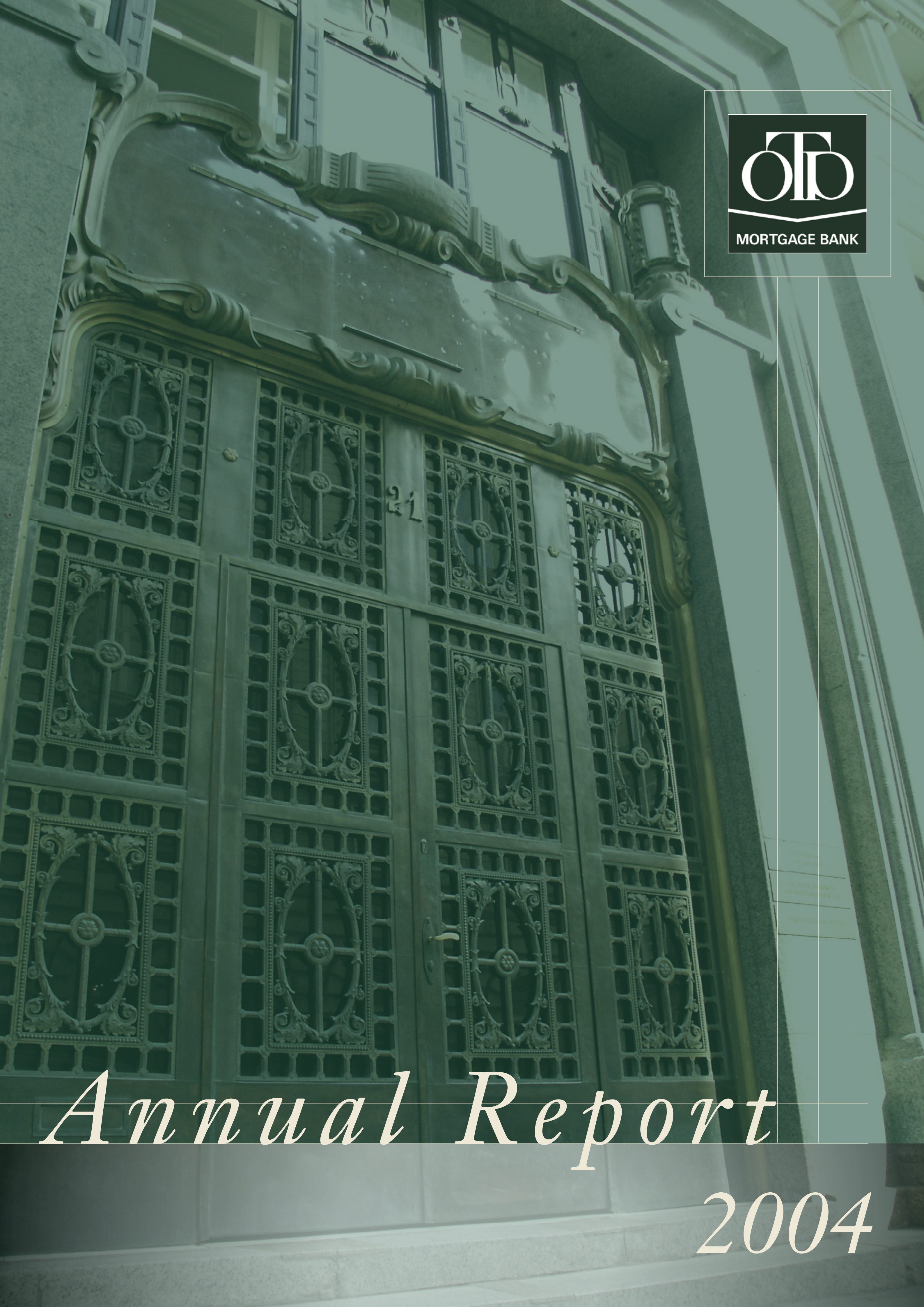


MORTGAGE BANK

Annual Report 2004

OTP MORTGAGE BANK LTD.

Annual Report

2004

MORTGAGE BANK

Contents

Message from the Chairman and Chief Executive Officer

2004 was another year when OTP Mortgage Bank Ltd. proved to be a valuable member of the OTP Banking Group as its added value continues to increase the profits of the Banking Group in the long term and significantly contributes to the Group's success.

OTP Mortgage Bank extended HUF based home loans last year. Its business was influenced heavily by the home government's system of subsidizing home ownership, and its changes from time to time. Demand for loans in 2004 retracted substantially in the wake of the adoption of more stringent terms in subsidization in December 2003, which shifted demand towards foreign exchange denominated loans. OTP Mortgage Bank managed to preserve its market leadership in both HUF denominated home loans and mortgage bonds mainly as a result of the outstanding credit operations of OTP Bank.

Despite contracting demands, the credit portfolio of OTP Mortgage Bank grew by HUF 166 billion in 2004, which brought the amount of credit on hand from HUF 604.7 billion to HUF 770.2 billion, which represents more than 63% of the total portfolio of home loans managed by mortgage lending banks.

The loan portfolio grew in tandem with the issuance of mortgage bonds and the stock of outstanding bonds rose from HUF 599.0 billion to HUF 789.5 billion in 2004. As a result OTP Mortgage Bank claimed 64.7% of this market, i.e. its share remained practically unchanged.

Mortgage bond issues gradually became public, as we targeted new markets and new investor groups outside the Banking Group. We maintained a regular presence in the retail market of mortgage bonds by offering several products, which proved to be more successful than we had expected. The first issue to international investors late in the year triggered very favorable international response.

The recognition of OTP Mortgage Bank by a wide variety of investors was also motivated by the A2 rating of the Bank as an issuer and the A1 rating of its mortgage bonds by Moody's Investor Services. Therefore, the Bank has confidence regarding the future.

The portfolio of rated real property accepted as security in a regulated controlled manner, the supervision by the trustee of the security support of our mortgage bonds and the solid capitalization background guaranteed by OTP Bank continue to guarantee a safe investment environment.

The profitability of the Bank was outstanding. A tally of the fees paid to OTP Bank taken into account suggests that OTP Mortgage Bank produced over HUF 50 billion worth of value. Reaching HUF 12.7 billion, the year on year increase in profit before tax was about one and a half times in 2004, which enabled the Bank to pay HUF 7.0 billion in dividends to its shareholder. That increased Bank Owner's equity to HUF 31.4 billion, and at 33.3%, the return on average equity (ROAE) also surpasses the required level.

The role of OTP Mortgage Bank keeps increasing within the OTP Banking Group. In addition to being the vehicle for financing home loans, it plays a key role in realizing several strategic goals associated with boosting competitiveness and efficiency.

We are in the process of setting up a comprehensive nationwide data warehouse of real property and the related system of a more prudent and more reliable appraisal. The property appraisal division of the Bank evaluated some 80 thousand real property items in 2004, and started to apply the new principles of appraisal in some cases.

We are facing the future of new progressive tasks and the related business benefits we expect in the hope that the success story of our Bank will continue if we build on the firm foundations and the outstanding results that our efforts have yielded so far.

Zsolt Oszlányi
Chairman-CEO

I. MARKET ENVIRONMENT

I.1. Macroeconomic and Monetary Environment

2004 was a year of conflicting factors in the economy. Favorable processes that fuelled the economic boom coupled with a steadier structure and diminishing imbalances of economic growth and with an increase in the overall level of interest rates and inflation.

Regaining creditworthiness was identified as an obvious and self-evident goal for economic policy which had been shaken heavily in 2003 by shifting the band of fluctuation of the HUF and by overshooting the budget deficit target despite repeated modifications. Processes in the HUF market and the real economy were indicative of consolidation. The structure of growth became more favorable, the dynamism of the growth of wages and consumption subsided, and there was an increase in the ratio of net financial savings of households to GDP. Moreover, end-of-year inflation seems to suggest that the VAT hike failed to culminate in the steady increase of inflation expectations.

The rate of economic growth accelerated in Hungary in 2004 and reached 4% of the GDP p.a. to keep pace with the economic boom driven by the leading Western European economies in Europe. The favorable impact of economic growth conditions in Europe allowed Hungary to increase exports and capital investments spectacularly, whilst retail consumption grew at a much slower pace than in the preceding years. The slow-down of consumption came as a response to real wages growing at a more modest rate and to the level of indebtedness of the population, which curbed the return of demand in consumption.

