INTER-EURÓPA BANK Rt.
and Subsidiaries

Consolidated Financial Statements
prepared in accordance with
International Financial Reporting Standards
31 December 2004

Inter-Európa Bank Rt. and Subsidiaries

Consolidated Financial Statements for the year ended December 31, 2004

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This is a translation of the Hungarian Report

Report of Independent Auditors

To the Shareholders and Board of Directors of Inter-Európa Bank Rt.

We have audited the accompanying consolidated balance sheet of Inter-Európa Bank Rt. (hereinafter 'the Company') and subsidiaries as at 31 December 2004, and the related consolidated statements of income, changes in shareholders' equity, and cash flows for the year then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

We issued an unqualified opinion on the Company's financial statements as at 31 December 2003 on 08 March 2004.

We conducted our audit in accordance with International Standards on Auditing. Those Standards 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 statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of Inter-Európa Bank Rt. and subsidiaries as at 31 December 2004, and of the results of their operations and their cash flows for the year then ended in accordance with International Financial Reporting Standards.

Ernst & Young
Budapest, Hungary
25 April 2005

(HUF million)	Note	2004	2003
ASSETS			
Cash	6	1.718	1.428
Deposits with Central Bank	7	22.434	24.182
Short term placements with banks		12.858	13.755
Securities	8	13.958	20.177
Loans and advances to customers	9	145.579	126.815
Equity investments	8	-	277
Other assets	10	3.164	5.397
Fixed assets	11	6.883	6.768
Total assets		**206.594**	**198.799**
EQUITY AND LIABILITIES			
Deposits from banks		1.696	4.025
Current accounts and deposits from customers		128.598	127.312
Long term funding	12	54.426	46.856
Deferred tax liability	23	475	286
Other liabilities and accruals	13	5.753	6.478
Total liabilities		**190.948**	**184.957**
Minority interest	14	**154**	**155**
Share capital	15	7.019	7.019
Share premium		772	772
Statutory reserves	16	2.020	1.811
Revaluation reserve		445	-14
Retained earnings		5.236	4.099
Total shareholders' equity		**15.492**	**13.687**
Total equity and liabilities		**206.594**	**198.799**

Budapest, 25 April 2005.

Dr. Luigi Mastrapasqua
Managing Director

The notes to the financial statements on pages 7 to 31 are integral to the consolidated financial statements.

(HUF million)	Note	2004	2003
Interest income:			
Loans and advances to customers		14.686	11.090
Deposits with banks		2.058	1.586
Other		1.912	1.533
Total interest received		**18.656**	**14.209**
Interest expense:			
Deposits and loans from banks		1.975	1.726
Customer current and deposit accounts		8.049	4.908
Other		0	56
Total interest paid		**10.024**	**6.690**
NET INTEREST INCOME		**8.632**	**7.519**
Foreign exchange gains		1.061	693
Dividends received		35	37
Commissions and fees received	18	4.033	3.912
Other revenues		152	531
Gains less losses from securities		732	545
Total other operating income		**6.013**	**5.718**
Commissions and fees paid	19	1.084	1.210
Losses on loans and investments	21	1.846	1.205
Total other operating expenses		**2.726**	**2.415**
OTHER OPERATING PROFIT		**3.287**	**3.303**
GENERAL AND ADMINISTRATIVE EXPENSES	20	9.379	8.425
Revenues from associates	-	0	25
PROFIT BEFORE TAX		**2.540**	**2.422**
Corporate income tax	23	574	320
PROFIT AFTER TAX		**1.966**	**2.102**
Minority interest	14	(3)	(4)
NET PROFIT FOR THE YEAR		**1.963**	**2.098**
EPS (HUF/share)	24	280	299

The notes to the financial statements on pages 7 to 31 are integral to the consolidated financial statements.

(HUF Million)	Share capital	Treasury shares	Share premium	Retained earnings	Statutory reserves	Revaluation reserve	Total
Balance 1 January 2002	7.019	(51)	727	2.535	1.673	217	12.120
Profit distribution							
Dividends paid	-	-	-	(351)	-	-	(351)
Amounts transferred to reserves	-	-	-	(138)	138	-	-
Fair value of available for sale assets						(231)	(231)
Disposal of treasury shares	-	51	-	-	-	-	51
Revaluation of treasury shares	-	-	45	(45)	-	-	-
Net profit for 2003	-	-	-	2.098	-	-	2.098
Balance 31 December 2003	7.019	-	772	4.099	1.811	(14)	13.687
Profit distribution							
Dividends paid	-	-	-	(617)	-	-	(617)
Amounts transferred to reserves	-	-	-	(209)	209	-	-
Fair value of available for sale assets	-	-	-	-	-	459	459
Net profit for 2004	-	-	-	1.963	-	-	1.963
Balance 31 December 2004	7.019	-	772	5.236	2.020	445	15.492

The notes to the financial statements on pages 7 to 31 are integral to the consolidated financial statements.

