

BUDAPEST BANK GROUP

BUSINESS REPORT

DECEMBER 31, 2002

CAPITAL POSITION OF THE BANK GROUP

The capital position of the Bank Group is stable. At the end of 2002, the shareholders' equity, together with the HUF 6,370 MM retained profit proposed for approval to the shareholders' meeting, amounted to HUF 38,618 MM.

During the year 2001, General Electric Capital Corporation („GECC”) became the majority shareholder of the Bank by purchasing 33.57% equity stake owned by EBRD and 23.76% equity stake held by ÁPV Rt., as well as 13.44% equity stake owned by the small shareholders holding less than 5% stake each. At 31 December 2002 General Electric Capital held 99.32 % of the shares.

In addition to the HUF 8,888 MM profit reserve accumulated in the course of the previous years, the Bank has a total general reserve of HUF 2,993 MM, created for unforeseeable risks in accordance with the effective provisions of law on credit institutions.

In 1994, the Bank issued, to the Hungarian State, HUF 3,861 MM bonds qualified as subordinated debt capital, maturing in 2014. The interest rate of the bond is repriced every 6 months and is based on the average yield of the discount treasury bills of the 6-month period preceding the interest payment day. This is qualified as subordinated debt in comparison to all other payment obligations.

QUALITY OF ASSETS

The low-risk government securities and the inter-bank placements having an excellent credit rating represent a significant part of the assets of the Bank (29,9 % on December 31, 2002 compared to 29,7 % one year earlier).

Leasing and loan receivable increased by 18 % including a consumer loan increase of 30% and 15% commercial loan increase. During 2002 the Bank focused consumer, small and medium size loan portfolio and a very significant volume increase was achieved. The Bank has approved and disbursed 185 thousand (HUF 13,5 billion) sale finance, 8 thousand (HUF 6 billion) private and 14 thousand (HUF 21,5 billion) auto loans. Altogether the Bank is a second player on the market.

In certain segments – especially in the case of small and medium-size agricultural and food processing companies –, the Bank uses the assistance of Hitelgarancia (“Credit Guarantee”) and AHG for boosting and minimizing the risk of its lending activity.

Assets based lending has still an important role, while autofinance and mortgage help to improve credit risk quality.

*DECEMBER 31, 2002***MANAGEMENT AND BUSINESS POLICY**

Budapest Bank has managed to keep pace with the economic growth and developed accordingly, and it has preserved its leading position and/or increased its market share in a number of areas.

The Bank answered the latest challenges of the market by introducing additional financial services from the range of products of GE Consumer Finance, the strategic investor; moreover, through restructuring and the reorganization of processes, it created proper bases for further rapid progress. The customer-oriented business policy, the development of sales channels and the expansion of the scope of services offered by the Bank Group greatly contributed to the recognition of the Bank on the market.

Due to the efforts made for increasing the customer base in the areas of small companies, small enterprises and retail, we can expect a further consolidation of this position, the bases of which were laid in the course of the year 2002, through significant transformations. The restructuring of customer segments, the building of proper sales channels and the introduction of new pricing techniques greatly contributed to the positive change of results.

The Bank continued to improve quality and efficiency of processes. As a result also customer service and profitability improved too. Specifically to mention centralization of financial and operational processes, "dialer" program to enhance Collection and introduction of electronic channels. The Bank maintained its reputation for an innovative financial service provider by mean of introducing "mobilbank", internet and electronic cash handling.

PROFITABILITY

In the year 2002, the annual after-tax profit of Budapest Bank Group was HUF 6,370 MM.

The net interest increased 3% compared to prior year. Still a major driver of profitability remained the generation of fee income, which increased by 14% compared to 2002.

In the year 2000, very stringent cost-containment processes were started and this continued through 2002; as a result, the operating costs decreased by 2 %.

The profitability of the year 2002 was not influenced by the extraordinary events.

DEVELOPMENT OF THE ASSET-SOURCE STRUCTURE AND THE LIQUIDITY POSITION OF THE BANK GROUP

Budapest Bank Group closed the year 2002, with a total assets of HUF 337,6 Bn representing 6% increase in comparison to December 31, 2001.

In the course of the year, the volume of credits provided to customers increased among the Bank's placements. In particular, the retail forint placements maturing over one year showed a dynamic portfolio growth.

In spite of the upswing in the lending activity, the Bank continued to operate with a high volume of liquidity. As a result of its stable liquidity position, the Bank has permanently preserved its dominant role as an inter-bank lender on the Hungarian financial market, and it holds a substantive volume of bills and securities negotiable by the national bank.

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The structure of assets and liabilities did not significantly change over the year. However, there is an increase of liquidity gap in HUF while the gap in other currencies lowered. The increase of deposits by entrepreneurs proved to be stronger than that of deposits by private individuals, while the Bank's exposure to financial markets was at a low level.

The Bank managed and contained its liquidity within the predetermined limits, the interest rate risk arising from the differences in the change of the price of assets and liabilities primarily by pursuing a harmonious, risk-avoiding pricing and portfolio management practice, and by executing hedging transactions.