13 per cent.) and property and liability (+11 per cent.) products.

Insurance expenses in the non-life insurance business declined by 28 per cent. from 2003 (mainly as a result of the lack of agricultural claims) while in the life business due to maturity and repurchase of single payment unit linked products, expenses grew by 37 per cent., totalling a 0.8 per cent. decline for the company. In the non-life insurance business the claims and changes in reserves represented 49 per cent. of 2004 premium income.

The existing volume of annuity-type life and bank assurance was HUF 15.6 billion representing an increase of 18 per cent. during 2004. Premium income on single payment life and bank assurance products reached HUF 12.5 billion, representing a decrease from HUF 18.1 billion achieved in 2003. The year-end volume of non-life policies was HUF 28.2 billion, a decrease of 8 per cent. from year end in 2003, mainly driven by a decrease in agricultural insurance (from HUF 7.6 billion to HUF 3.8 billion), while the volume of other products increased by HUF 1.3 million or 6 per cent.

Main performance data and indicators of OTP-Garancia (HAR) in HUF million:

	Audited 2003	Unaudited 2004	2004 Y-o-Y
Fee income from life insurances	29,026.4	26,518.9	-8.6%
Fee income from non-life insurances	32,109.6	29,329.9	-8.7%
Total fee income	61,136.0	55,848.9	-8.6%
Incomes from investments	6,484.1	11,849.2	82.7%
Other incomes	97.9	281.7	187.8%
Total income	67,718.0	67,979.8	0.4%
Pre-tax profits from life insurances	1,528.5	2,698.1	76.5%
Pre-tax profits from non-life insurances	1,076.1	1,307.4	21.5%
Pre-tax profits	2,604.6	4,005.5	53.8%
After tax profits	2,159.0	3,364.7	55.8%
Combined ratio (%)	98.3%	105.6%	7.3%
Total assets	99,053.3	116,844.6	18.0%

Shareholder equity grew by 12.8 per cent. year-on-year to HUF 12 billion, and the company exceeded the solvency requirements of the Hungarian regulations. Insurance technical reserves were HUF 99 billion, an increase of HUF 14.8 billion during 2004. Closing reserves of unit-linked policies grew by HUF 9 billion and reached HUF 71.9 billion.

OTP Fund Management Ltd.

The pre-tax profit of OTP Fund Management for 2004 was over HUF 3.3 billion, 20.8 per cent. lower than in 2003. Total assets were close to HUF 8.6 billion. The assets at fund management companies grew in 4Q 2004, rising by HUF 196 billion, of which funds investing in securities increased assets under management (**AuM**) by HUF 172 billion. Total AuM exceeded HUF 1,000 billion again by the end of 2004. The assets of the funds managed by OTP Fund Management stood at HUF 390 billion at the end of December 2004, an increase of HUF 81 billion in 4Q 2004. The market share of the company on funds investing in securities was 40.8 per cent. at the end of 2004 (Source: OTP Bank Stock Exchange Report 2004).

Development of assets of funds managed by the Company in HUF million:

	Audited 31 Dec 2003	Unaudited 31 Dec 2004	Y-o-Y	
Optima	347,215.6	317,953.7	-29,261.9	-8.4%
Maxima	8,409.9	5,872.1	-2,537.8	-30.2%
Euro	4,390.8	3,437.3	-953.5	-21.7%
US Dollar	2,527.6	1,392.4	-1,135.2	-44.9%
Paletta	2,638.6	2,549.2	-89.3	-3.4%
Quality	20,896.6	29,568.3	8,671.7	41.5%
OTP-UBS fund of funds	10,099.5	19,605.3	9,505.8	94.1%
Fantazia	—	1,143.9	1,143.9	
Institutional equity	—	9,453.4	9,453.4	
Total	396,178.5	390,975.6	-5,202.9	-1.3%

Total AuM reached HUF 760.8 billion which represents an increase of 18.1 per cent. from 31st December, 2003. Managed assets in investment funds decreased by 1.3 per cent. and, whilst they increased in pension funds by 50.1 per cent., funds in other assets grew by 45.8 per cent.

OTP Real Estate Ltd.

In 2004, net sales of OTP Real Estate were close to HUF 16.3 billion. The largest share of the net sales revenue originated from real estate investments and sales and real estate appraisal activities. Its pre-tax profit reached HUF 1 billion. The cost/income ratio was 87.1 per cent., which is higher than in 2003. The company's total assets were HUF 18.2 billion. Current assets amounted to HUF 15 billion, of which inventories represented HUF 11.6 billion.

OTP Factoring Ltd.

In 2004, OTP Factoring concluded contracts with the Bank for the purchase of 49,000 receivables amounting to a gross value of HUF 9.6 billion. From third parties, the company purchased 4,900 contracts at a value of HUF 12.9 billion. Gross income was HUF 6.4 billion and the net factoring income reached HUF 2.3 million. Due to the favourable development of income, the pre-tax profit of the company was HUF 723 million for 2004 and the cost/income ratio was 50.6 per cent.

Financial Data Discussed under IFRS*

Highlights

Consolidated

Total assets for the OTP Group were HUF 4,166,630 million as at 31st December, 2004, which represented a year-on-year growth of 20.4 per cent., 36.4 per cent. higher than total assets of the OTP Group as at 31st December, 2003.

OTP Group's consolidated net profit was HUF 140 billion for 2004, an increase of 68.1 per cent. compared with 2003, and is 9.9 per cent. higher than the figure of the Bank. Consolidated ROA was 3.67 per cent. (2.70 per cent. in 2003) and consolidated ROE was 37.6 per cent. (31.1 per cent. in 2003).

Financial highlights — Consolidated	IFRS		
	Audited	Audited	Unaudited
	2002	2003	2004
Total assets (HUF bn).....	2,716.6	3,460.8	4,166.6
Total loans and advances (HUF bn).....	1,280.7	1,982.6	2,506.8
Total deposits (HUF bn).....	2,151.2	2,689.8	2,902.6
Loan/deposit ratio	59.5%	73.7%	86.4%
Shareholders' equity (HUF bn)	223.6	311.8	433.9
Balance sheet gearing.....	12.1	11.1	9.6
Share of non-interest income in total income	49.8%	47.5%	40.9%
Cost-to-income ratio	68.3%	65.2%	58.1%
Pre-tax profits (HUF bn)	73.1	102.7	165.9
After-tax profits (HUF bn).....	59.2	83.3	140.1
EPS undiluted (HUF)	228.57	320	534
EPS fully diluted (HUF).....	227.99	319	531
Return on Assets	2.36%	2.70%	3.67%
Return on Equity.....	30.3%	31.1%	37.6%
Real Return on Equity.....	25.0%	26.4%	30.8%
Average assets (HUF bn)	2,503.1	3,088.7	3,813.7
Net interest income (HUF bn)	134.3	176.1	261.1
Net interest margin	5.01%	5.35%	6.45%

*All 2004 figures are unaudited

The Bank — non-consolidated

Over the 12-month period ending 31st December, 2004, total IFRS Bank assets grew to HUF 3,054 billion, an increase of 11.8 per cent. The Bank's IFRS after-tax profits for 2004 were HUF 127.5 billion, 81.8 per cent. higher than in 2003.