	2004	2003
	HUF million	HUF million
Cash flows from operating activities:		
Profit before tax	2.540	2.422
Amortisation	383	396
Depreciation	682	781
Profit on fixed assets sale	(8)	(23)
Negative goodwill recognised as income in the year	(125)	-
Provision made for possible impairment losses	1.619	868
Provision made/(released) for other assets	(6)	38
Provision made/(released) for contingencies	94	(27)
Provision made for other liabilities	96	-
Dividends received from associates, net	-	(25)
Correction from the revaluation of available for sale securities with deferred tax effect	-	(231)
Increase in deposits with the National Bank	(4.479)	(13.299)
(Increase)/decrease in short term placements with other banks	736	225
(Increase)/decrease in securities	6.560	(10.180)
Increase in loans and advances	(20.383)	(19.244)
(Increase)/decrease in other assets	2.239	(3.065)
(Decrease)/increase in short-term deposits placed by banks	(2.329)	1.435
Increase in other short-term deposits and customer accounts	1.286	8.803
Increase/(decrease) in long-term liabilities	7.569	10.079
Increase/(decrease) in other liabilities and accruals	(614)	3.012
Corporate income tax	(574)	(320)
Net cash(used)/provided from operating activities	(4.714)	(18.355)
Cash flows from investing activities:		
Purchase of intangible fixed assets buying	(105)	(259)
Purchase of tangible fixed assets buying	(932)	(674)
Income from sale of tangible fixed assets	-	75
(Increase)/decrease in investments	277	(517)
Net cash used in investing activities	(760)	(1.375)
Cash flows from financing activities:		
Dividend paid to minority shareholders	-	-
Sale of treasury shares	-	51
Dividends paid	(624)	(351)
Net cash used in financing activities	(624)	(300)
Net decrease in cash and cash equivalents	(6.098)	(20.030)
Cash and cash equivalents at the beginning of the year	24.609	44.639
Cash and cash equivalents at the end of the year	18.511	24.609
Supplemental information		
Interest received	*18.501*	*14.631*
Interest paid	*9.903*	*6.721*
Corporate tax paid	*441*	*320*

The notes to the financial statements on pages 7 to 31 are integral to the consolidated financial statements.

1. Basis of preparation

Inter-Európa Bank Rt. ("the Bank") is registered as a company limited by shares under Hungarian law and is licensed to conduct commercial banking and investment service activities in Hungarian forint and in foreign currency. The head office of the Bank is located in Budapest V. Szabadság tér 15, and has 29 other branches in Hungary. The Bank is a member of the San Paolo- IMI Group. A list of the Bank's subsidiaries and its associates is set out in Note 5. Collectively, the Bank and its subsidiary undertakings are referred to as "the Group".

Transactions with shareholders and other related parties include credit relationships (where the related parties are borrowers or guarantors), and deposit relationships. Such transactions are conducted under substantially the same terms and conditions as are applied to third parties.

2. Statement of compliance

These Consolidated Financial Statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") issued by the International Accounting Standards Board (IASB), and interpretations issued by the Standing Interpretations Committee of the IASB. All amounts are presented in millions of Hungarian forints ("MHUF").

3. Summary of principal accounting policies

The principal accounting policies adopted by the Group in the preparation of these Consolidated Financial Statements are as follows:

(a) Principles of consolidation

The Consolidated Financial Statements include all subsidiaries that are controlled by the Group. Control is presumed to exist where more than one half of a subsidiary's voting power is controlled by the parent; or the parent company is able to govern the financial and operating policies of the subsidiary; or control the removal or appointment of a majority of a subsidiary's board of directors.

All material intercompany balances and transactions have been eliminated.

(b) Associates

Investments in associated undertakings are accounted for using the equity method of accounting. Associates are undertakings in which the Bank has between 20% and 50% of the voting rights and over which the Bank exercises significant influence, but does not have control.

Equity accounting involves recognising in the income statement the Group's share of the associates' profit or loss for the year. The Bank's interest in associates is carried in the balance sheet at cost plus the Bank's share of total recognised gains and losses, less dividends received.

(c) Transactions in foreign currency

The accounting records of the Group are maintained in Hungarian forint ("HUF"). Transactions denominated in other currencies are translated at exchange rates ruling at the date of the transactions. Assets and liabilities denominated in other currencies are translated at rates ruling at the balance sheet date. Gains and losses on exchange are recognised in the net profit for the year.

(d) Income and expense recognition

Income and expenses are recognised on an accrual basis. Commissions and fees are included in the statement of income as they are received and incurred. Short and long term loan origination fees are not material, the Bank does not accrue them as they don't have an influence on the true and fair picture. Accrual of interest income is discontinued when the collectibility of the respective loan is in doubt.