Hungary's accession to the European Union on May 1, 2004 was a historical step that opened new opportunities for the country to reduce its backlog and become aligned with the more developed countries of the continent.

By joining the European Union, Hungary made the commitment to introduce the Euro in the foreseeable future. Nevertheless, the national debt of Hungary continues to increase, and even the extraordinary measures taken at the end of the year failed to achieve the agreed reduction of the deficit of the public sector.

To ensure macroeconomic balance in the long term, it would first of all be desirable to reduce the public sector component of the twin deficit. After several major modifications, the deficit of the public sector finally settled at 6.3% of the GDP in 2004, a level reached using administrative measures designed to curb expenditures and to clamp down the balance of 2005 in order to improve in 2004.

The HUF rate strengthened substantially early on in the year to stabilize at a higher level than formerly in the second half. The exchange rate kept moving in the stronger half of the 15% band of floatation throughout the year and fluctuated less than a year earlier. Following the single increase in interest rates by 300 base points in November 2003, the National Bank took seven consecutive steps to decrease the central bank rate by a total of 300 base points to 9.5% keeping its inflation target in sight, which managed to keep real rates at a relatively high level in an attempt to counterbalance the excessive level of public sector deficit. The market of government paper moved in tandem with the interest measures of the central bank, and the each point of the yield curve was much lower than a year earlier.

Following a period of volatility in the first months of the year, the HUF stabilized in the range of HUF 240-250 to the Euro.

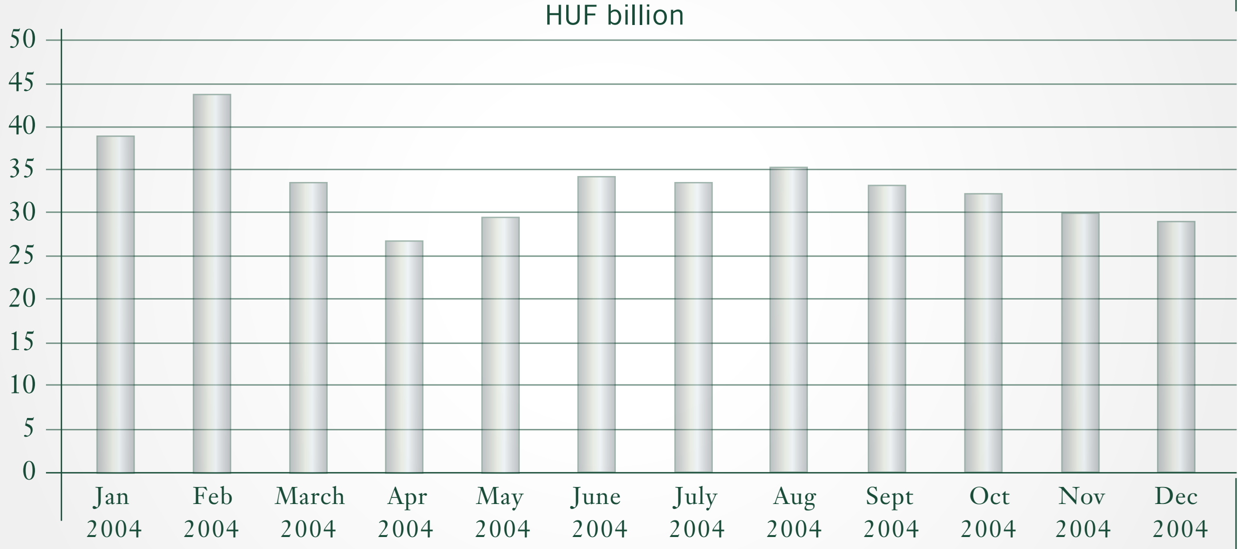
The average rate of inflation came to 6.8% in 2004, representing a year on year improvement of more than 2 percentage points. The inflation index of 5.5% measured in December 2004 was higher than the annual target rate due to the effect of the measures taken during the year to raise indirect taxes and the unexpected increase of the price of oil.

The net financing potential of households rose from 0 percent in 2003 to 2 percent of the GDP in 2004, but the rise was due to the reduced dynamism of taking out credit rather than to the surge of accumulating assets. All the more so because the modification of the system of home subsidization in December 2003 put heavy downward pressure on the willingness of households to borrow funds earmarked for property purchases. Simultaneously, businesses made adjustments to accommodate to the new market circumstances, which slowed down the outflow of wages and eased the dynamism of consumption.

The structure of the denomination of borrowings changed substantially: whilst the ratio of foreign exchange denominated loans disbursed directly by the banking system stood below 2 percent in 2003, the portion of the net value of loans disbursed in FX in the retail sector reached 50 percent on the whole in 2004, and topped 70 of the total taken out in the fourth quarter.

Changes in National Portfoilio of Oustanding Home Loans

HUF billion



All in all, households have accumulated debt at a growing rate in recent years. The pace at which households will be willing to accept more debt in the light of the expected development of real wages and interest rate levels is an essential question for the home loan business. We expect a slight downturn in the growth rate of retail lending in 2005.

Credit institutions made good use of the opportunities presented by the slow but still outstanding growth in 2004 and managed to outperform the previous year by reaching excellent results even in international comparison. The consolidated average return on assets reached 1.93 percent with return on equity at 22.36 percent. The most important factors behind the top performance included the additional expansion of lending, the high level of interest rates and the improving efficiency of the banks.

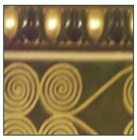
The performance of the Hungarian banking sector in 2004 offers testimony of its capacity to aclamate to a changing market environment and forecasts future growth in both retail and corporate lending. Reduced exposure to risk, however, is likely to lower the level of domestic interest rates and to shrink interest rate margins.

I.2. Regulatory Environment

The amendments of the rules of home subsidization enacted in December 2003 introduced severe restrictions and imposed disadvantages on lenders and borrowers alike. State subsidies got slimmer, which (coupled initially with an environment of increasing rates) propelled lending rates and repayment installments to a much higher tier. At the same time the maximum amount of the most popular loan taken out to fund used home purchases dropped from HUF 15 million to HUF 5 million, which coincided with the introduction of more austere terms in lending terms and home purchases in general. The simultaneous impact of these adverse conditions were reflected by the demand for loans in 2004, which dropped to about half or one third of the average demand in previous years.

By taking these measures, the government took visible steps to reduce its role in easing the conditions of home ownership, indicating its intention to gradually transfer this duty to the market in certain segments. The combined effect of the measures and the favorable market conditions drove the greater bulk of home lending towards foreign exchange denominated mortgage loans, which boosted the market share or commercial banks.





II. BUSINESS REPORT

The OTP Banking Group continued to dominate the market of home loans in 2004, but its share of the growing stock of outstanding loans dropped from 54% in the previous year to about 37% in the face of strengthening competition. The strategic goal of the Banking Group calls for sustaining a share above 50% in loan placement. That goal has been accomplished in the sector of HUF denominated loans but is far behind expectations in FX denominated lending first of all because of the robust steps the competition took to reach deeper penetration in that market.