Financial highlights — Bank	IFRS		
	Audited	Audited	Unaudited
	2002	2003	2004
Total assets (HUF bn).....	2,390.0	2,731.6	3,054.2
Total loans and advances (HUF bn).....	995.0	1,070.4	1,276.5
Total deposits (HUF bn).....	2,045.7	2,264.5	2,340.9
Loan/deposit ratio	48.6%	47.3%	54.5%
Shareholders' equity (HUF bn)	203.5	276.2	389.4
Balance sheet gearing.....	11.7	9.9	7.8
Share of non-interest income in total income	39.9%	49.8%	49.5%
Cost-to-income ratio	60.9%	57.5%	46.1%
Pre-tax profits (HUF bn)	63.0	84.5	148.3
After-tax profits (HUF bn).....	51.9	70.1	127.5
EPS undiluted (HUF)	196.23	260	470
EPS fully diluted (HUF).....	196.82	261	472
Return on Assets	2.31%	2.74%	4.41%
Return on Equity.....	29.2%	29.2%	38.3%
Real Return on Equity.....	23.9%	24.5%	31.5%
Average assets (HUF bn)	2,246.8	2,560.8	2,892.9
Net interest income (HUF bn)	108.9	111.5	151.1
Net interest margin	4.57%	4.08%	4.92%

Unconsolidated and Consolidated, Unaudited IFRS Reports of OTP Bank Ltd., for the year ended 31st December, 2004

The Bank has prepared its unconsolidated and consolidated, unaudited IFRS report for 31st December, 2004. The following represents our analysis derived from the unconsolidated and the consolidated condensed IFRS financial statements of 31st December, 2004.

Consolidated IFRS Balance Sheet

As at 31st December, 2004, the consolidated IFRS total assets of the Bank were HUF 4,166.6 billion, representing a HUF 705.8 billion or 20.4 per cent. increase compared with the previous year. The IFRS total assets of the Group were 36.4 per cent. higher as at 31st December, 2004, than the value of the total assets of the Bank.

The Bank's consolidated shareholder's equity as at 31st December, 2004, was HUF 433.9 billion, which is 39.2 per cent. higher than the consolidated shareholders' equity as of 31st December, 2003, and 11.4 per cent. higher than the unconsolidated shareholders' equity. This increase was due to the creation of capital reserves, mainly from after-tax profits.

On the **asset side**, cash, deposits and balances with the NBH increased by 53.7 per cent. compared with 2003, due to the low basis of short term HUF and FX deposits with the NBH.

As at 31st December, 2004, the change in the structure of placements resulted in the volume of interbank placements being 29.6 per cent. higher year-on-year.

Volume of trading and available-for-sale securities was HUF 361.8 billion, 4.0 per cent. lower than at the end of 2003. This volume was HUF 18.9 billion higher than the unconsolidated figure of the Bank, due to securities held by OTP-Garancia Insurance, OTP Building Society, DSK Bank and OTP Mortgage Bank subsidiaries and due to the consolidation effect of mortgage bonds held by the Bank. This volume consists of held-for-trading securities of a value of HUF 171.1 billion and available-for-sale securities of HUF 190.7 billion.

Volume of loans, net of allowance for possible loan losses grew by 26.4 per cent. from HUF 1,982.6 billion to HUF 2,506.8 billion as of 31st December, 2004.

The Bank has a consolidated gross loan volume of HUF 2,585.3 billion which consists of corporate loans of 35.7 per cent. (HUF 922.3 billion), retail loans of 59.8 per cent. (HUF 1,545.1 billion) and municipality loans of 4.6 per cent. (HUF 117.9 billion).

IFRS consolidated gross loan volume of the Bank by business lines and by subsidiaries as at 31st December, 2004 in HUF billion:

	Unaudited					Total
	Corporate	Municipal	Retail	Housing	Consumer	
OTP Bank Ltd.	806.1	116.2	374.1	172.7	201.3	1,296.3
OTP Factoring Ltd.	2.9	0.4	5.5	5.0	0.4	8.7
OTP Building Society	0.0	0.0	7.9	7.9	0.0	7.9
Merkantil Bank Ltd.	16.2	0.0	34.3	0.0	34.3	50.6
Merkantil Car Ltd.	18.2	0.1	102.2	0.0	102.2	120.4
HIF Ltd.	11.8	0.0	0.0	0.0	0.0	11.8
OTP Mortgage Bank	0.0	0.0	770.3	770.3	0.0	770.3
OBS	108.3	1.0	25.2	21.1	4.1	134.6
DSK Bank	62.9	0.2	210.4	47.6	162.8	273.4
Banca Comerciala RoBank S.A.	16.6	0.0	0.3	0.0	0.3	16.9
Total gross loans.....	1,042.9	117.9	1,530.1	1,024.6	505.5	2,690.9
Consolidated	922.3	117.9	1,545.1	1,017.8	527.3	2,585.3
Foreign subsidiaries.....	199.5	1.2	235.9	68.7	167.2	436.6
Share of foreign subsidiaries	21.6%	1.0%	15.3%	6.7%	31.7%	16.9%

The quality of the loan book under IFRS was good at the end of December 2004; performing loans constituted 88.3 per cent. of the total, while 8.2 per cent. were qualified loans and problem loans were 3.4 per cent. of total. 12.5 per cent. of qualified loans and 7.8 per cent. of problem loans were in the books of foreign subsidiaries. The consolidated loan loss provisioning of HUF 78.5 billion represented 26.0 per cent. coverage over the qualified loans.

The volume of debt securities held-to-maturity decreased by a further 17.5 per cent. to HUF 247.3 billion year-on-year.

On the **liability side**, liabilities to customers were HUF 3,217.1 billion as at 31st December, 2004, 14.3 per cent. higher than a year earlier and 37.3 per cent. over the Bank figure. Customer deposits grew by 7.9 per cent. of HUF 212.2 billion, reaching HUF 2,902.1 billion as at 31st December, 2004. The composition of deposits is 18.9 per cent. corporate, 74.3 per cent. retail and 6.8 per cent. from the municipality sector customers. Foreign subsidiaries collected 17.2 per cent. of total deposits as at 31st December, 2004.

The volume of issued securities was 151.8 per cent. higher than a year earlier reaching HUF 314.4 billion in total.

Consolidated IFRS Statement of Operations (Profit and Loss Account)

The 2004 consolidated IFRS net income of OTP Bank of HUF 140.1 billion confirmed the success of its subsidiaries and the efforts made to increase profitability and show an increase of HUF 56.7 billion, which is 68.1 per cent. higher than in 2003, and 9.9 per cent. (or HUF 12.6 billion) higher than the unconsolidated after-tax profit for the same period. The Earnings before income taxes grew by 61.6 per cent. to HUF 165.9 billion.

The consolidated net interest income reached HUF 261.1 billion, representing a 48.3 per cent. increase from 2003 and 72.8 per cent. higher than at the Bank. The amount of consolidated interest income was HUF 434.1 billion, which is 53.2 per cent. above the 2003 levels, mainly due to the 51.9 per cent. increase of interest income from loans. Consolidated interest income from loans was HUF 104.6 billion or 76.3 per cent. above the Bank's data. Increase in interest income was particularly significant from interbank accounts (+106.3 per cent.), securities held-for-trading and available-for-sale (+56.9 per cent.) partly in line with changes in volumes and with the structure of balance sheet, with the dynamically growing mortgage lending and partly reflect the HUF 31.2 billion (+184.2 per cent.) results of interest income from other banks because of the fair value adjustment of swaps. Interest income from accounts with NBH and other banks increased (80.4 per cent.) and interest income from debt securities held-to-maturity declined (4.1 per cent.).

Interest expense was HUF 173.0 billion, 61.2 per cent. higher than in 2003. Interest paid on customers' deposits grew by 61.9 per cent. to HUF 131.8 billion and was 10.6 per cent. above the Bank's figure. Interest expenses on issued securities were 175.1 per cent. higher and totalling HUF 19.2 billion above the figure for the Bank, due to securities issued by Merkantil Bank, OTP Mortgage Bank and OBS.

The provisioning for 2004 was HUF 15.0 billion, 38.3 per cent. higher than in the previous year. The provisioning represented 0.65 per cent. of the average loan volume compared with 0.64 per cent. in 2003.