(e) Fair value

For investments traded in organised financial markets, fair value is determined by reference to Stock Exchange quoted market bid prices at the close of business on the balance sheet date.

The fair value of interest-bearing items is estimated based on discounted cash flows using interest rates for items with similar remaining maturity. No fair value is determined for demand deposits as balances are repayable on demand.

For investments where there is no quoted market price, a reasonable estimate of the fair value is determined by reference to the current market value of another instrument which is substantially the same, or is based on the expected discounted cash flows.

For loans where no quoted market prices are available, future cash flows are discounted at current market rates for loans with similar terms and risk characteristics.

(f) Cash and cash equivalents

For the purposes of the cash flow statement, cash and cash equivalents comprise cash balances and placements with banks with original maturity of less than 90 days.

(g) Loans and advances

Loans are carried at their principal amount outstanding less any specific allowance for possible loan losses.

(h) Provision for possible loan losses

It is the policy of the Group to review periodically its loan portfolio and to make a general risk provision and specific provisions where necessary in respect of non-performing loans and advances. The specific provisions are based on an assessment of the recoverability of individual amounts outstanding. Increases in provisions are charged against income.

An assessment is made at each balance sheet date to determine whether there is objective evidence that a specific financial asset may be impaired. If such evidence exists, the estimated recoverable amount of that asset is determined and any impairment loss, based on the net present value of future anticipated cash flows, is recognised in the statement of income.

(i) Provisions for guarantees

The Group provides guarantees in the ordinary course of business. Provision is made, where necessary, against those guarantees assessed by the Bank as being likely to result in a loss to the Group.

(j) Financial instruments

Trading instruments
Trading instruments are those financial instruments that the Group principally holds for the purpose of short-term trading. These include securities held for trading and derivative contracts that are not designated as effective hedging instruments.

Securities held for trading purposes are valued at fair value with any resultant gain or loss recognised in the income statement.

Held-to-maturity assets
Held-to-maturity assets are financial assets with fixed or determinable payments and fixed maturity that the Group has the intent and ability to hold to maturity. These include certain debt investments. Securities held to maturity are stated at cost, adjusted if material, for discount or premium amortised on a straight line basis over the remaining life of the respective securities.

Available-for-sale assets
After initial recognition, investments which are classified "available for sale" are re-measured at fair value. Unless unrealised gains and losses on re-measurement to fair value are part of an effective hedging relationship, they are reported as a separate component of equity until the investment is sold, collected or otherwise disposed of, or the investment is determined to be impaired, at which time the cumulative gain or loss previously reported in equity is included in the statement of income for the period.

Any gain or loss arising from a change in fair value of available for sale investments which are part of an effective hedging relationship is recognised directly in the statement of income to the extent of the changes in fair value being hedged.

(k) Fixed assets

Fixed assets are stated at cost or valuation less accumulated depreciation and amortisation. Fixed assets are reviewed periodically and where the recoverable amount of equipment and leasehold improvements is less than its carrying value, the carrying value is reduced to the recoverable amount. An impairment loss is recognised as an expense in the income statement.

(l) Depreciation

Depreciation is charged in respect of all fixed assets, except land and assets under construction, so as to write off the cost, or re-valued amount, of assets on a straight-line basis over their expected economic lives. The annual rates of depreciation used are as follows:

	Depreciation rate (%)
Intangible assets, software	20
Buildings	1 – 6
Data processing equipment	9-25
Office and other equipment	9-20
Motor vehicles	15-33

(m) Deferred taxation

Provision is made for deferred taxation in respect of timing differences arising from the recognition of items of income and expenditure in the consolidated financial statements on bases different from that used for taxation purposes.

(n) Derivatives

Derivative instruments include interest rate swaps, forward rate agreements and forward foreign exchange contracts. These instruments are used by the Group to hedge interest rate and foreign currency exposures incurred as part of the Group's funding or investing strategies and for customer lending. Trading derivatives are marked to market with the resulting gains and losses recognised in foreign exchange income. Non-trading derivatives hedge one or more types of the Bank's risk on a deposit, loan or security to meet the Bank's funding or investing strategies. Amounts receivable or payable in respect of derivative contracts are included in the balance sheet under other assets or other liabilities.

(o) Treasury shares

Own shares of the Group held at the balance sheet date are designated as treasury shares. These shares are treated as a deduction from the Group's equity.

(p) Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net assets of the acquired subsidiary at the date of the acquisition. Positive goodwill on acquisitions is recorded in the balance sheet as an intangible asset and is amortised using the straight-line method over its estimated useful life, with a maximum of 5 years. Negative goodwill is classified under other liabilities, and it is amortised over 5 years.