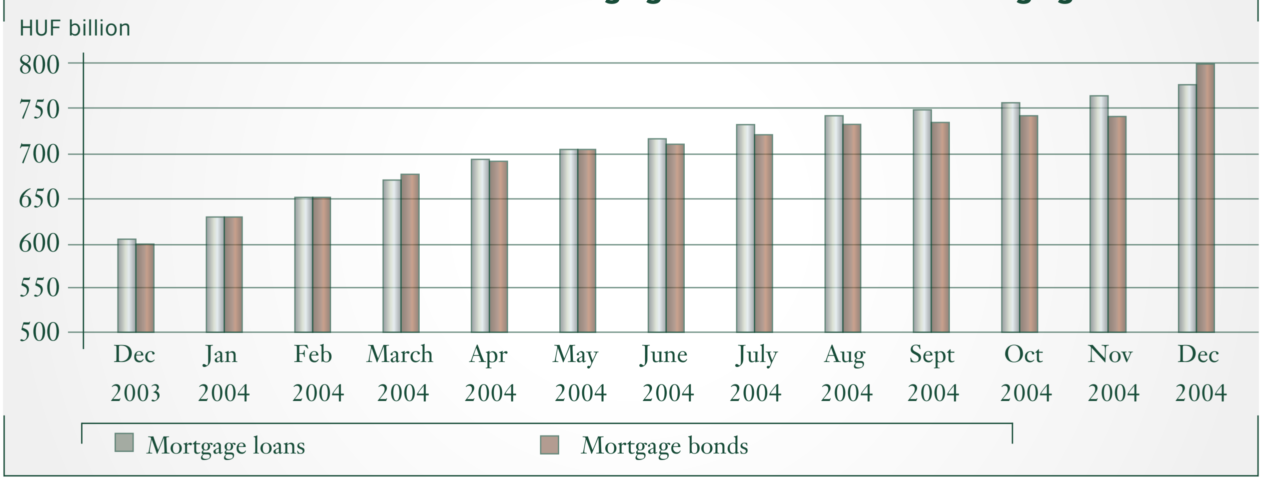
OTP Mortgage Bank plays a key role in the mortgage lending business of the Banking Group and focuses first of all on raising funds and ensuring proper conditions for subsidized home loans. It was in the light of these goals that OTP Mortgage Bank took major steps in 2004 to develop its modern and prudent banking operations and align it to the changes of the market environment.

II.1. Loan Portfolios: Development and Composition

OTP Mortgage Bank continued the practice of previous years and extended and financed subsidized home loans only. It engaged in this business in a lending syndicate formed with OTP Bank, relying first of all on the network of branches operated by its partner in the syndicate. The acquisition business of the gradually expanding network of agents was also significant.

The syndicate introduced new products in response to the modification of home loan subsidization in late 2003. Loans to finance the construction and purchase of new homes and the purchase, refurbishment and expansion of used homes were kept on the menu of products available for customers. The loans to finance new homes were extended with variable rates and under a regime of rates fixed for five years, whilst used home loans consistently earned variable rates of interest.

Stock of Home Loans and Mortgage Bonds of OTP Mortgage Bank



The growth of the portfolio of outstanding loans of OTP Mortgage Bank fell from the monthly average of HUF 20 billion, typical of Q1 2004 to the monthly average of HUF 10 billion in the last quarter of the year as a result of a drastic decline in the number of applications. The portfolio of loans climbed from HUF 604.7 billion to HUF 770.2 billion in the course of the year, representing more than 179 thousand loan transactions.The Bank's market share of mortgage based home loans came to 63.2%.

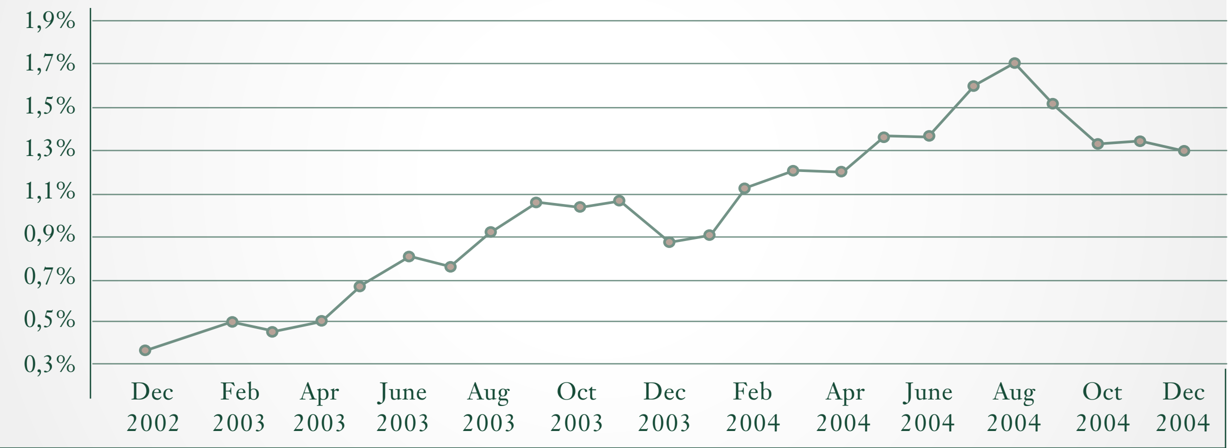
30 percent of the loans in the portfolio of OTP Mortgage Bank have been placed to finance new homes whilst 70 percent financed used homes. The ratio of loans extended with supplementary interest rate subsidization for the purposes of constructing or purchasing new home remained practically unchanged at 19.4% throughout the year.

The loan products may mature in up to 25 or 35 years and may be combined with a life policy managed by OTP-Garancia Insurance or a home savings account opened at OTP-LTP in order to ensure that the preferential options are utilized optimally.

II.2. The Quality of the Loan Portfolio

OTP Mortgage Bank pays special attention to the safety of lending and to risk minimization. As a result, the quality of the Bank's loan portfolio of HUF 770 billion is good and transactions with repayments overdue for at least a month represent less than 1.3% in the portfolio. Although the number of transactions with overdue payments keeps increasing, that is considered to be a natural process in a newly constructed portfolio. The number of sub-standard loans is within a safely manageable order of magnitude.

Ratio of Sub-standard Loans with Repayments Overdue for at Least a Month at OTP Mortgage Bank



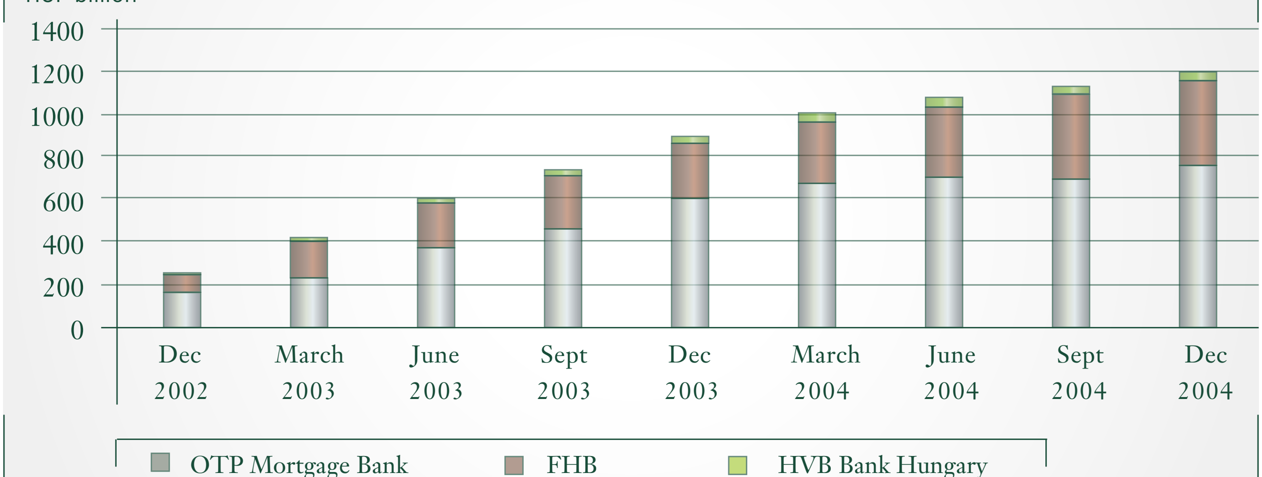
The Bank places heavy emphasis on collecting sub-standard loans and has several safeguards to ensure return in addition to collection measures:

- loan placement is accompanied by proper legal guarantees;
- the government has made commitments to effect repayment of certain products;
- relying on its significant capitalization, OTP Bank guarantees repayment at book value.