Gross consolidated interest margin over average total assets grew further during 2004 to 6.85 per cent., 115 bps above the 2003 figure. Net interest margin also grew in 2004 and was 6.45 per cent. compared with 5.35 per cent. for 2003. Adjusting for the effects of swaps gross margin in 2004 was 6.75 per cent. and net margin was 6.36 per cent. which was 89 bps and 85 bps higher than in 2003, respectively, owing to the impact of the higher average interest rate level on the liability side spreads.

Non-interest income was 13.9 per cent. higher than a year earlier and reached HUF 170.5 billion. The increase in fee and commission income of the non-interest income was 12.4 per cent. or HUF 91.7 billion, due to the consolidation effect of fees from OTP Mortgage Bank, the fee income of 2004 was 19.0 per cent. lower than net fees and commissions at the Bank. Net fees and commissions reached HUF 71.2 billion in 2004, which was a 15.4 per cent. increase, compared with 2003. Gains on securities trading were HUF 14.7 billion, contrary to the loss of HUF 7.6 billion in 2003. The net profits on foreign exchange transactions was HUF 1.1 billion compared with the HUF 5.2 billion gains in 2003. HUF 49.5 billion IFRS insurance premium income in 2004 was 12.1 per cent. below the 2003 performance. Other income decreased by 9.4 per cent. to HUF 11.1 billion.

Consolidated non-interest expenses reached HUF 250.7 billion and were 18.1 per cent. higher than during 2003 and 87.0 per cent. above the figures of the Bank.

Consolidated fees and commission expenses increased by 3.0 per cent. year-on-year, and were 111.9 per cent. higher than at the Bank. Consolidated personnel expenses were 23.9 per cent. higher than a year earlier, and 46.0 per cent. above the Bank's figures. Insurance expenses declined by 3.2 per cent. (net insurance income declined by 37.8 per cent. to HUF 9.0 billion). Other expenses were 22.1 per cent. higher than in 2003. Within other expenses, the provisions created for shares and stakes grew by HUF 555 million and the HUF 1.5 billion provision for pending and future liabilities was written back. Postal, telephone and rental fees increased by 60 per cent.

Consolidated cost-income ratio was 58.1 per cent., 7.1 per cent. less than in 2003 (cost income ratio in accordance with HAR was 56.0 per cent., 6.9 per cent. less than in 2003).

Consolidated ROAA on average total assets grew considerably to 3.67 per cent. (2.70 per cent. in 2003), while consolidated ROAE reached 37.6 per cent. nominal, 6.5 per cent. higher than a year earlier. Real ROAE increased from 26.4 per cent. in 2003 to 30.8 per cent. in 2004. Consolidated net asset value per share was HUF 1,550 as at 31st December, 2004. Basic earnings per share (EPS) reached HUF 534, HUF 214 above 2003 data.

Unconsolidated IFRS Balance Sheet

Total assets of the Bank were HUF 3,054.2 billion as at 31st December, 2004, 11.8 per cent. higher than a year earlier and HUF 9.7 billion higher than the HAR total assets of the Bank.

On the **asset side**, the volume of cash, due from banks and balances with the National Bank of Hungary increased by 57.8 per cent. and placements with other banks declined by 21.1 per cent. compared with 31st December, 2003. The volume of securities trading grew by 9.8 per cent. to HUF 342.9 billion; however, the structure has changed significantly. Within HUF 18.8 billion securities held-for-trading, the volume of discounted treasury bills was HUF 5.1 billion; the volume of Government Bonds was HUF 8.5 billion and mortgage bonds reached HUF 2.2 billion. Within HUF 342.9 billion securities available-for-sale, the volume of Government Bonds was HUF 60.3 billion and mortgage bonds reached HUF 235.4 billion.

The gross volume of loans grew by 19.0 per cent. year-on-year to HUF 1,296.3 billion. Within this, the loans maturing over a year amounted to HUF 856.8 billion (their proportion was 66.1 per cent.). The volume of provisions (HUF 19.8 billion) was 6.3 per cent. higher than a year earlier. The net volume of loans was HUF 1,276.5 billion, 19.3 per cent. growth year-on-year. Within loans, loans to enterprises amounted to HUF 806.1 billion (18.7 per cent. growth), loans to municipalities HUF 116.2 billion (26.9 per cent. increase), consumer loans HUF 201.3 billion (48.1 per cent. growth) while housing loans amounted to HUF 172.2 billion (5.4 per cent. decline) at the end of December 2004. Corporate loans represented 62.2 per cent. and retail loans represented 28.9 per cent. of total loans as at 31st December, 2004.

The volume of debt securities kept until maturity decreased by 18.8 per cent. to HUF 507.5 billion. Within these, the volume of government securities was HUF 210.9 billion, mortgage bonds were HUF 289.8 billion.

On the **liability side**, the 3.4 per cent. year on year increase of customer deposits was significant, thus the share of customer deposits in total liabilities decreased to 76.6 per cent. (82.9 per cent. in 2003). Within HUF 2,340.9 billion of customer deposits, HUF deposits amounted to HUF 2,071.0 billion. 74.3 per cent. of the total deposits consisted of retail (HUF 1,738.6 billion volume; 4.7 per cent. increase), 18.5 per cent. corporate (1.8 per cent.

decline in volume) and 7.3 per cent. (3.6 per cent. increase in volume) municipal deposits. The liabilities from issued securities decreased by 2.1 per cent.

Due to the 28.7 per cent. increase of reserves, the 81.8 per cent. growth of result of ordinary business activities and the 3.6 per cent. decrease of own shares at book value, the shareholders' equity of the Bank was 41.0 per cent. higher than in the same period of 2003. Shareholders' equity reached HUF 389.4 billion and represented 12.7 per cent. of total assets.

Unconsolidated IFRS Statement of Operations (Profit and Loss Account)

As a result of a 42.4 per cent. increase in interest income and a 50.8 per cent. increase in interest expenses, the net interest income of the Bank, according to IFRS, was HUF 151.1 billion, which was 35.5 per cent. higher than in 2003.

Interbank accounts increased significantly by 99.7 per cent. to HUF 40.6 billion mainly because of the 183.2 per cent. increase in results of swaps to HUF 31.1 billion. Since the medium term swap volumes during 2004 were significant, the fact that the HUF exchange rate fluctuated in a wide band significantly influenced results of swaps. The fair value adjustments based on IAS 39 resulted in interest income on swaps being HUF 3.2 billion higher and interest expenses (losses) on swaps being HUF 240 million lower than in HAR. Thus the change in the result of swaps improved IFRS net interest income by HUF 3.4 billion and the IFRS net interest margin was higher than in HAR. The fair value adjustment of swap deals and the net FX rate results were moving reversely, thus the swap income was compensated by the HUF 3.6 billion worsening of the FX transaction accounts.

Interest paid on customer deposits increased by 58.2 per cent., partly because of the rise in interest rate level and partly because of the change in the structure of the deposits.

Provisioning for possible loan and placement losses increased by 25.2 per cent. and reached HUF 8.8 billion. Provisioning on average volume of loans was 0.75 per cent. compared with 0.68 per cent. in 2003.

Non-interest income grew by HUF 36.1 billion or 34.8 per cent. to HUF 139.9 billion. Within non-interest income, net FX results reached HUF 0.9 billion, fees and commissions income amounted to HUF 113.3 billion (an 18.2 per cent. increase). Net fees and commissions grew by 22.2 per cent. compared with 2003 and reached HUF 103.6 billion. Net gain on securities trading was HUF 14.6 billion, which means HUF 23.5 billion growth compared with 2003. The main part of the profit (HUF 12.1 billion) was due to the fair value adjustment of the fixed rate mortgage bonds held in the portfolio of the Bank. In 2004, the Bank collected HUF 8.5 billion dividend from its subsidiaries, 10.5 per cent. higher than in 2003. Other non-interest income fell by 18.7 per cent. to HUF 2.7 billion, compared with 2003.