(q) Trade and settlement date accounting

All "regular way" purchases and sales of financial assets are recognised on the settlement date. The day of settlement is the date when the asset is delivered to the counter-party. Regular way purchases or sales are purchases or sales of financial assets (excluding derivatives) that require delivery of assets within the time frame generally established by regulation or convention in the market place.

(r) Segment information

The Bank defines business or geographical segment if most of its income originates from sales to third parties and:

a. income from sales to customers and from transactions with other segments makes up at least 10 percent of its total income originating from external and internal transactions of all segments, or
b. the result of the segment – both profit or loss – makes up at least 10 percent of aggregated profit of all profitable segments or aggregated profit/loss of all loss making segments, considering the highest in absolute terms; or
c. its assets make up at least 10 percent of the total value of assets of all segments.

(s) Repurchase agreements

Assets bought for resale at a fixed future date (reverse repurchase agreement) are not recognised in the balance sheet. Amounts paid on the basis of such agreements are classified as bank loans and other deposits. The difference between the buying and resale price is shown as interest income.

(t) Fiduciary services

Assets held in a custodian or asset managing capacity are classified as non banking assets, thus they are not included in the annual report.

(u) Estimates

The preparation of financial statements in conformity with IFRS requires the use of estimates and assumptions that affect the amounts reported in the financial statements and notes thereto. Although these estimates are based on management's best knowledge of current event and actions, actual results may differ from those estimates.

(v) Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made.

(w) Contingencies

Contingent liabilities are not recognised in the financial statements. They are disclosed unless the possibility of an outflow of resources embodying economic benefits is remote.

A contingent asset is not recognised in the financial statements but disclosed when an inflow of economic benefits is probable.

(x) Subsequent events

Post-year-end events that provide additional information about a Group's position at the balance sheet date (adjusting events), are reflected in the financial statements. Post-year-end events that are not adjusting events are disclosed in the notes if material.

(y) New IFRS standards

The International Accounting Standards Board (IASB) introduced many changes to the International Financial Reporting standards and issued new standards and interpretations during 2003 and 2004 that will be valid from 1 January 2005 or later. Therefore, it is possible that the IFRS financial statements for the year ended 31 December 2005 or later will contain comparative data for the year 2004 that will differ from the data presented in these financial statements. The Company is currently assessing the impact that new or revised standards will have on the Group accounting policies and financial data presented.

4. Risk management policies

The most significant four business risks to which the Group is exposed are credit, interest rate, liquidity, and foreign exchange risks. Risk management policies are set by the Board of Directors of the Bank within the rules established by the National Bank of Hungary and the State Supervision of Financial Institutions (PSZÁF). The Board implements the execution of these policies. The Bank has established reporting systems, which permit the monitoring of risk exposures.

The Bank enters into transactions in the ordinary course of business in various currencies including the Hungarian forint and uses the various financial instruments at its disposal. Banking transactions unless otherwise stated are effected at market rate.

The Bank avails itself of certain financial instruments for portfolio hedging purposes. However, the Bank does not take speculative positions or trade in any instrument that would generate significant commitments or contingencies.

(a) Credit risk

Credit risk is the risk that a customer or counter-party will be unable or unwilling to meet a commitment that it has entered into with the Group. It arises mostly from the lending, trade finance, treasury and other activities undertaken by the Group.

Credit risk is managed by the Board of Directors, which establishes credit regulations including the approval process, discretionary credit limits, portfolio concentration guidelines, standards for the measurement of credit exposures, risk ratings of clients and assessments of management quality and financial performances.

Each outstanding loan is reviewed quarterly. Loans are classified based on a point rating system which incorporates qualitative and quantitative factors.

(b) Interest rate risk

Interest rate risk is measured by the extent to which changes in market interest rates impact on margins and net interest income. Gaps in the value of assets, liabilities and off-balance sheet instruments that mature or re-price during a given period generate interest rate risk. The Bank reduces this risk by matching the re-pricing of assets and liabilities using pricing/maturity techniques, including the use of derivative products.

Interest rate risk is managed by the Board of Directors through the mandate given to the Treasury Department which establishes and delegates position limits, and monitors such limits to restrict the effect of movements in interest rates on current earnings and on the value of interest sensitive assets and liabilities.

(c) Liquidity risk

The Bank's policy is to manage the structure of its assets and liabilities and commitments in ways which create opportunities to maximise income while ensuring that funds will be available to honour all cash outflow obligations as these become due. Expected cash flows and daily liquidity reports are provided to senior management to enable timely liquidity monitoring.

(d) *Foreign exchange risk*
The Group has assets and liabilities, both on and off-balance sheet, denominated in various foreign currencies. Foreign exchange risk arises when the actual or forecast assets in a foreign currency are either greater or less than the liabilities in that currency. The Bank manages the currency structure of assets and liabilities on and off balance sheet, utilising forward foreign exchange transactions and other hedging instruments.