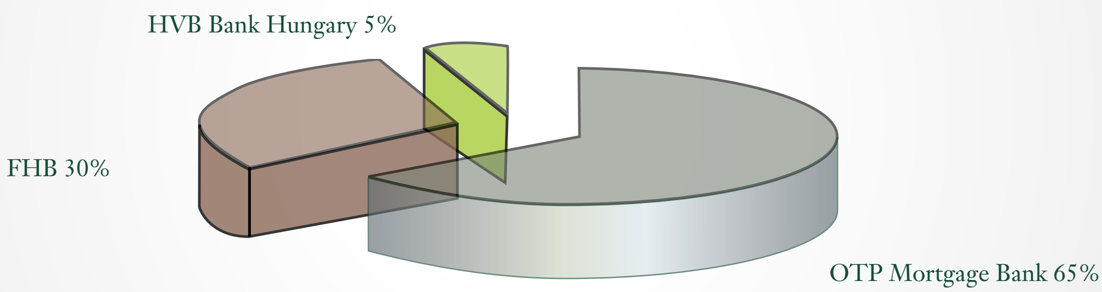
II.3. Financing, Issuing Mortgage Bonds

With their value over HUF 1,200 billion at the end of December 2004, mortgage bonds rank second after government paper among the various types of securities in terms of significance. OTP Mortgage Bank has issued HUF 789.5 billion worth of the total outstanding stock and has managed to retain its market leadership by claiming a market share of 65%.

Development of the Market of Mortgage Bonds



Mortgage Bonds: Market Share 31 December 2004



Institutional and Retail Investors

The explosive growth of the home loans business in 2003 motivated OTP Mortgage Bank and OTP Bank to decide to start selling mortgage bonds outside the Banking Group. Accordingly, OTP Mortgage Bank continued its efforts to raise external funds through offering mortgage bond issues.

A domestic consortium led by OTP Bank has been set up to meet the demand presented by Hungarian and international institutional investors. The members of the consortium included Hungarian Foreign Trade Bank and Deutsche Bank Hungary, whilst PriceWaterhouseCoopers was commissioned to act as the trustee with the duty to audit the coverage of the bond issues.

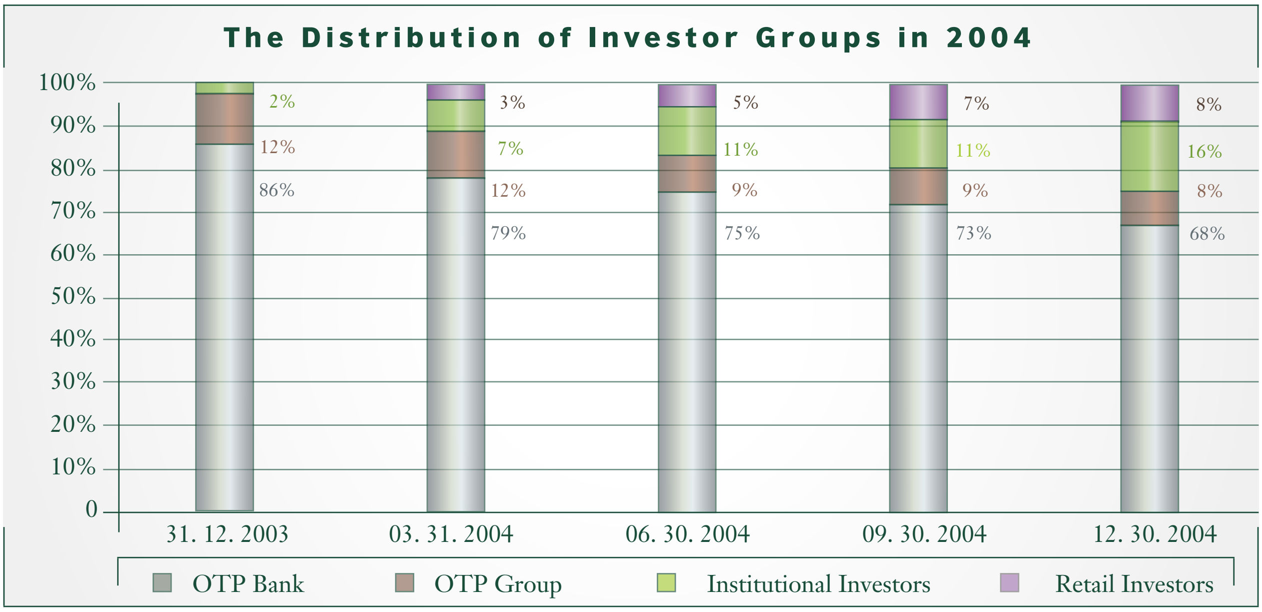
The issues were sold first of all in the form of auctions at the exchange and by subscription. The offerings generated mortgage bond sales worth HUF 436.9 billion to investors in 2004, whilst the value of mortgage bonds maturing in the same period came to HUF 214.3 billion. The par value of the mortgage bonds OTP Mortgage Bank redeemed in 2004 amounted to HUF 32.0 billion.

Issuing mortgage bonds denominated in currencies other than the HUF became inevitable in the wake of the surge in foreign exchange denominated loans in 2004. Accordingly, an international program of issuing bonds worth no more than EUR 1 billion was launched in the second half of 2004, including the first offering in November of EUR 200 million worth 10 year mortgage bonds earning fixed interest. The issue proved to generate interest among (Austrian, German, Luxembourg, Spanish and French) investors and was oversubscribed one and a half times.

Complementing institutional investors, the Hungarian retail sector is also an important target of OTP Mortgage Bank. A major achievement in this sector involves continuous sales by the Bank of mortgage bonds maturing on 1,3 and 10 years to private individuals in the branch offices of the parent bank starting February 2004. The response to the securities was very positive, which is clearly indicated by the volume of sales reaching HUF 63 billion. The innovation of last year brought the introduction of the OTP 'Allowance Bond', which in effect is the reversal of a mortgage loan, i.e. it repays interest and capital up to maturity. The Bank targeted this product at individuals interested in earning a fixed income for a sustained period.

The Distribution of Investor Groups in 2004

The rating of the issuer and its securities plays an important role in the sale of mortgage bonds. These ratings are calculated by international credit rating services that apply methods approved by the capital market to analyze an issuer's business operations, methods of managing risk and last but not least the legal



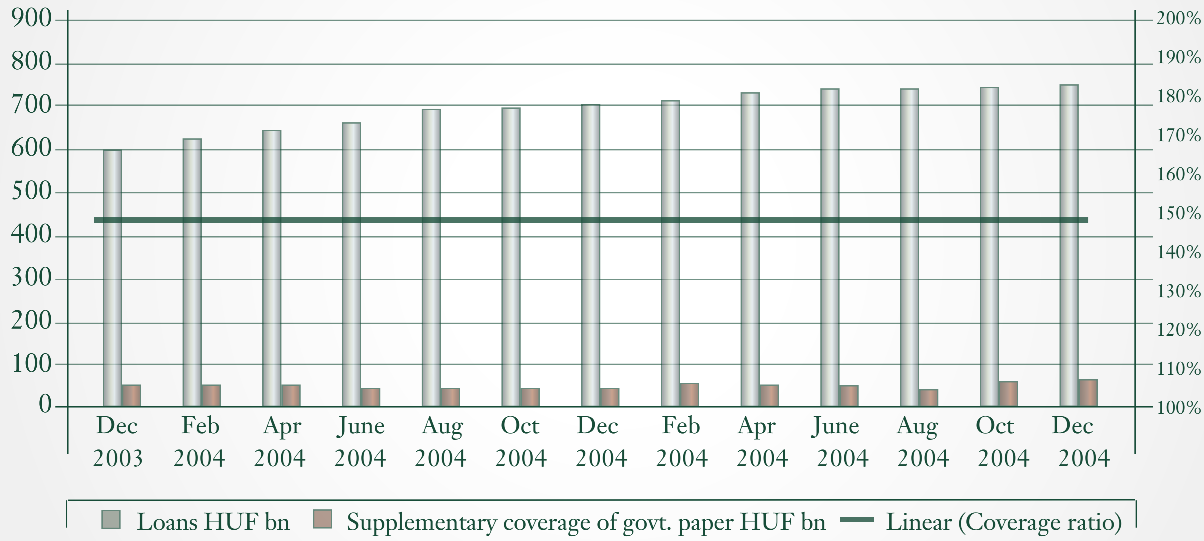
environment in which an issuer is active. The mortgage bonds issues by OTP Mortgage Bank were rated by Moody's, one of the world's most important rating agencies and were classified as A1, i.e. were rated exactly as the securities issued by the Hungarian government.