Non-interest expenses altogether were HUF 134.1 billion; 8.4 per cent. higher than a year earlier. Within non-interest expenses, personnel expenses grew by 19.4 per cent. to HUF 52.0 billion, depreciation increased by 5.1 per cent. to HUF 13.4 billion and fees and commissions paid declined by 12.4 per cent. to HUF 9.7 billion. Other non-interest type expenses increased by 4.7 per cent. year-on-year to HUF 59.0 billion.

IFRS pre-tax profit of the Bank was HUF 148.3 billion, which represented a 75.4 per cent. growth year-on-year. After-tax profit grew by 81.8 per cent. to HUF 127.5 billion. The decline of the nominal and effective tax rate had a share in the profit growth too (the effective rate was 17.0 per cent. in 2004 and 14.0 per cent. in 2003). Basic and diluted earnings per share reached HUF 472 (in 2003: HUF 261), while fully diluted was HUF 470 (in 2003: HUF 260).

Calculated cost-to-income ratio for 2004 was 46.1 per cent., 11.4 per cent. lower than in 2003. (After the calculation similar to the Hungarian standards, cost/income ratio was 44.2 per cent. for 2004, 55.2 per cent. in 2003.) The gross interest margin of the Bank according to IFRS, calculated on average total assets, was 5.22 per cent. in 2004, its net interest margin 4.92 per cent. and, partially due to the swap result, 87 and 85 basis points higher than in 2003. Disregarding the results of swaps, the gross margin in 2004 was 5.10 per cent. and the net margin 4.80 per cent. which is 55 and 53 bps higher than in 2003. ROA calculated on the average total assets was 4.41 per cent. (in 2003: 2.74 per cent.), while ROE calculated on average shareholders' equity was 38.3 per cent. (in 2003: 29.2 per cent.). Real ROE of the Bank grew from 24.5 per cent. to 30.8 per cent.

Financial Statements

Consolidated, IFRS Balance Sheets

	Unaudited 31st December, 2004	Audited 31st December, 2003	Audited IAS 31st December, 2002
	<i>(in HUF millions)</i>		
Cash, due from banks and balances with the National Bank of Hungary	424,993	276,501	355,440
Placements with other banks, net of allowance for possible placement losses	326,824	252,335	295,892
Securities held for trading and available-for-sale	361,768	377,016	220,091
Loans, net of allowance for possible loan losses	2,506,794	1,982,587	1,280,710
Accrued interest receivable	32,767	32,432	26,195
Equity investments	9,206	5,878	5,464
Debt securities held-to-maturity	247,259	299,772	352,916
Premises, equipment and intangible assets, net	174,777	167,337	93,568
Other assets	82,242	66,981	86,315
TOTAL ASSETS	4,166,630	3,460,839	2,716,591
Due to banks and deposits from the National Bank of Hungary and other banks	253,782	126,402	79,060
Deposits from customers	2,902,647	2,689,833	2,151,169
Liabilities from issued securities	314,435	124,887	84,862
Accrued interest payable	27,187	16,395	12,627
Other liabilities	219,950	175,677	149,345
Subordinated bonds and loans	14,324	15,413	15,511
TOTAL LIABILITIES	3,732,325	3,148,607	2,492,574
Share capital	28,000	28,000	28,000
Reserves	291,681	225,884	164,181
Retained earnings	140,067	83,336	59,231
Treasury shares	-25,868	-25,420	-27,800
TOTAL SHAREHOLDERS' EQUITY	433,880	311,800	223,612
MINORITY INTERESTS	425	432	405
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	4,166,630	3,460,839	2,716,591

Consolidated, IFRS Statements of Operations

for the 12 months ended 31st December, 2004

	Unaudited 2004	Audited 2003	Audited 2002 IFRS
		<i>(in HUF millions)</i>	
Interest Income:			
Loans.....	241,527	159,054	129,711
Placements with other banks.....	42,948	20,820	26,653
Due from banks and balances with the National Bank of Hungary..	33,372	18,499	19,251
Securities held for trading and available-for-sale	89,223	56,874	21,879
Debt securities held-to-maturity	26,995	28,155	32,822
<i>Total Interest Income</i>	<u>434,065</u>	<u>283,402</u>	<u>230,316</u>
Interest Expense:			
Due to banks and deposits from the National Bank of Hungary and other banks	20,815	18,096	6,440
Deposits from customers	131,795	81,413	85,441
Liabilities from issued securities	19,381	7,044	3,193
Subordinated bonds and loans.....	943	748	963
Other entrepreneurs.....	30	5	4
<i>Total Interest Expense</i>	<u>172,964</u>	<u>107,306</u>	<u>96,041</u>
NET INTEREST INCOME	<u>261,101</u>	<u>176,096</u>	<u>134,275</u>
Provision for possible loan losses	14,963	10,817	8,817
NET INTEREST INCOME AFTER PROVISION FOR POSSIBLE LOAN AND PLACEMENT LOSSES	<u>246,138</u>	<u>165,279</u>	<u>125,458</u>
Non-Interest Income:			
Fees and commissions	91,731	81,644	63,618
Foreign exchange gains and losses, net.....	1,087	5,167	-2,768
Gains and losses on securities, net	14,678	-7,591	1,062
Gains and losses on real estate transactions, net	1,832	1,473	809
Dividend income	593	437	600
Insurance premiums	49,452	56,269	49,715
Other	11,095	12,249	11,545
<i>Total Non-Interest Income</i>	<u>170,468</u>	<u>149,648</u>	<u>124,581</u>
Non-Interest Expenses:			
Fees and commissions	20,542	19,944	12,965
Personnel expenses	75,936	61,303	50,241
Depreciation and amortisation.....	29,056	19,793	17,021
Insurance expenses.....	40,466	41,825	39,752
Other	84,732	69,401	56,932
<i>Total Non-Interest Expense</i>	<u>250,732</u>	<u>212,266</u>	<u>176,911</u>
INCOME BEFORE INCOME TAXES	<u>165,874</u>	<u>102,661</u>	<u>73,128</u>
Income taxes.....	25,795	19,324	13,952
INCOME AFTER INCOME TAXES	<u>140,079</u>	<u>83,337</u>	<u>59,176</u>
Minority Interests	-12	-1	55
NET INCOME	<u><u>140,067</u></u>	<u><u>83,336</u></u>	<u><u>59,231</u></u>

Unconsolidated, IFRS Balance Sheets

	Unaudited 31st December, 2004	Audited 31st December, 2003	Audited 31st December, 2002
	<i>(in HUF millions)</i>		
Cash, due from banks and balances with the National Bank of Hungary	399,126	252,975	348,424
Placements with other banks, net of allowance for possible placement losses	200,101	165,209	277,627
Securities held for trading and available-for-sale	342,888	312,395	204,408
Loans, net of allowance for possible loan losses	1,276,516	1,070,425	994,994
Accrued interest receivable	41,180	31,792	23,407
Equity investments	154,298	138,808	48,888
Debt securities held-to-maturity	507,503	625,309	362,045
Premises, equipment and intangible assets, net	96,538	86,400	71,305
Other assets	36,098	48,315	58,908
TOTAL ASSETS	3,054,248	2,731,628	2,390,006
Due to banks and deposits from the National Bank of Hungary and other banks	203,777	91,081	46,401
Deposits from customers	2,340,924	2,264,528	2,045,653
Liabilities from issued securities	1,997	2,039	2,054
Accrued interest payable	9,414	7,895	7,479
Other liabilities	94,454	74,496	69,433
Subordinated bonds and loans	14,324	15,413	15,511
TOTAL LIABILITIES	2,664,890	2,455,452	2,186,531
Share capital	28,000	28,000	28,000
Retained earnings and reserves	375,166	262,504	192,358
Treasury shares	-13,808	-14,328	-16,883
TOTAL SHAREHOLDERS' EQUITY	389,358	276,176	203,475
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	3,054,248	2,731,628	2,390,006