Statutory limits do not permit the Group to have gross open currency positions against the forint exceeding 30% of its guarantee capital at any time. It is the policy of the Group that it should not speculate in currencies and should only take currency positions within strictly defined rules. The Board of Directors establishes and monitors specific regulations based on statutory and internal limits, and the strategy approved by the Board. Adherence to these limits, including intra day limits, is monitored continuously.

5. Subsidiaries and associates

Name	Proportion of ownership interest and voting power held by the Group	
Subsidiaries	2004	2003
Inter-Európa Fejlesztési Kft. (owns assets utilised by the Bank)	100%	100%
Inter-Európa Szolgáltató Kft. (owns assets utilised by the Bank)	100%	100%
Inter-Invest Vagyonkezelo és Befektetési Rt. (manages problem loans)	100%	100%
Inter-Európa Consulting Kft. (intermediate holding company)	100%	100%
Inter-Európa Beruházó Kft. (owns assets utilised by the Bank)	100%	100%
IE-New York Bróker Befektetés és Pénzügyi Közvetítő Rt. (investment service agent)	100%	100%
Sygman Szolgáltató és Kereskedelmi Kft. (owns assets utilised by the Bank)	100%	100%
Inter-Európa Értékesítési Kft (aquisitor of deals, and clients)	100%	100%
Europool Befektetési Alapkezelő Rt. (asset management company)	51 %	51 %
Associates		
Axon Rt (leasing company)	-	22,71 %

6. Cash and cash equivalents

	2004 MHUF	2003 MHUF
Cash	1.718	1.428
Cash equivalents	16.793	23.181
Cash and cash equivalents	18.511	24.609

7. Deposits with Central Bank (National Bank of Hungary)

	2004 MHUF	2003 MHUF
Statutory reserve	8.049	4.920
Other deposits	14.385	19.262
Total	22.434	24.182

8. Securities

	2004 MHUF	2003 MHUF
Trading securities:		
Treasury bonds	3.370	11.456
Government bonds	2.135	1.219
Listed shares	305	292
Money-market fund	1.037	760
Other shares	130	-
	6.977	13.727
Securities available for sale		
Government securities	2.184	1.991
Investments in shares	889	552
	3.073	2.543
Securities being held to maturity		
Government bonds	3.377	3.376
National Bank of Hungary bonds	531	531
	3.908	3.907
Total securities	13.958	20.177

Investments in shares

	2004	2003
	MHUF	MHUF
Borsodi Sörgyár	13	13
Nográdker. Rt	3	3
Hitelgarancia Rt.	10	10
Giro Rt.	20	20
FHB	832	491
Focus Rt.	2	2
Értékvesztés, Focus Rt.	(2)	(2)
Sportran Kft	1	1
Eurazsia Kft	11	11
Értékvesztés Eurazsia Kft	(11)	(11)
Opusztaszeri Emlékpark	1	1
Inter-Swift részvények	9	10
Budapesti Értéktőzsde Rt.	0	3
	889	552

Capital investment in Axon Rt.

	2004	2003
	MHUF	MHUF
Opening balance (1st January)	-	252
Dispose	-	
Difference of fair value valuation	-	
Distribution of net profit	-	27
Prior years' difference between final and preliminary financial statements	-	(2)
Closing balance (31th December)	-	277

Axon shares has been reclassified by the Bank due to disposing the majority of it in December 2004. Until the balance sheet date the remaining part has been fully disposed.

9. Loans and advances to customers

	2004 MHUF	2003 MHUF
Loans and advances to customers:		
Less than one year to maturity	65.493	66.762
More than one year to maturity	84.299	62.040
	149.792	128.802
Bills of exchange and other instruments:		
Less than one year to maturity	193	809
Receivables from investment services	245	236
Total outstanding	150.230	129.847
Reduced by provisions for eventual losses of lending and investment services	(4.651)	(3.032)
	145.579	126.815

Non-performing loans at 31 December 2004 amount to HUF 5.114 million (compared to HUF 4.885 million in 2003). The related suspended interest is HUF 324 million (2003: HUF 257 million).

The distribution of the loan portfolio by industry segment is as follows:

	2004 MHUF	%	2003 MHUF	%
Manufacturing	25.915	18	30.707	24
Trading	24.651	17	23.615	19
Services	25.247	17	20.796	16
Agriculture	8.741	6	8.837	7
Construction	6.168	4	4.646	4
Retail	44.429	31	30.492	24
Other	10.428	7	7.722	6
	145.579	100	126.815	100

The distribution of the loan portfolio by collateral is as follows:

	2004		2003	
	MHUF	%	MHUF	%
Mortgage	93.302	64,1	80.495	63,5
Cash	11.231	7,7	7.417	5,8
Security	1.325	0,9	4.540	3,6
Banking guarantee	799	0,5	2.419	1,9
Other	7.526	5,2	398	0,3
Total secured loans	114.183	78,4	95.269	75,1
Not secured loans	31.396	21,6	31.546	24,9
Total loans	145.579	100,0	126.815	100,0