Register of Coverage of Mortgage Bonds

Description	31. Dec. 2004 Amount (HUF million)
Unpaid principal balance of outstanding mortgage bonds	789 456
Unpaid interest of outstanding mortgage bonds	429 140
Unpaid principal balance of and interest on outstanding mortgage bonds	1 218 596
Value of ordinary coverage	1 671 925
Value of supplementary coverage	68 384
Consolidated value of ordinary and supplementary coverage	1 740 309
Coverage ratio of mortgage bonds	142,8%

As required under law, a trustee (PWC) keeps supervising the coverage of mortgage bonds to make sure investors are secure. The mortgage bonds of OTP Mortgage Bank are covered first of all by mortgage loans complemented by government securities, which serve the function of supplementary coverage. The ratio of coverage surpasses the required minimum by far at any point in time.

Mortgage Bond Coverages

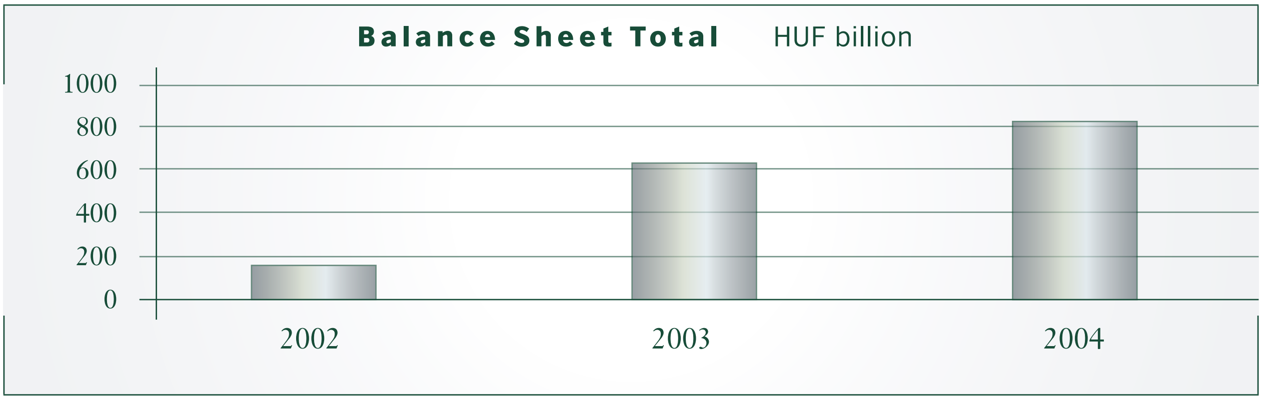


In summary, OTP Mortgage Bank succeeded in diversifying its pool of investors in 2004 by elaborating the most efficient form of financing.

III. FINANCIAL REPORT

III.1. The Financial Management of OTP Mortgage Bank Ltd.

Despite adverse effects from the economic environment, the 2004 performance of the Bank was exceptionally good owing to its conscious business policy and management. Financial ratios improved in general and a profits are outstanding:



- Driven first of all by the growth of the stock of home loans, the balance sheet grew by 31% year on year from HUF 674.2 billion in 2003 to HUF 885.9 billion by December 31, 2004.

- OTP Mortgage Bank financed the amounts receivable under the loans in its portfolio first of all by issuing mortgage bonds. Mortgage bonds were issued in line with the growth of the credit portfolio. The stock of mortgage bonds grew from HUF 599.0 billion to HUF 789.5 billion in 2004.

- The securities purchased by the Bank for resale include government bonds and discount T bills and amounted to HUF 60.6 billion. HUF 0.4 billion was charged as a write-off to that amount on December 31, hence the value of the closing stock is HUF 60.2 billion.

Government's paper held for resale

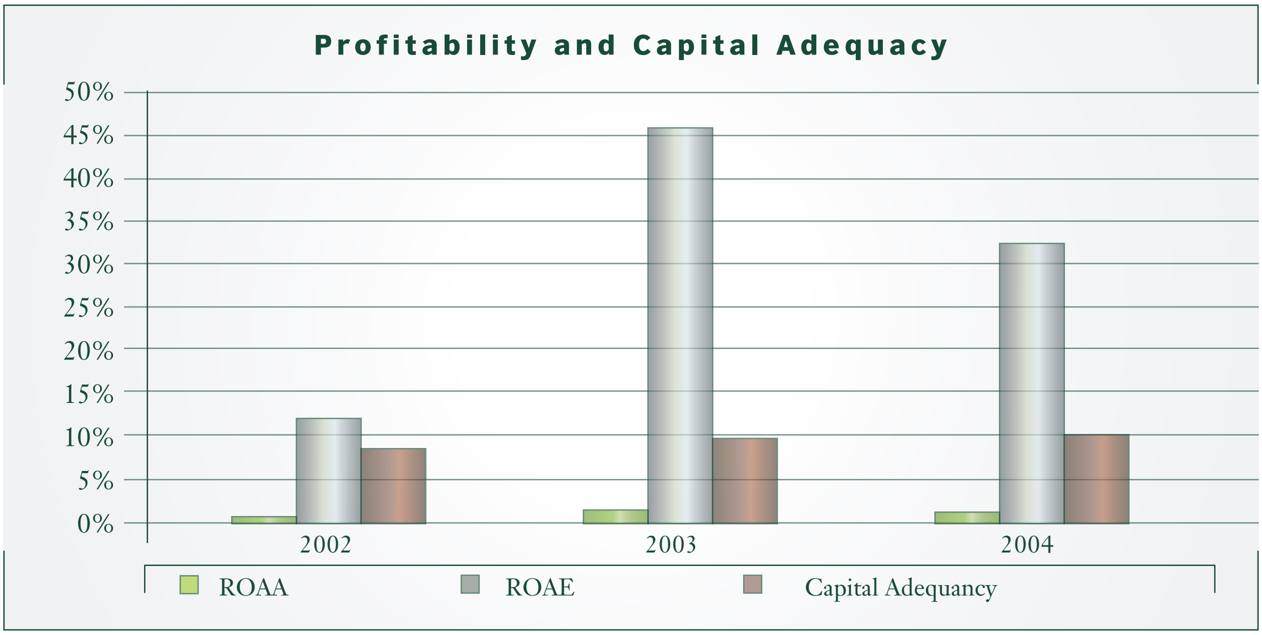
	31. Dec. 2003		31. Dec. 2004		Variance	
	HUF m	% share	HUF m	% share	HUF m	%
Treasury Bills	11 619	23,9	27 646	45,9	16 027	137,9
Hungarian Government Bonds	37 005	76,1	32 585	54,1	−4 420	−11,9
Sum	48 624	100,0	60 231	100,0	11 607	23,9

- Amounts receivable from financial institutions stood at HUF 30.5 billion on December 31, 2004, including HUF 29.0 billion and HUF 1.5 billion in short term deposits at the National Bank of Hungary and at OTP Bank, respectively.

- Tangible assets amounted to HUF 139.5 million. The value of the assets required for the operation of the Bank is HUF 10.6 million less than a year earlier. The value of intangible assets equaled HUF 124.4 million, including the banking software and license fees. The positive variance in the period subject to this report is HUF 67.4 million.

- The costs incurred in the subsequent period and the prepayment of interest on securities and from customers are recorded under prepayments (at HUF 9.8 billion).

- The profit before tax of OTP Mortgage Bank amounted to HUF 12.7 billion in 2004, representing a year on year increase of 48%. Profit after tax was recognized at HUF 10.7 billion, which corresponds to 1.38% in return on assets – calculated with HUF 773.0 billion as the average value of the balance sheet total. The company paid HUF 7.0 billion in dividends to its shareholders, and hence profit per balance sheet amounted to HUF 2.6 billion.



The earnings capacity of a credit institution is determined by the interest rate margin, which came to HUF 39.3 billion with interest received at HUF 115.2 billion and interest paid at HUF 75.9 billion, corresponding to a year on year increase of 65.8%.

The most important items within the interest received by the company include interest paid by customers (at HUF 39.1 billion) and the asset and liabilities side interest subsidization paid by the government (at HUF 71.4 billion). The most important component within interest paid is the interest paid on mortgage bonds (at HUF 64.0 billion).