Unconsolidated, IFRS Statements of Operations

for the 12 months ended 31st December, 2004

	Unaudited 2004	Audited 2003	Audited 2002
		<i>(in HUF millions)</i>	
Interest Income:			
Loans.....	136,968	103,415	106,555
Placements with other banks.....	40,634	20,350	26,473
interest income without swap.....	9,555	9,376	—
results of swaps.....	31,079	10,974	—
Due from banks and balances with the National Bank of Hungary..	30,872	17,148	18,488
Securities held for trading and available-for-sale.....	29,258	19,553	11,075
Securities held-to-maturity.....	53,203	43,779	32,540
<i>Total Interest Income.....</i>	<u>290,935</u>	<u>204,245</u>	<u>195,131</u>
Interest Expense:			
Due to banks and deposits from the National Bank of Hungary and other banks.....	19,699	16,508	4,189
interest expenses without swap.....	4,401	3,360	—
losses of swaps.....	15,298	13,148	—
Deposits from customers.....	119,116	75,311	80,988
Liabilities from issued securities.....	167	169	74
Subordinated bonds and loans.....	870	748	963
<i>Total Interest Expense.....</i>	<u>139,852</u>	<u>92,736</u>	<u>86,214</u>
NET INTEREST INCOME.....	<u>151,083</u>	<u>111,509</u>	<u>108,917</u>
Provision for possible loan losses.....	8,809	7,034	—
Provision for possible placement losses.....	-181	19	—
<i>Provision for possible loan and placement losses.....</i>	<u>8,628</u>	<u>7,053</u>	<u>6,214</u>
NET INTEREST INCOME AFTER PROVISION FOR POSSIBLE LOAN AND PLACEMENT LOSSES.....	<u>142,455</u>	<u>104,456</u>	<u>102,703</u>
Non-Interest Income:			
Fees and commissions.....	113,299	95,850	64,741
Foreign exchange gains and losses, net.....	914	5,903	-3,400
Losses and gains on securities, net.....	14,618	-8,909	2,600
Losses on real estate transactions, net.....	-103	-35	-14
Dividend income.....	8,500	7,691	332
Other.....	2,654	3,266	3,989
<i>Total Non-Interest Income.....</i>	<u>139,882</u>	<u>103,766</u>	<u>68,248</u>
Non-Interest Expenses:			
Fees and commissions.....	9,692	11,067	7,854
Personnel expenses.....	51,994	43,555	37,571
Depreciation and amortisation.....	13,401	12,745	13,085
Other.....	58,994	56,327	49,440
<i>Total Non-Interest Expense.....</i>	<u>134,081</u>	<u>123,694</u>	<u>107,950</u>
INCOME BEFORE INCOME TAXES.....	<u>148,256</u>	<u>84,528</u>	<u>63,001</u>
Income taxes.....	20,754	14,387	11,100
NET INCOME AFTER INCOME TAXES.....	<u>127,502</u>	<u>70,141</u>	<u>51,901</u>

The Hungarian Banking System

1. Structure

The Republic of Hungary has one of the most developed financial systems among Central and Eastern European (CEE) countries. Under Act CXII of 1996 on credit institutions (the **Credit Institutions Act**), banks, specialised credit institutions or co-operative credit institutions may all act as credit institutions. As the Republic of Hungary has a "universal banking system", in addition to providing financial services, Hungarian credit institutions are legally allowed to carry out investment services as well as banking services. The provision of investment services carried out by credit institutions is regulated by Act CXX of 2001 on the capital markets (the **Capital Markets Act**). Among the three types of credit institutions only banks are entitled to provide the full range of banking and investment services.

In September 2004 there were 30 commercial banks, 5 specialised credit institutions, 2 building societies, 6 credit co-operatives and 173 savings co-operatives in the Republic of Hungary. Foreign ownership of local banks is common.

Ownership structure of banks based on registered capital (percentages listed below)

	Dec 1999	Dec 2000	Dec 2001	Dec 2002	Dec 2003	March 2004	June 2004
State owned	19.4	21.3	25.0	27.3	0.9	1.0	0.9
Domestic private	12.8	9.4	8.8	8.7	13.2	12.7	12.8
Foreign owned	65.4	66.7	63.0	60.5	81.9	82.0	80.5
Preferential and treasury shares	2.4	2.6	3.2	3.5	4.0	4.3	5.8
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Source: HFSA (Report on the activities of the supervised sectors in the third quarter of 2004)

The Republic of Hungary holds a controlling interest in MFB (the Hungarian Development Bank), Hungarian Eximbank and FHB (FHB Land Credit and Mortgage Bank Ltd.) but the Government has announced its intention to sell all of its holdings in FHB. Konzumbank merged into Hungarian Foreign Trade Bank on 1st July, 2004, and Postabank merged into Erste Bank on 1st August, 2004.

Number of credit institutions and their employees

	Number of credit institutions					
	Dec 2001	June 2002	Dec 2002	June 2003	Dec 2003	June 2004
Commercial banks and specialised credit institutions	41	40	39	38	38	35
Savings cooperatives	186	183	183	182	176	176
Loan Associations	7	7	6	6	6	6
Total	234	230	228	226	220	218

	Number of employees (average)					
	Dec 2001	June 2002	Dec 2002	June 2003	Dec 2003	June 2004
Commercial banks and specialised credit institutions	26,270	26,731	26,974	26,842	27,167	26,543
Savings cooperatives	8,166	8,474	8,481			
Loan Associations	86	95	98			
Total	34,522	35,300	35,553			

Source: HFSA (Report on the activities of the supervised sectors in the third quarter of 2004)

2. EU Membership

The Republic of Hungary became a member of the European Union on 1st May, 2004. Membership of the EU has resulted in the Republic of Hungary adopting and implementing various EU directives. This resulted in changes to Hungarian banking law and accounting rules in order to harmonise them with EU directives.

3. Legal and Institutional Environment, the Supervision

The legal framework of the present banking system is based on the Credit Institutions Act and the Capital Markets Act and decrees of the Finance Minister and the Government. Regulation of the Hungarian banking system is generally in line with the relevant EU banking standards.

The Credit Institutions Act contains the regulatory framework for most of the essential regulations in respect of financial undertakings and credit institutions. Banks qualify as credit institutions. The Credit Institutions Act imposes various requirements, restrictions and regulations applicable to credit institutions, including, *inter alia*, reporting and liquidity requirements, restrictions on investments, limits on exposure, regulations regarding internal controls and internal audits, deposit guarantees, money laundering, capital adequacy requirements as well as customer protection.

Since 1991, the Republic of Hungary's banking system has been subject to a regulatory and supervisory framework based on the principles and guidelines of the Bank for International Settlements (the Basel Committee).

3.1 Supervision of the Hungarian Banking System

Since 1st April, 2000, the supervision of the banking sector has been carried out by the Hungarian Financial Supervisory Authority (the **HFSA**), which is the successor of the Hungarian Banking and Capital Market Supervisory Authority, the State Insurance Supervisory Authority and the State Pension Fund Supervisory Authority. The HFSA's establishment, status and activity are regulated by Act CXXIV of 1999 on the Hungarian Financial Supervisory Authority.

The HFSA is an administrative agency of the Government with national jurisdiction. The institution is headed by the Council consisting of five members and it is managed by the Director. The Chairman of the Council is elected by the Hungarian Parliament, the Director and Deputy Directors are appointed by the Prime Minister. The Chairman of the Council reports directly to the Minister of Finance.