10. Other assets

	2004	2003
	MHUF	MHUF
Accrued interest	1.517	1.362
Provisions	(35)	(43)
Positive fair value difference of derivatives	923	3.138
Other	759	940
	3.164	5.397

11. Fixed assets

	Intangible assets	Properties	Equipment, machinery and vehicles	Assets under construction	Total
	MHUF	MHUF	MHUF	MHUF	MHUF
Cost/valuation					
At beginning of year	3.109	4.725	4.581	110	12.525
Additions	278	300	495	1.203	2.276
Disposals		(8)	(192)	(1.066)	(1.266)
At end of year	3.387	5.017	4.884	247	13.535
Depreciation					
At beginning of year	2.145	497	3.115	-	5.757
Charge for the year	383	113	578	-	1.074
On disposals	-	-	(179)	-	(179)
At end of year	2.528	610	3.514	-	6.652
Net book value					
At 31 December 2004.	859	4.407	1.370	247	6.883
At 31 December 2003.	964	4.228	1.466	110	6.768

The carrying value of the Bank's head office premises increased by HUF 217 million in 1997 reflecting its revaluation to market value as at 15 December 1997 by an independent valuer. The revaluation surplus is recognised within Shareholder's Equity as a revaluation reserve.

12. Long term funding

	2004 MHUF	2003 MHUF
European Investment Bank	4.862	5.609
EXIM Bank	1.313	2.571
SPA London	4.743	-
FHB	15.280	13.418
Syndicated loan	6.148	6.556
OTP Bank	3.000	3.000
MFB	4.308	2.649
Subordinated loan Paolo IMI	4.919	5.245
SPA Torino interbank credit line	2.459	2.622
Total long term funds from banks	**47.032**	**41.670**
Customer deposits	7.394	5.186
	54.426	**46.856**

(a) European Investment Bank (EIB)

A facility of ECU 20 million was granted by EIB in May 1997 to the Bank. The Bank repaid part of the drawdown amount in 2003. The remaining loans bear fixed interest and depending on drawdown mature between 2005 and 2008. At 31st December 2004 the Bank had drawdown EUR 9,5 million and HUF 2,4 billion.

(b) SPA London SPA Torino

EUR 35 million was granted to IEB from the long term interbank facility. Interest payment has been set on EURIBOR basis.

(c) EXIM Bank

The facility is not specified, the drawdowns are subject to approval. Drawdowns amounted to EUR 5,3 million as at 31 December 2004. The interest is payable at fixed rates.

(d) Földhitel és Jelzálogbank Group

Refinancing takes place when pledge and mortgage rights are sold and repurchased in „instalments". The HUF 15.280 million balance as of 31 December 2004 had been accumulated since 30 May 2002. Terms vary between 6 and 35 years; the typical term being 20 years. Refinancing interest rates are changing in every one or five years.

(e) Syndicated loans

A five year syndicated facility of EUR 25 million was granted in December 2001. The facility is fully drawn down and interest is payable at EURIBOR plus a spread.

(f) Országos Takarékpénztár és Kereskedelmi Bank Rt.

A five-year facility of HUF 3 billion was granted in October 2000. The facility is fully drawn down and the interest rate payable is BUBOR plus a spread.

(g) Magyar Fejlesztési Bank Rt (Hungarian Development Bank).

The facility is not specified; the drawdowns are subject to approval. Drawdowns amounted to HUF 4,3 billion as at 31 December 2004. The interest payable is BUBOR plus a spread.

(h) Subordinated loan

San Paolo - IMI Spa, the Bank's principal shareholder, granted a seven year subordinated loan of EUR 20 million in November 1999. The maturity was prolonged from 2003 to 2010. The interest rate payable is EURIBOR plus a commercial margin.

All of the above facilities are unsecured.

13. Other creditors and accrued expenses

	2004	2003
	MHUF	MHUF
Accrued interest	955	752
Dividends payable	536	7
Settlement accounts	1.083	899
Negative valuation difference of derivatives	770	2.594
Taxes (less deferred tax)	333	232
Provisions	98	100
Other creditors and accrued expenses	1.978	1.894
	5.753	6.478

Dividends payable relate to current and prior year's dividends due to shareholders.