The net expenditure on fees and commissions amounted to HUF 21.8 billion, or HUF 10.2 billion more than a year earlier. The most important items of this account include the commissions paid to OTP Bank for its role as banking agent.

The loss on trading securities came to HUF 0.6 billion and includes the exchange loss on issuing and re-purchasing mortgage bonds.

Non-interest expense amounted to HUF 4.2 billion in 2004, corresponding to a year on year increase of 26.7%. The major items include expenditures related directly to core business which keep increasing in proportion to the expansion of the business (e.g. fees paid to the trustee, the auditor and the Supervisory Authority), and items related to operations (such as personnel and material expenditure).

Components of Net Interest Income

	31. Dec. 2003		31. Dec. 2004		Variance	
	HUF m	% share	HUF m	% share	HUF m	%
Interest received						
From interbank accounts	225	0,4	1 568	1,4	1 343	597,0
From retail accounts	61 233	95,6	110 477	95,9	49 244	80,4
From securities	2 608	4,1	3 200	2,8	592	22,7
Total interest income	**64 066**	**100,0**	**115 245**	**100,0**	**51 179**	**79,9**
Interest paid						
To interbank accounts	546	1,4	538	0,7	–8	–1,5
Interest-like expense	7 403	18,3	11 441	15,1	4 038	54,5
To retail accounts	32 426	80,3	63 990	84,2	31 564	97,3
Against securities	40 375	100,0	75 969	100,0	35 594	88,2
Total interest expense	23 691		39 276		15 585	65,8

Main components of P&L

	31. Dec. 2003	31. Dec. 2004	Variance	
	HUF m	HUF m	HUF m	%
Net interest income	23 691	39 276	15 585	65,8
Net fees, commissions	–11 608	–21 846	–10 239	88,2
Net gain on trading securities	–228	–628	–400	175,5
Gain on foreign exchange operations		2	2	
Other non-interest related income		40	40	
Non-interest expense	3 308	4 191	883	26,7
Operating Profit	8 547	12 653	4 106	48,0
Profit before tax	8 547	12 653	4 106	48,0
Profit after tax	7 063	10 665	3 602	51,0
Profit per Balance Sheet	6 357	2 599	–3 758	–59,1

III.2. Capital Adequacy and Capital Structure

The registered capital of the Bank stood at HUF 20 billion on December 31, 2004. Compared to the closing value on December 31. 2003, the year on year increase amounts to HUF 3 billion, which is a result of the delayed court registration of the decision made in favor of capital increase in 2003.

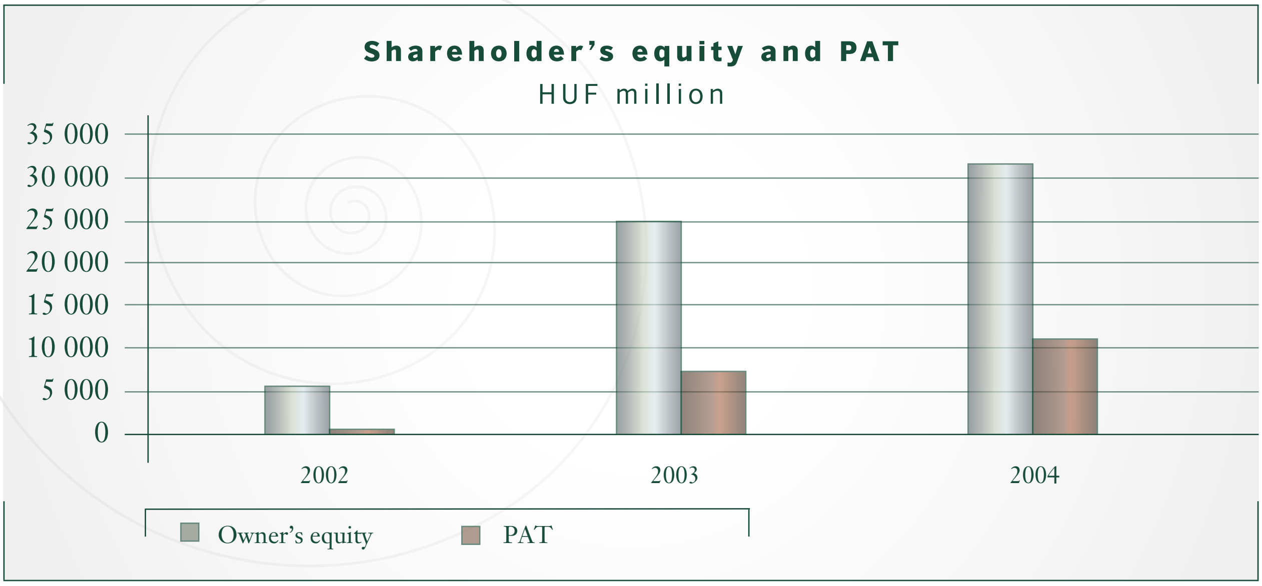
The shareholder's equity of OTP Mortgage Bank Ltd. rose from HUF 24,717 million at the end of the previous year to HUF 31,382 million by the end of December 2004 as a result of the increase in registered capital and successful financial management.

Shareholder's Equity balance

	31. Dec. 2003		31. Dec. 2004		Variance	
	HUF m	% share	HUF m	% share	HUF m	%
Registered Capital	17 000	68,8	20 000	63,7	3 000	17,6
General Reserve	772	3,1	1 838	5,9	1 066	138,1
Retained Earnings	288	1,2	6 667	21,2	6 379	2 214,9
Committed Reserve	300	1,2	278	0,9	−22	−7,3
Profit Per Balance Sheet	6 357	25,7	2 599	8,3	−3 758	−59,1
Shareholder's Equity	24 717	100,0	31 382	100,0	6 665	27,0

Capital Adequacy Ratio

	31. Dec. 2003	31. Dec. 2004	Variance	
	HUF m	HUF m	HUF m	%
I. Fundamental components of capital	27 717	31 382	3 665	13,2
A) Registered Capital	17 000	20 000	3 000	17,6
B) Unregistered portion of capital increase	3 000			
B) Retained Earnings	288	6 667	6 379	2 214,9
C) Committed Reserves	300	278	−22	−7,3
D) General Reserve	772	1 838	1 066	138,1
E) Profit Per Balance Sheet	6 357	2 599	−3 758	−59,1
II. Adjustment to fundamental capital	357	403	46	12,9
A) Chargeable portion of intangible assets	57	124	67	117,5
B) IT CAPEX	300	279	−21	−7,0
III. Fundamental Capital (I-II)	27 360	30 979	3 619	13,2
IV. Guarantee Capital	27 360	30 979	3 619	13,2
V. Adjusted Balance Sheet Total	272 533	319 815	47 282	17,3
VI. Capital Adequacy Ratio	10,04	9,69		



Guarantee capital amounted to HUF 31.0 billion on December 31, 2004 and the liquidity ratio came to 9.69%, which was substantially higher than the statutory minimum (of 8%) despite the slight year on year reduction.

III.3. Organization and Headcount

The changes in merit occurred in the structure of organization of OTP Mortgage Bank Ltd. in 2004. The Bank continued to function with the formerly developed structure of organization and management, which has so far facilitated modern operations.

The structure of organization is determined fundamentally by two main areas:

- The Deputy CEO in charge of front office operations is responsible for the tasks associated with business policy, lending, the rating of securities and issuing mortgage bonds.
- The Deputy CEO in charge of back office operations is responsible for the tasks associated with the registration of securities, the rating of accounts receivable and information technology, accounting, finance and controlling and has to attend to financial management, planning, the administration of wages and social security and data disclosures.

Staff related functions, such as the legal office and human resources report directly to the Chairman-CEO.

The closing headcount of OTP Mortgage Bank Ltd. on December 31, 2004 came to 63 persons, and the average statistical headcount was 61 employees.

