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**FINANCIAL REPORT**

**2002**

*(International Financial Reporting Standards, IFRS)*

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*This report has been prepared on the basis of MKB's unconsolidated, preliminary (unaudited) financial statements as at, and for the year ended, December 31, 2002 according to International Financial Reporting Standards (IFRS).*

Following the exceptionally good 2001 performance, MKB's 2002 financial results marked another good year in the Bank's history. Total assets increased again to the record level of HUF 967.5 billion, albeit the pace of growth was lower than in previous years as the global and local economic slowdown made their mark throughout the whole year. Income figures still matched or surpassed the outstanding 2001 achievements, while profit before taxation almost matched the historic high previous year's figure. Meanwhile, business volumes showed mixed results, mainly following general macro-economic tendencies, nonetheless dynamics somewhat outperformed the whole banking sector. Growth indicators in customer asset balances were especially robust in 2002.

- Total assets were up 7.0% from HUF 904.5 billion at previous year-end to HUF 967.5 billion at December 31, 2002, with a noteworthy shift towards customer asset balances.
- In 2002, the most important driver in total assets growth was customer lending. Its net volume was up 24.8% from HUF 551.0 billion in 2001 to HUF 687.4 billion. Customer loan portfolio was the largest component in the balance sheet as it represented 71.0% of total assets at period-end, up from 60.9% at 2001 year-end. The bulk of the growth came from long-term, foreign exchange denominated commercial loans to domestic corporate clientele. In total customer lending, loans to households showed a remarkable relative rise of 135.6%, driven by mortgage-based products, to HUF 35.1 billion at 2002 year-end, though over a relatively lower basis.
- To promote lending growth, the Bank employed several funding tools. Despite macro-economic trends showing nominal decline in such funds, both the number of and total balances on current and deposit accounts held at MKB by corporate and private customers have grown, altogether by 2.0% to HUF 533.4 billion. In addition, the Bank's certificates of deposits (*MKB Európa bonds and deposits*) attracted HUF 24.3 billion (2001: HUF 21.0 billion) funding at the end of the year. During 2002, MKB successfully tapped the capital markets and launched two further bond issues: *MKB I. Bonds* were subscribed in the amount of HUF 10 billion in February 2002 and a further HUF 6 billion in a re-launch in July and are traded on the Budapest Stock Exchange, while HUF 20 billion domestic currency denominated *Eurobonds* are listed on the Luxembourg Stock Exchange. Simultaneously, inter-bank financing remained meaningful, though somewhat lower than at 2001 year-end.
- Shareholders' equity, excluding any dividend payment, increased 15.7% to HUF 90.8 billion (2001: HUF 78.5 billion), primarily reflecting the effect of the accumulation of net results to retained

earnings and general risk reserve. MKB's capital adequacy ratio increased to 12.0% as compared to 11.1% at December 31, 2001 as business expansion manifested in the 17.6% increase in risk-weighted assets was more than counterbalanced by the growth in regulatory capital, resulting from primarily the subordinated debt borrowed in 2002 and the addition of net result to Tier 1 Capital. Thus, the ratio is still conveniently in excess of the minimum legal and BIS requirements while Tier 1/Tier 2 capital structure become more balanced.

- Gross operating income increased 8.4% over 2001 and amounted to HUF 37,740 million. The growth reflected more meaningful contributions of non-interest income while net interest income improved only slightly from 2001. During 2002, the composition of gross income changed slightly as the share of non-interest income increased to 40.0% from 35.8% in 2001.
- Net interest income of HUF 22,649 million accounted for in 2002 was 1.3% above the 2001 figure of HUF 22,350 million. The slight growth in net interest income was the outcome of the lower interest rate environment while the increase in earning assets and accounts continued. Net interest margin of 2.4% achieved in 2002 meant a slight decline from 2.6% in 2001.
- During 2002, non-interest income amounted to HUF 15,091 million (2001: HUF 12,471 million). Net fee and commission income was HUF 9,041 million, a 10.0% increase over HUF 8,218 million fee earnings for 2001 stemming primarily from payments, accounts and credit related fees. Especially significant increase was realised in project finance and guarantee fees. Besides commissions and fees, net FX gains and dividend income contributed substantially to non-interest income. In the meantime, the Bank accounted for a slight net loss on the trading and revaluations of securities.
- Operating costs amounted to HUF 21,084 million, an increase of 13.4% over 2001. The increase in operating costs was driven mainly by the significant rise in IT and other EDP costs, due mainly to the implementation of more advanced hardware systems all across the Bank to promote product initiatives, and personnel expenses. The latter related to higher average employee numbers as the integration of the brokerage subsidiary in late 2001 had its full-year impact as well as the effect of additional staffing for new branches and some strategically important sales functions contributed to the growth in such costs. Operating expenses to average total assets ratio for the period remained unchanged at 2.3% for 2002, though cost-to-income ratio at 55.9% for 2002 was slightly up from 53.4% in 2001, reflecting the above effects.
- During 2002, the Bank charged net provisions of HUF 2,262 million that were 24.8% in excess of HUF 1,813 million set aside in 2001. The rise in provisioning over 2001 reflected the effects of a more depressed market context and the Bank's prudent approach to maintain sufficient provision levels in response to growing latent risks in a more adverse economic environment. The net specific