The HFSA may take a variety of actions under the Credit Institutions Act and the Capital Market Act to license and supervise the operation of credit institutions. The supervision of banking activities in the Republic of Hungary has strengthened as the banking system has developed. Bank supervisory responsibilities have largely been transferred to the HFSA, with the National Bank of Hungary retaining a more limited supervisory role (mainly related to the circulation of currency).

3.2 Role of the National Bank of Hungary

Act LVIII of 2001 on the National Bank of Hungary regulates the Hungarian National Bank and its current position in the system of European Central Banks.

Although the National Bank of Hungary has no legal obligation to support Hungary's credit institutions, it may serve as a lender of last resort to a credit institution if the credit institution faces temporary liquidity difficulties. However, the National Bank of Hungary is not permitted to grant any financial aid to the Government. Any loans granted by the National Bank of Hungary in its capacity as lender of last resort to Hungary's credit institutions qualify as general unsecured obligations of the credit institutions.

The National Bank of Hungary reviews reports filed by banks and maintains a publicly-available database on the Hungarian Banking System. Furthermore, it continuously evaluates the status and publishes all information regarding the financial position and condition of Hungarian credit institutions and of the Hungarian Republic itself. The National Bank of Hungary also monitors compliance of the credit institutions with the provisions as set forth in the Credit Institutions Act and the decrees issued by the governor of the National Bank of Hungary.

3.3 The European Central Bank and the National Bank of Hungary

The Republic of Hungary is expected to become a member of, and to participate in, the Economic and Monetary Union (**EMU**) by 2010 at which point the value of the Hungarian forint against the euro will be irrevocably fixed. Prior to joining the EMU, the Republic of Hungary will accede to the ERM-II system.

The Republic of Hungary is presently in the second stage of the monetary integration, therefore, it retains the discretion to set its own monetary policy. Nevertheless, pursuant to the treaty of Maastricht, it is bound to follow

a strategy of convergence. The Governor of the National Bank of Hungary is a member of the Governing Council of the European Central Bank.

3.4 Role of the HFSA

A credit institution must obtain a license from the HFSA before it may, among others, be established, commence operations, establish a representative office or a subsidiary abroad, elect its management, acquire shares of a non-resident entity representing a qualifying holding or terminate its operations.

The HFSA monitors compliance with the Credit Institutions Act and Capital Markets Act and other relevant legislation and regulations applicable to Hungarian banks and other financial institutions.

The HFSA is entitled to impose various sanctions on credit institutions, including issuing warnings of non-compliance, withdrawing of licences, instituting liquidation proceedings and imposing fines on credit institutions and their managers.

Hungarian banking regulations and regulatory provisions regarding the licensing and supervision of Hungarian branches of credit institutions registered in another EU member state are in accordance with the relevant EU Directives.

4. Banking Regulations

4.1 The feature of regulation

The Credit Institutions Act and the Capital Markets Act set out the regulatory framework for the Hungarian banking system. The specific rules not regulated in detail under these acts are set forth in Government decrees or decrees issued by the Minister of Finance. The HFSA does not have the power to issue regulatory decrees, or any other legally binding regulation.

4.2 Capital adequacy

According to the Credit Institutions Act and in line with European regulations, banks must have registered capital of at least HUF 2 billion (cca. EUR 8 million). The amount of the credit institution's equity may not be less than the minimum amount of its registered capital. If the amount of a credit institution's equity falls below the registered capital the HFSA shall give the credit institution a maximum of eighteen months to bring its equity to compliance.

In order to maintain solvency and its ability to satisfy its liabilities, a credit institution must at all times have own funds equal to the amount of the risk of the financial and investment activities performed thereby, and its own funds may not be less in any event than the minimum amount of its registered capital.

4.3 Trading Book

In order to ascertain a credit institution's capital requirements, a trading book must be kept to record the investment instruments in the trading portfolio that are exposed to the market risks fundamentally connected with investment and financial services and the risks undertaken in connection with these.

4.4 General Reserves

A credit institution must create general reserves from its after-tax profit to offset the losses incurred during its activities prior to paying dividends and shares. A credit institution must place 10 per cent. of its annual after-tax profits into the general reserve. (Upon request, a credit institution may be exempted by HFSA from the obligation to create general reserves if its solvency ratio is above 12 per cent. and it has no negative profit reserves.)

4.5 Solvency Ratio

Pursuant to its authority under the Credit Institutions Act, the Ministry of Finance has issued Decree 23 of 2003 on the calculation of the solvency ratio. The Credit Institutions Act and the decree adopts the standards of the Bank of International Settlements which prescribes that the ratio of a bank's own funds and such bank's risk weighted assets (on and off balance sheet items) may not be less than 8 per cent. In addition, the Ministry of Finance has issued decrees requiring credit institutions to create provisions based both on the quality of their assets (which include loans, investments and off balance sheet items) and on certain foreign country risks present in their assets.

4.6 Own funds

The own funds of a credit institution consists of core, subsidiary and supplementary capital components (in accordance with the Basel Committee standards).

Subordinated loan capital qualifies as part of the subsidiary capital of credit institutions. A loan shall only be considered as subordinated loan capital if it satisfies all the following requirements: (i) it is actually available and

immediately accessible to the user credit institution without a legal dispute or seniority requirement and is indicated in the balance sheet of the user credit institution; (ii) the agreement for providing the subordinated loan capital includes a lender's agreement that the loan given by it may be used for settling the credit institution's debts and in the event of dissolution, the lender's claim shall be in the second last place to the claim of the shareholders; (iii) the original term of the loan — including debt securities — exceeds five years, and, unless the HFSA authorises an earlier repayment, it is to be repaid after a minimum of five years or, if the loan is for an indeterminate term, it may be repaid on a date stipulated in the agreement, which must be at least five years after the termination of the agreement, (iv) the loan agreement or the securities sales agreement does not contain a clause that would increase the interest and loan charges, except for the case of floating rate interest as a result of the increase of the reference rate; (v) unless it is authorised by HFSA, no repayment of principal may be made prior to the original maturity date or the notice period stipulated in the agreement, and (vi) the lender of the subordinated loan capital has no set-off rights against the borrower.

4.7 Risk Provisions

Pursuant to its authority under the Credit Institutions Act, the Ministry of Finance has issued Decree 14 of 2001 on asset-ranking of credit institutions. Pursuant to that decree, portfolio risk provisions are calculated by ranking the assets of a credit institution into the following categories: standard, watch, substandard, doubtful and bad. Assets are placed in the categories based on the performance of the asset and the financial condition of the debtor. Provisions are made based on the asset category as follows: 0 per cent. for standard assets, 0 per cent. to 10 per cent. for watch assets, 11 per cent. to 30 per cent. for substandard assets, 31 per cent. to 70 per cent. for doubtful assets and 71 per cent. to 100 per cent. for bad assets.

The value of any collateral held against an asset may be offset against the need to make provisions. The decree requiring provisions does not provide guidelines on the extent to which collateral may be used for this purpose. Individual banks, in co-operation with their auditors, are required to create their own guidelines.

Country risk provisions are determined by using a table that sets forth the amount of provisions required, based on the nationalities of the debtors in a credit institution's portfolio. The country risk decree also provides absolute limits on the proportion of a credit institution's total assets that may be held in respect of a particular country.

In 2001, the Republic of Hungary harmonised its guidelines on capital adequacy requirements for investment institutions and commercial banks with EU directive 93/6.

4.8 Regulation on transactions

The Credit Institutions Act also contains limits on large exposures and the exposures related to acquisition of ownership, as well as real estate and other sorts of investment restrictions.

5. Deposit Insurance Scheme

Hungarian law requires that any bank that accepts deposits must join the mandatory deposit insurance scheme. Simultaneously upon submitting an application for authorisation to engage in deposit-taking activities, the credit institution must also send a declaration on joining the deposit insurance scheme and attach a copy of such declaration to the application for authorisation to perform business activities. If, amongst others, a credit institution fails to make its due payments to the scheme it may lose its licence to conduct deposit-taking business in the Republic of Hungary.