14. Minority interest

	2004	2003
	MHUF	MHUF
At beginning of year	155	249
Dividend paid	(4)	-
Decrease of minority interest	-	(98)
Share of the profits/(losses) of subsidiaries	3	4
	154	155

15. Share capital and treasury shares

The total issued and authorised number of class "A" shares is 5,438,750 shares with a nominal value of HUF 1,000 per share and class "B" shares is 157,982 with a nominal value of HUF 10,000 per share. All issued shares are fully paid. The opening and closing balances were as follows:

	Number of shares		***Total***
	Class „A"	Class „B"	
At December 31, 2003	5.438.750	157.982	5.596.732
At December 31, 2004	5.438.750	157.982	5.596.732

	Share capital		***Total***
	Class „A"	Class „B"	MHUF
At December 31, 2003	5.439	1.580	7.019
At December 31, 2004	5.439	1.580	7.019

16. Statutory reserves

	2004	2003
	MHUF	MHUF
General reserve	656	447
General risk provision	1.364	1.364
Closing balance	2.020	1.811

Hungarian banks are required to establish a general reserve and they have a possibility to establish a general risk provision from profit before tax. Amounts appropriated to these reserves may not be used to pay dividends. Both the general reserve and the general risk provision are to be utilised to offset losses.

(a) General risk provision

The Bank opted to make a general risk provision in the amount of at least 0.5% of risk weighted assets starting from 1 January 2001 in line with the Hungarian legal requirements. No additional general risk provision was made by the Bank in 2004.

(b) General reserve

Under section 75 of Act No. CXII of 1996, banks are required to transfer an amount equal to 10% of profit after tax per the Hungarian statutory accounts to a non-distributable general reserve. HUF 209 million was transferred from the 2004 net earnings to the general reserve.

17. Dividends

Dividends paid in 2004 amounted to HUF 621 million and were approved at the Annual General Meeting in April 2004. Owners of the company passed a resolution at the Annual General Meeting on 5 April 2005 to pay dividends of HUF 936 million for 2004.

18. Commissions and fees income

	2004 MHUF	2003 MHUF
Guarantee fee	151	179
Account turnover fee	2.904	2.711
Custody fee	78	134
Investment fund custody fee	163	144
Investment service fee	358	332
Loan origination fee (long term)	187	199
Loan origination fee (short term)	102	123
Other commission income	90	90
	4.033	3.912

19. Commissions and fees paid

	2004 MHUF	2003 MHUF
Guarantee fee	0	11
Account turnover fee expenses	682	636
Custody fee expenses	33	350
Investment service fee expenses	52	102
Other commission expenses	113	111
	880	1.210

20. General and administrative expenses

	2004	2003
	MHUF	MHUF
Payments to personnel	4.048	3.658
Expenses related to IT	1.278	1.132
Expenses related to real estate	522	427
Insurance and professional expenses	152	167
Costs of public utilities	347	298
Costs of marketing and advertising	518	425
General expenses	796	606
Depreciation	1.073	1.177
Taxes	466	346
Provision made for other liabilities	96	-
Other	83	189
	9.379	8.425
Average number of staff	682	668

21. Losses on loans and investments

	2004	2003
	MHUF	MHUF
Provision for credit losses (Note 22)	1.709	1.203
Amounts written off	54	36
Provision on other assets (Note 22)	(6)	38
Gain on selling loans	(5)	(45)
Provision/(release) for contingencies (Note 22)	94	(27)
	1.846	1.205

22. Provisions

Movements in provisions for loans, investments and other assets for the years ended December 31, 2003 and 2004 are as follows:

	Loans	Other assets	Contingency	Total
	MHUF	MHUF	MHUF	MHUF
As at December 31,2002	2.164	51	128	2.343
Specific provisions made/(released) in 2003	1.203	38	(27)	1.214
Amounts written off against provision	(335)	0	0	(335)
As at December 31,2003	3.032	89	101	3.222
Specific provisions made/(released) in 2004	1.709	(6)	94	1.797
Amount written off against provisions	(90)	-	-	(90)
As at December 31,2004	4.651	83	195	4.929

23. Taxation

The taxation charge is based on the tax payable under Hungarian fiscal law in respect of the results of the year determined by the use of Hungarian accounting and taxation rules. For 2004, the Bank and its subsidiaries were subject to a taxation rate of 16% (2003: 18%)

	2004	2003
	MHUF	MHUF
Corporate income tax	441	321
Deferred tax liability	133	(1)
	574	320

A description of the difference between the accounting profit and the tax expense is as follows:

MHUF	2004		2003	
	Tax base	Tax	Tax base	Tax
Profit before taxation	2.540	406	2.422	436
Tax base correction for subsidiaries	50	8	662	(119)
Dividends	35	(6)	37	(6)
Tax base correction IEB	210	34	82	15
Axon Rt's profit	-	-	25	(4)
Minority interest	4	(1)	(4)	(1)
Deferred tax		133	-	(1)
Tax expense	-	**574**	-	**320**

Deferred tax credits and liabilities for 31 December 2004 and 31 December 2003 were due to the following facts: The official corporate tax rate for the financial year of 2005 is 16% for the subsidiaries and associates, for IEB it is 24% due to the special tax regulation.