HIGHLIGHTS

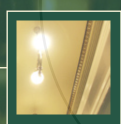
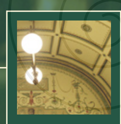
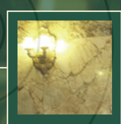
HUF million

Performance Indicators	2003.	2004.
Return on Average Equity (ROAE) %	46.67	33.26
Return on Average Assets (ROAA) %	1.59	1.38
Liquidity Ratio %	10.04	9.69
Balance Sheet Total per Employee (HUF million)*	12,040	14,061
Total income per employee (HUF million)	133	276
Profit before tax per employee (HUF million)	96	207

Market Share*	2003.	2004.
Market of Home Loans %	63,9	63,2
Market of Mortgage Bonds %	65,0	64,7

* on 31. December



Deloitte

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(English translation of the Hungarian Original)

Independent Auditors' Report

To the Shareholder of OTP Jelzálogbank Rt.

We have audited the accompanying balance sheet of OTP Jelzálogbank Rt. (the "Bank") as at December 31, 2004, which shows total assets of 885,863,310 thHUF and a retained profit for the year of 2,598,709 thHUF, the related profit and loss account for the year then ended and the supplement (hereinafter the balance sheet, the profit and loss account and the supplement, collectively "the financial statements") included in the Banks's 2004 Annual Report. The Annual Report, comprising the financial statements and a Business Report, is the responsibility of the Bank's management. Our responsibility is to express an opinion on the financial statements based on our audit. . In addition, it is our responsibility to assess whether the accounting information in the Business Report is consistent with that contained in the financial statements.

With reference to our auditors' report relating to 2003 financial statements issued on February 13, 2004, we issued an unqualified auditors' report based on our audit of the previous year.

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

These financial statements have been prepared for the use and approval of the Shareholder and do not reflect the effects, if any, of the Shareholder's resolutions pertaining to these financial statements. The Bank disclosed a dividend of 7,000,000 thHUF in the financial statements, the final amount of which will be resolved by the Shareholder.

Clause

We have audited OTP Jelzálogbank Rt.'s financial statements, including its sections and items and the supporting accounting records and certificates thereof in accordance with the applicable National Standards on Auditing and have obtained reasonable assurance that - except for the effects of the Shareholder's resolutions on the financial statements, if any - the financial statements have been prepared pursuant to the Accounting Act and generally accepted accounting principles.

In our opinion, the financial statements give a true and fair view of the financial position of OTP Jelzálogbank Rt. as at December 31, 2004, and of the results of its operations for the year then ended. The Business Report corresponds to the figures included in the financial statements.

Budapest, February 4, 2005

(The original Hungarian language version has been signed)

Alastair Teare Deloitte Auditing and Consulting Ltd. 000083	Szépfalvi Zsuzsanna registered auditor 005313

Audit. Tax. Consulting. Financial Advisory.
Registration: Municipal Court as Company Court
Registration number: 01-09-071057

A member of
Deloitte Touche Tohmatsu

BALANCE SHEET

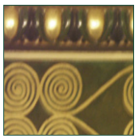
ASSETS

on Thousand Forints

Description	31. dec. 2003	31. dec. 2004
1. Liquid assets	2 571 202	331 393
2. Government securities	48 623 631	60 230 992
a) held for trade	48 623 631	60 230 992
b) held as financial fixed assets		
3. Loans and advances to credit institutions	0	30 500 000
a) loans at sight		
b) from financial services	0	30 500 000
ba) short term	0	30 500 000
bb) long term		
c) from investment services		
4. Loans and advances to customers	604 671 735	770 245 427
a) from financial services	604 671 735	770 245 427
aa) short term	37 772 085	50 114 172
ab) long term	566 899 650	720 131 255
b) from investment services		
ba) receivables from investment service activities on the exchange		
bb) receivables from over-the-counter investment service activities		
bc) receivables from clients for investment service activities		
bd) receivables from clearing houses		
be) other		
5. Securities signifying a creditor relationship		
a) securities issued by local government and state insitutions (except government securities)		
aa) for trading purposes		
ab) for investing		
b) others		
ba) for trading purposes		
bb) for investing		
6. Shares and other variable-yield securities		
a) shares, equity investment for trading purposes		
b) variable-yield securities		
ba) for trading purposes		
bb) for investing		
7. Equity investments for investing purposes		
a) equity investments		
Including: – paticipations in banks		
b) adjusted value of equity investments		
Including: – paticipations in banks		
8. Participations in associated company		

Description	31. dec. 2003	31. dec. 2004
a) participations in associated company		
Including: – paticipations in banks		
b) adjusted value of equity investments		
Including: – paticipations in banks		
9. Intangible assets	56 959	124 356
a) intangible assets	56 959	124 356
b) value adjustment of intangible assets		
10. Tangible assets	150 144	139 529
a) tangible assets for financial and investment services	150 144	139 219
aa) real estates	15 364	14 338
ab) premises, equipments and vehicles	109 755	121 467
ac) construction in progress	25 025	3 414
ad) prepayments on construction in progress		
b) tangible assets not directly related to financial and investment services	0	310
ba) real estates		
bb) premises, equipments and vehicles		310
bc) construction in progress		
bd) prepayments on construction in progress		
c) value adjustment of tangible assets		
11. Treasury shares		
12. Other assets	5 715 241	14 457 072
a) inventories		
b) other receivables	5 715 241	14 457 072
– from related companies	276 290	72 841
13.c. Prepayments	12 431 938	9 834 541
a) accrued income	3 033 733	4 061 450
b) accrued expenses	9 398 205	5 773 091
c) deferred expenses		
Total assets	674 220 850	885 863 310
Including: – CURRENT ASSETS (1+2/a+3/a+3/ba+3/c+4/aa+4/b+5/aa+5/ba+6/a		
+6/b+11+12)	94 682 159	155 633 629
– FIXED ASSETS (2/b+3/bb+4/ab+5/ab+5/bb+6/bb+7+8+9+10)	567 106 753	720 395 140





BALANCE SHEET

LIABILITIES AND EQUITY

on Thousand Forints

Description	31. dec. 2003	31. dec. 2004
1. Liabilities to credit institutions	18 500 847	8 602
a) liabilities at sight		
b) fixed term liabilities from financial service	18 500 847	8 602
ba) short term	18 500 847	8 602
bb) long term		
c) investment services		
2. Liabilities to customers	135	0
a) deposits		
aa) liabilities at sight		
ab) short term		
ac) long term		
b) other receivables financial services	135	0
ba) liabilities at sight		
bb) short term	135	
bc) long term		
c) investment services		
ca) liabilities from exchange investment service activities		
cb) liabilities from over-the-counter investment service activities		
cc) liabilities to clients from investment service activities		
cd) liabilities to clearing houses		
ce) other		
3. Bonds and other interest bearing securities issued	599 000 000	789 455 805
a) bonds		
aa) short term		
ab) long term		
b) other securities	599 000 000	789 455 805
ba) short term	132 300 000	57 977 930
bb) long term	466 700 000	731 477 875
– from related parties	401 900 000	598 422 650
c) securities point of accounting but non-securities in Act on Securities,		
document signifying a creditor relationship		
ca) short term		
cb) long term		
4. Other liabilities	12 959 932	20 446 702
a) short term	12 959 932	20 446 702
– to related parties	12 773 019	20 289 097
b) long term		
5. Accrued expenses and deferred revenues	19 043 094	44 570 127

Description	31. dec. 2003	31. dec. 2004
a) accrued income	2 246 608	9 723 319
b) accrued expenses	16 796 486	34 846 808
c) deferred income		
6. Provisions		
a) provision for old-age pension and lay-off pay		
b) risk provisions for contingencies and future liabilities		
c) general risk provisions		
d) other provisions		
7. Subordinated debt		
a) subordinated loan capital		
b) pecuniary contribution of members at credit institutions operating as credit cooperatives		
c) other subordinated loans		
8. Subscribed capital	17 000 000	20 000 000
Of which: – face value of treasury shares		
9. Registered yet unpaid issued capital (-)		
10. Capital reserve		
a) premium (from share issue)		
b) other		
11. General reserves	771 684	1 838 207
12. Accumulated profit reserve (+)	288 169	6 666 674
13. Tied-up reserve	300 000	278 484
14. Revaluation reserve		
15. Balance-sheet profit or loss figure (±)	6 356 989	2 598 709
16. Difference resulting from translation (+)		
Total liabilities and equity	674 220 850	885 863 310
Including: – SHORT TERM LIABILITIES		
(1/a+1/ba+1/c+2/aa+2/ab+2/ba+2/bb+2/c+3/aa+3/ba+3/ca+4/a)	163 760 914	78 433 234
– LONG TERM LIABILITIES (1/bb+2/ac+2/bc+3/ab+3/bb+3/cb+4/b+7)	466 700 000	731 477 875
– SHAREHOLDER'S EQUITY (8-9+10+11+12+13+14+/-15)	24 716 842	31 382 074