Payments made by the deposit insurance scheme to restore guaranteed deposits are met by contributions from each member bank in the relevant sector. The deposit insurance scheme pays compensation to persons entitled to the benefit for principal and interest on frozen deposits up to a maximum amount of HUF 6 million (cca. EUR 24,000) per person and per credit institution.

Financial Overview of The Hungarian Banking Sector⁽¹⁾

The number of participants in the Hungarian banking market has not been affected by the country's EU accession. Although the number of banks decreased by one because of the privatisation of two banks (namely Postabank and Konzumbank) and the transformation of one credit union (namely ELLEA) into a commercial bank, these actions were not influenced by EU accession. Accordingly, 35 credit institutions, comprising 30 banks and 5 specialised credit institutions, operated in Hungary at the end of September 2004.

The predominance of foreign owners remained unchanged, 81.2 per cent. of the registered capital of the sector being held by foreign persons at the end of September 2004. The institutional concentration further increased: 80 per cent. of the sector's assets was held by the 10 largest players at the end of September 2004.

Profitability and efficiency has strengthened. Profit after tax in the sector in the first 9 months of 2004 amounted to HUF 233.0 billion, which represented 40 per cent. growth compared with the same period in 2003. This significant expansion was fuelled by the 21.2 per cent. increase in average assets which contained a 26.2 per cent. growth in the loan portfolio (both compared with the same period last year) and by slowly decreasing yields that enabled the banks to maintain the interest margin at a relatively wide 3.9 per cent. level.

These results ensured favourable profitability, even in international terms. The average Return on Assets (ROA) was 2.29 per cent. and the Return on Equity was 27.17 per cent. in the first nine months of 2004, calculated on an annual basis. The average Return on Equity of the banking sector was 8.3 per cent. in the 15 old EU member countries and 10.9 per cent. in the recently joined countries.

Lending plays a significant role among banking activities even in international terms: the ratio of loans to total assets at the end of September 2004 reached 64.4 per cent., exceeding the 53.1 per cent. average observed in old EU member countries and the 48.7 per cent. average in new entry countries, at the end of 2003.

Regardless of the slowing growth of lending, the ratio of loans in the aggregate balance sheet of the banking sector exceeded last year's result by 24.3 per cent. Although the growth rate of the total assets slowed compared with last year, it still increases to a significant extent fuelled by lending dynamics. The total assets of the banking sector amounted to HUF 14,265 billion, 20 per cent. more than last year. The 7.8 per cent. GDP growth (nominal terms) in the same period suggests further expansion in the banking sector.

The expansion of the loan portfolio was attributable to the growing credit demand of the households and entrepreneurs. Despite the decrease in the growth of residential lending in 2004, the 22 per cent. increase realised in the first three quarters was still considerable. Due to the fast expansion the ratio of household loans to total assets reached 17.1 per cent. (This ratio was only 7.8 per cent. at the end of 2001.)

The proportion of housing loans in the household loans is 70 per cent., which continued to grow but at a significantly lower degree after the peak of mid-2003. In line with the earlier predictions, the growth rate of demand for home loans significantly reduced in 2004 because of the change of the subsidising system. These typically long-term loans remain in the balance sheets for years. At the end of September 2004, the household's home loan portfolio was HUF 1,687.4 billion, almost 40 per cent. higher than in September 2003.

Foreign currency based lending has become increasingly popular, both in the case of household and entrepreneur lending. In order to offset the decline of demand for the more expensive HUF home loans, more and more banks have started to offer foreign currency based housing loans. The foreign currency based home loan portfolio grew at an enormous degree and quintupled from HUF 18.1 billion at the end of 2003, to HUF 92.2 billion at the end of September 2004.

Foreign debt increased at the same rate as total assets. Hence, the ratio of foreign debt to total assets did not change from 17.6 per cent. in September 2004. Each of domestic debt and equity represents almost 9 per cent. of total assets.

As a consequence of the decline of growth rate of loan volumes and the increasing growth of qualified loans, the quality of the market loan portfolio changed unfavourably. The proportion of qualified loans in the market portfolio increased from 1.75 per cent. in 2003 to 1.94 per cent. to September 2004, while the share of the "to be monitored" category increased from 4.17 per cent. to 4.21 per cent. The amount of non-performing corporate loans increased from 3.64 per cent. in 2003 to 3.75 per cent. in 2004, while outstanding "problematic" retail loans grew from 2.42 per cent. to 2.66 per cent. Despite the unfavourable changes, the quality of the market portfolio can be still considered good in comparison with the EU market, where the proportion of outstanding "problematic" loans exceeded 4 per cent.

Considering all recent developments, the dynamic growth of the Hungarian banking sector has not resulted in jeopardising its overall financial stability. The banking capital situation is adequate: the weighted average solvency ratio reached 11.8 per cent. in 2004, which is significantly higher than the minimum 8 per cent. required.

⁽¹⁾ The figures about the banking sector are based on "Report of the activities of the supervised sectors in the third quarter of 2004" by the Hungarian Financial Supervisory Authority.

Taxation

The following is a general discussion of certain Hungarian tax consequences of the acquisition and ownership of Notes. It does not purport to be a comprehensive description of all tax considerations which may be relevant to a decision to purchase Notes, and, in particular, does not consider any specific facts or circumstances that may apply to a particular purchaser. This summary is based on the laws of Hungary currently in force and as applied on the date of this Offering Circular, which are subject to change, possibly with retroactive effect.

Prospective purchasers of Notes are advised to consult their own tax advisers as to the tax consequences of the purchase, ownership and disposition of Notes, including the effect of any state or local taxes, under the tax laws of Hungary and each country of which they are residents.

Taxation of foreign resident corporations

Under the Hungarian Corporation Tax Act, Hungarian resident taxpayers have a full, all-inclusive tax liability, while foreign persons have a limited tax liability. Generally, resident persons are those established under the laws of Hungary (i.e. having a Hungarian registered seat). As from 1st January, 2005, in the event that its tax residency is not determined on the basis of its registered seat, a taxpayer is deemed to have a Hungarian tax residency, in line with international conventions, if the place of management of the taxpayer is in Hungary.

Under the Hungarian Corporation Tax Act **Foreign Person** means a legal person, a corporation without legal personality, an association of persons and any other organisation established under the laws of a foreign country.

From 2004, the scope of the Corporation Tax Act covers only the income of a Foreign Person realised through its permanent establishment and dividends that originate in Hungary. The scope of CTA does not cover interest, capital gains or royalties originating from Hungary, except if these are realised by the Hungarian permanent establishment of a Foreign Person.

Thus, interest on Notes paid to Foreign Person holders by resident legal entities and any capital gain realised by a Foreign Person holder on the sale of Notes is not subject to tax in Hungary if the Foreign Person holder has no permanent establishment in Hungary.

Please note, that the national laws of Hungary may be overridden by the provisions of the relevant double tax treaty.

Taxation of individual foreign resident Holders

The Hungarian Personal Income Tax Act applies to the tax liability of Hungarian and foreign private individuals. The tax liability of Hungarian resident private individuals covers the worldwide income of such persons, while foreign resident private individuals' tax liability is limited only to their income originating in Hungary or income that is otherwise taxable in Hungary on the basis of international treaties or reciprocity.

Under the Personal Income Tax Act, the interest income of private individuals is taxed at zero per cent. tax rate. The Hungarian Personal Income Tax Act determines which type of interest and the maximum amount up to which the realised income can be treated as "interest". All other interest type income which is not covered by the definition of the Hungarian Personal Income Tax Act or which exceeds the amount defined there is treated as "other income" for Hungarian tax purposes.