and general provision charge on customer lending for the year was 0.4%, up from 0.1% in 2001 while the total amount of provisions for loan losses at the end of 2002 was HUF 6,438 million, 48.8% higher than HUF 4,326 million in 2001, and represented 0.9% of outstanding customer loans (2001: 0.8%). Meanwhile, the ratio of provisions on placements with banks declined slightly from its 0.5% previous year level to 0.4% in 2002. Besides specific and general provisions, HUF 101 million country-risk provisions have been released during the year, based on historical default rates, while in 2001 HUF 1,068 million release of such provisions contributed to income. In 2002, customer credit portfolio remained in good condition.

- Profit before taxation of HUF 14,394 million for 2002 was practically equal to the historic high 2001 profit of HUF 14,415 million, as the excess in operating costs and higher net provision charges counterbalanced the growth in gross operating income. The return on average equity ratio (ROAE) was 14.6% for 2002 (2001: 15.9%). Simultaneously, the return on average assets ratio (ROAA) for 2002 remained at its 2001 level of 1.4%.

**Hungarian Foreign Trade Bank Ltd.**  
**Unconsolidated Balance Sheet as at December 31, 2002**  
**(International Financial Reporting Standards, IFRS)**

	2002*	2001
	<b>HUF million</b>	
<b>ASSETS</b>		
Cash balances	5 857	8 591
Amounts due from the National Bank of Hungary	33 699	126 497
Amounts due from other banks	98 864	100 794
Securities	75 702	63 738
Loans and advances to customers	687 444	550 958
Other assets	25 625	19 952
Participations	38 958	32 932
Property and equipment	1 362	1 049
	<b>967 511</b>	<b>904 511</b>
<b>LIABILITIES</b>		
Amounts due to the National Bank of Hungary	582	1 008
Amounts due to other banks	190 348	193 326
Current and deposit accounts	533 374	523 073
Certificates of deposit	24 271	20 981
Other liabilities and provisions	34 592	38 456
Deferred tax liability	1 818	1 407
Borrowed funds and debt securities	91 755	47 718
	<b>876 740</b>	<b>825 969</b>
<b>SHAREHOLDERS' EQUITY</b>		
Share capital	11 520	11 520
Reserves	79 251	67 022
	90 771	78 542
	<b>967 511</b>	<b>904 511</b>

\* Unaudited

**Hungarian Foreign Trade Bank Ltd.**  
**Unconsolidated Income Statement for the year ended December 31, 2002**  
**(International Financial Reporting Standards, IFRS)**

	2002*	2001
	<u>HUF million</u>	
Interest income	62 391	62 832
Interest expense	39 742	40 482
<b>Net interest income</b>	<b>22 649</b>	<b>22 350</b>
Net income from commissions and fees	9 041	8 218
	<b>31 690</b>	<b>30 568</b>
Other operating income	6 050	4 253
	<b>37 740</b>	<b>34 821</b>
Provisions for losses	2 262	1 813
	<b>35 478</b>	<b>33 008</b>
Operating expenses	21 084	18 593
<b>Profit before taxation</b>	<b>14 394</b>	<b>14 415</b>
Taxation	1 996	2 709
<b>Profit after taxation</b>	<b>12 398</b>	<b>11 706</b>

\* Unaudited

**Key Figures**  
(Unconsolidated, IFRS)  
(HUF million)

	2000	2001	2002 *
Total Assets	785 911	904 511	967 511
Share Capital	11 520	11 520	11 520
Reserves	57 380	67 021	79 251
Operating Income	30 369	34 821	37 740
Operating Expenses	(16 103)	(18 593)	(21 084)
Provision Charge	(2 947)	(1 813)	(2 262)
Profit Before Taxation	11 319	14 415	14 394
Profit After Taxation	9 320	11 706	12 398
Return on Average Equity (ROAE)	14,7%	15,9%	14,6%
Earnings per Average Outstanding Share (EPS)	82,7%	101,6%	107,6%
Return on Average Assets (ROAA)	1,3%	1,4%	1,4%
Cost-to-income ratio	53,0%	53,4%	55,9%
Capital adequacy ratio	11,8%	11,1%	12,0%

\* Unaudited