Off-balance Sheet Commitments

1. Contingent liabilities	17 568 387	9 567 034
2. Future (sure) liabilities	0	49 340 000
3. Total contingent and future liabilities	17 568 387	58 907 034
4. Contingent receivables	1 228 719 588	1 683 321 955
5. Future (sure) receivables	0	49 186 000
6. Total contingent and future receivables	1 228 719 588	1 732 507 955

INCOME STATEMENT

PROFIT AND LOSS ACCOUNT

on Thousand Forints

Description	2003.	2003. adjusted*	2004.
1. Interest received and interest-type income	64 065 904	64 065 904	115 245 293
a) interest received on fixed-interest securities signifying a creditor relationship	39 406 162	39 406 162	66 902 552
b) other interest received and interest-type income	24 659 742	24 659 742	48 342 741
– from related parties	224 940	224 940	558 166
2. Interest paid and interest-type expenses	40 374 647	40 374 647	75 969 463
– to related parties	36 309 083	36 309 083	65 673 737
Interest difference (1-2)	23 691 257	23 691 257	39 275 830
3. Incomes from securities			
4. Fees and Commission received	6 034 704	6 034 704	4 269 785
a) revenues from other financial services	6 034 704	6 034 704	4 269 785
b) revenues from investment services (except incomes from trading activities)			
5. Fees and Commission paid (payable)	5 347 004	17 642 634*	26 115 926
a) expenses on other financial services	5 347 004	17 642 634*	26 115 926
– to related parties	5 346 948	17 642 578*	26 113 650
b) expenses on investment services (except expenses from trading activities)			
6. Profit or loss from financial transactions (6/a-6/b+6/c-6/d)	-1 628 489	-1 628 489	-2 086 126
a) revenues from other financial services	404 050	404 050	1 297 447
– from related parties	308 323	308 323	807 217
b) expenses on other financial services	631 795	631 795	1 885 604
– to related parties	497 964	497 964	923 610
c) revenues from investment services (except expenses from trading activities)			
Including: – reversal of loss on value of trading securities			
d) expenses on investment services (except expenses from trading activities)	1 400 744	1 400 744	1 497 969
– to related parties	1 357 897	1 357 897	1 024 667
Including: – loss on value of trading securities	0	0	403 157
7. Other income from business	7	7	2 263
a) incomes from non financial and investment services	0	0	1 470
b) other revenues	7	7	793
– from related parties			
Including: – reversal of loss on value of inventory			
8. General administration expenses	13 679 739	1 384 109*	1 681 787
a) personnel expenses	573 568	573 568	717 527
aa) wage costs	392 875	392 875	488 950
ab) other payments to personnel	42 598	42 598	57 989
– social security expenses	17 201	17 201	26 201
= pension fund expenses	17 201	17 201	26 201
ac) contributions on wages and salaries	138 095	138 095	170 588
– social security expenses	120 389	120 389	149 353

Description	2003.	2003. adjusted*	2004.
= pension fund expenses	72 041	72 041	89 904
b) other administration expenses (material type expenditures)	13 106 171	810 541*	964 260
9. Depreciation and amortization	24 770	24 770	74 126
10. Other expenses from business	497 393	497 393	915 788
a) expenses from non-financial and investment services			470
b) other expenses	497 393	497 393	915 318
– to related parties			
Including: -loss on value of inventory			
11. Loss on value of loans and provision for contingent and future liabilities	0	0	20 073
a) loss on value of loans			20 073
b) provision for contingent and future (sure) liabilities			
12. Reversal of loss on value of loans and risk provision for contingent and future (sure) liabilities			
a) reversal of loss on value of loans			
b) risk provision for contingent and future (sure) liabilities			
13. Loss on value of securities for investing purposes, signifying a creditor relationship, equity investments in associated or other company			
14. Reversal of loss on value of securities for investing purposes, signifying a creditor relationship, and equity investments in associated or other company			
15. Result of ordinary business activities	8 548 573	8 548 573	12 654 052
Including: – RESULT OF FINANCIAL AND INVESTMENT SERVICES (1-2+3+4-5±6+7/b-8-9-10/b-11+12-13+14)	8 548 573	8 548 573	12 653 052
– RESULT OF NON-FINANCIAL AND INVESTMENT SERVICES (7/a-10/a)	0	0	1 000
16. Extraordinary revenues			
17. Extraordinary expenses	926	926	800
18. Extraordinary profit or loss (16-17)	-926	-926	-800
19. Profit or loss before tax (±15±18)	8 547 647	8 547 647	12 653 252
20. Tax liabilities	1 484 326	1 484 326	1 988 020
21. Profit after tax (±19-20)	7 063 321	7 063 321	10 665 232
22. Formation and utilization of general reserves (±)	-706 332	-706 332	-1 066 523
23. Use of accumulated profit reserve for dividends and profit-sharings			
24. Dividends and profit-sharings paid (approved)			7 000 000
25. Balance-sheet profit or loss figure (±21±22+23-24)	6 356 989	6 356 989	2 598 709

* Contains unaudited comparable figures, because the guarantee fee and other fee paid to OTP was reclassified from "Other administration expences" to "Fees and Comissions paid".

MANAGEMANT OF OTP MORTGAGE BANK LTD.

Board of Directors of OTP Mortgage Bank Ltd.

Director:

Zsolt Oszlányi
OTP Mortgage Bank Ltd.
Chairman and CEO

Board:

Éva Hegedűs
OTP Bank Ltd. Retail Banking
Director

Antal Kovács
OTP Bank Ltd. South Tras Danubian Region
Director

Csaba Lantos
OTP Bank Ltd. Retail Division
Deputy CEO

Gábor Ljubičič
OTP Bank Ltd. Downtown Region
Managing Director

Csaba Nagy
OTP Mortgage Bank Ltd.
Deputy CEO

Supervisory Board of OTP Mortgage Bank Ltd.

László Senkár
OTP Bank Ltd. Central Tras Danubian Region
Managing Director

Ágota Selymesi
OTP Bank Ltd. Tax and Budgetary Department
Head of Department

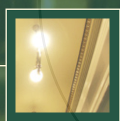
Imre Németh
OTP Bank Ltd. Retail Banking
Head of Department

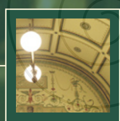
Management of OTP Mortgage Bank Ltd.

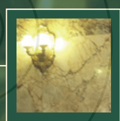
Zsolt Oszlányi
Chairman and CEO

Zsófia Gyulai Zsakó
Deputy CEO

Csaba Nagy
Deputy CEO







Annual Report

GENERAL CORPORATE INFORMATION:

Date of Incorporation of OTP Mortgage Bank Ltd.:

May 15, 2001
Registered at the Municipal Court of Budapest as Company Court on October 9, 2001
Corporate registration number: 01-10-044659

The head office of OTP Mortgage Bank Ltd.:

7-9 Deák Ferenc street, 1052 Budapest, Hungary
Phone: 36-1-486-6700 • Fax: 36-1-266-7132
E-mail: jzb@otpjzb.hu

Equity capital:

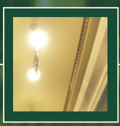
On 31. December 2004, the equity capital of OTP Mortgage Bank Ltd. came to HUF 20,000,000,000 including 200,000 equity shares of HUF 100,000 each.

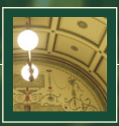
On 31. December 2004, the shareholder of the company was OTP Bank Rt., holding 100,0% of the shares

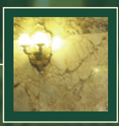
Auditors:

THE AUDITOR OF OTP MORTGAGE BANK LTD.:
Deloitte

THE TRUSTEE OF OTP MORTGAGE BANK LTD.:
PriceWaterhouseCoopers







Design by Mária Behán

MORTGAGE BANK