Pursuant to the provisions of the Personal Income Tax Act, the origination of "other income" is the state where the private individual has a tax residency. Therefore, such other income realised by a foreign resident private individual is not taxable in Hungary, since it is deemed to be originating from the state where the foreign resident private individual has a tax residency.

Pursuant to the Hungarian Personal Income Tax Act, the origination of income realised from capital gains by a private individual is the state where the private individual has a tax residency. Thus, if a foreign resident private individual realises capital gains in Hungary, such income will not be taxable in Hungary under the provisions of the Hungarian Personal Income Tax Act.

If the foreign resident private individual has a permanent establishment in Hungary, his income may be subject to personal income tax in Hungary according to the provisions of the Hungarian Personal Income Tax Act.

Please note, that the national laws of Hungary may be overridden by the provisions of the relevant double tax treaty.

EU Savings Directive

On 3rd June, 2003, the European Council of Economics and Finance Ministers adopted a Directive on the taxation of savings income. Under the Directive, Member States will (if equivalent measures have been introduced by certain non-EU countries) be required, from 1st July, 2005, to provide to the tax authorities of another Member State details of payments of interest (or similar income) paid by a person within its jurisdiction to an individual resident in that other Member State. However, for a transitional period, Belgium, Luxembourg and Austria will instead be required (unless during that period they elect otherwise) to operate a withholding system in relation to such payments (the ending of such transitional period being dependent upon the conclusion of certain other agreements relating to information exchange with certain other countries).

Subscription and Sale

J.P. Morgan Securities Ltd. (the **Manager**) has, pursuant to a Subscription Agreement (the **Subscription Agreement**) dated 3rd March, 2005 agreed to subscribe or procure subscribers for the Notes at the issue price of 100 per cent. of the principal amount of Notes, less a combined selling and management commission of 0.35 per cent. of the principal amount of the Notes. The Issuer will also reimburse the Manager in respect of certain of their expenses, and has agreed to indemnify the Manager against certain liabilities incurred in connection with the issue of the Notes. The Subscription Agreement may be terminated in certain circumstances prior to payment of the Issuer.

United States

The Notes have not been and will not be registered under the Securities Act and may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons except in certain transactions exempt from the registration requirements of the Securities Act.

The Notes are subject to U.S. tax law requirements and may not be offered, sold or delivered within the United States or its possessions or to a United States person, except in certain transactions permitted by U.S. tax regulations. Terms used in this paragraph have the meanings given to them by the U.S. Internal Revenue Code of 1986 and regulations thereunder.

The Manager has agreed that, except as permitted by the Subscription Agreement, it will not offer, sell or deliver the Notes (a) as part of their distribution at any time or (b) otherwise until 40 days after the later of the commencement of the offering and the Closing Date within the United States or to, or for the account or benefit of, U.S. persons and that it will have sent to each dealer to which it sells any Notes during the distribution compliance period a confirmation or other notice setting forth the restrictions on offers and sales of the Notes within the United States or to, or for the account or benefit of, U.S. persons. Terms used in this paragraph have the meanings given to them by Regulation S under the Securities Act.

In addition, until 40 days after the commencement of the offering, an offer or sale of Notes within the United States by any dealer that is not participating in the offering may violate the registration requirements of the Securities Act.

United Kingdom

The Manager has represented and agreed that, except as permitted by the Subscription Agreement:

- (a) it has not offered or sold and, prior to the expiry of the period of six months from the Closing Date, will not offer or sell any Notes to persons in the United Kingdom except to persons whose ordinary activities involve them in acquiring, holding, managing or disposing of investments (as principal or agent) for the purposes of their businesses or otherwise in circumstances which have not resulted and will not result in an offer to the public in the United Kingdom within the meaning of the Public Offers of Securities Regulations 1995 (as amended);
- (b) it has only communicated or caused to be communicated and will only communicate or cause to be communicated an invitation or inducement to engage in investment activity (within the meaning of Section 21 of the FSMA) received by it in connection with the issue of the Notes in circumstances in which Section 21(1) of the FSMA does not apply to the Issuer; and
- (c) it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to the Notes in, from or otherwise involving the United Kingdom.

Hungary

This Offering Circular has not been and will not be submitted to the Hungarian Financial Supervisory Authority and the Notes will not be offered in the Republic of Hungary in a public offer or a private placement as defined in the Act CXX of 2001 on the Capital Markets. The Manager has confirmed its awareness of the above and has represented that it has not offered or sold and will not offer or sell the Notes in the Republic of Hungary in a public offer or private placement and will not offer the Notes for sale to the general public in the Republic of Hungary.

General

No action has been taken by the Issuer or the Manager that would, or is intended to, permit a public offer of the Notes in any country or jurisdiction where any such action for that purpose is required. Accordingly, the Manager has undertaken that it will not, directly or indirectly, offer or sell any Notes or distribute or publish any offering

circular, prospectus, form of application, advertisement or other document or information in any country or jurisdiction except under circumstances that will, to the best of its knowledge and belief, result in compliance with any applicable laws and regulations and all offers and sales of Notes by it will be made on the same terms.

General Information

Authorisation

1. The issue of the Notes was duly authorised by a resolution of the Board of Directors of the Issuer dated 25th February, 2005.

Listing

2. Application has been made to list the Notes on the Luxembourg Stock Exchange. A legal notice relating to the issue of the Notes and the constitutional documents of the Issuer are being lodged with the Luxembourg trade and companies register (*Registre de commerce et des sociétés, Luxembourg*) where such documents may be examined and copies obtained.

Clearing Systems

3. The Notes have been accepted for clearance through Euroclear and Clearstream, Luxembourg. The ISIN for this issue is XS0214084252 and the Common Code is 021408425.

No significant change

4. Save as disclosed in this Offering Circular, there has been no significant change in the financial or trading position of the Group since 31st December, 2004 and there has been no material adverse change in the financial position or prospects of the Group since 31st December, 2003.

Litigation

5. Neither the Issuer nor any other member of the Group is involved in any legal or arbitration proceedings (including any proceedings which are pending or threatened of which the Issuer is aware) which may have or have had in the 12 months preceding the date of this document a significant effect on the financial position of the Issuer or the Group.

Accounts

6. The auditors of the Issuer are Deloitte Auditing and Consulting Kft. of Nádor u. 21, 1051 Budapest, Hungary, who have audited the Issuer's consolidated accounts, without qualification, in accordance with International Financial Reporting Standards for each of the three financial years ended on 31st December, 2003.

Deloitte Auditing and Consulting Kft. have also audited the Issuer's unconsolidated accounts in accordance with International Financial Reporting Standards for each of the three financial years ended on 31st December, 2003. Those accounts are qualified because, and only because, those accounts have been published earlier than the consolidated accounts in accordance with International Financial Reporting Standards for the corresponding periods and as a result could not include consolidated financial information.

U.S. tax

7. The Notes and Coupons will contain the following legend: "Any United States person who holds this obligation will be subject to limitations under the United States income tax laws, including the limitations provided in Sections 165(j) and 1287(a) of the Internal Revenue Code."

Documents

8. Copies of the following documents will be available from the specified offices of the Paying Agent for the time being in Luxembourg so long as any of the Notes remains outstanding:

- (a) the constitutional documents (with an English translation thereof) of the Issuer;
- (b) the consolidated and unconsolidated audited financial statements of the Issuer in respect of the financial years ended 31st December, 2003 and 31st December, 2002 (with an English translation thereof). The Issuer currently prepares audited consolidated and unconsolidated accounts on an annual basis;
- (c) the most recently published audited consolidated and unconsolidated annual financial statements of the Issuer and the most recently published unaudited consolidated and unconsolidated financial statements (if any) of the Issuer (with an English translation thereof). The Issuer currently prepares unaudited consolidated and unconsolidated interim accounts on a quarterly basis; and
- (d) the Subscription Agreement and the Agency Agreement.

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