	2004			2003		
Item	**Asset**	**Liability**	**Net**	**Asset**	**Liability**	**Net**
Deferred tax on general risk provision	-	(327)	(327)	-	(218)	(218)
Accounting difference of available for sale securities		(88)	(88)		(32)	(32)
Depreciation related item	-	(60)	(60)	-	(55)	(55)
New York Broker profit	-	-	-	19	-	19
Deferred tax receivable/(payable), net	-	(475)	(475)	19	(305)	(286)

24. Earnings per share

	2004	2003
Net profit attributable to shareholders, MHUF	1.963	2.098
Weighted average number of shares in issue	7.018.570	7.018.570
Earnings per share:		
Basic, HUF	280	299
Diluted, HUF	280	299

25. Derivative transactions

The schedule below includes the contract values of derivatives. Contract values are the aggregate of assets, reference yields or indices that can be used as benchmarks for determining fluctuations in the value of the derivative contract. The contract values show contracts open at the end of the reporting period rather than the market or credit risk involved.

Foreign exchange derivatives

OTC foreign exchange options

	2004 MHUF	2003 MHUF
Call options sold	1.139	11.140
Call options bought	1.139	11.140
Put options sold	1.983	11.037
Put options bought	1.983	11.037

All option contracts are hedged in terms of notional amount and maturity. The positive and negative fair value difference of OTC options are both HUF 36 million.

Derivative foreign exchange transactions

MHUF	Notional/ contracted amount	Fair value	
		Assets	Liabilities
Forward foreign exchange contracts	51.663	854	(668)
Swap contracts	9.781	60	(90)
Spot contracts	3.251	9	(11)
	64.695	923	(769)

Futures contracts (Budapest Stock Exchange)

MHUF	Notional/ contracted amount	Fair value	
		Assets	Liabilities
Future contracts (shares) on the Budapest Stock Exchange	305	2	-

26. Contingencies

(a) At December 31, 2004, the Bank had guarantees outstanding amounting to HUF 11.875 million compared to HUF 16.915 million at 31 December 2003.

(b) Loans committed but not disbursed at December 31, 2004 amounted to HUF 31.448 million (2003: HUF 29.817 million).

(c) Commitments under import letters of credit at December 31, 2004 and 2003 amounted to:

	2004	2003
	Equivalent in MHUF	Equivalent in MHUF
EUR	361	89
Other	45	164
	406	253

The Bank's commitments under such contracts are covered by guarantees issued by banks and by real-estate mortgages, security deposits and liens on export proceeds.

(d) Contingent liability for litigation as a result of normal operating activities is HUF 14 million (2003: HUF 80 million) – net of provision.

27. Fair value of financial instruments

The following methods and assumptions were used to estimate the fair value of the on- and off-balance sheet financial assets and liabilities:

Financial instruments valued at carrying value: Due to short-term maturity profiles, the carrying value of certain on-balance sheet financial assets and liabilities was assumed to approximate fair value. These include: cash and placements with banks, accounts with Central Bank of Hungary, deposits from banks, current accounts and deposits from customers and other short-term assets and liabilities excluding those not within the scope of IAS 39.

Trading securities and Available for sale securities: All trading and available for sale securities are marked to market.

Held to maturity portfolio: The Bank classified its consolidation State and MNB bonds in its held to maturity portfolio. There is currently no liquid market for these securities however the bonds yield interest rates are based on an average of the six-month T-bill rate and thus the fair value of these securities is considered to be close to the book value.

Commercial loans: The book value of loans to customers is stated net of provisions for losses. Given their short-term repricing profile, the fair values of commercial loans are estimated to substantially equate their net carrying value.

Deposits from banks, Current accounts and Deposit from customers: The estimated fair value of deposits with no stated maturity is the amount repayable on demand, which is equivalent to the period end carrying value. The majority of term deposits (both from banks and from customers) are short term in nature. The fair value of term deposits is not materially different from their period end book value.

Off-balance-sheet financial instruments representing credit risk: The commitments to extend credit are primary variable rate and therefore do not expose the Bank to interest rate risk. Due to the nature of these items, it is uncertain as to when and if these financial instruments will crystallise prior to the maturity of the underlying contracts.

28. Currency structure of assets and liabilities

2004			M HUF		
Bank assets	HUF	USD	EUR	Other CCY	Total
Cash	1.198	90	353	77	1.718
Deposits with National Bank	18.499	0	3.935	0	22.434
Placements with banks	0	5.521	4.725	2.612	12.858
Securities	13.949	0	9	0	13.958
Loans	107.140	873	37.725	4.492	150.230
Less: credit losses	(3.232)	(45)	(1.086)	(288)	(4.651)
Net loans	103.908	828	36.639	4.204	145.579
Other assets	9.805	15	203	24	10.047
Total assets	147.359	6.454	45.864	6.917	206.594

Bank liabilities	HUF	USD	EUR	Other CCY	Total
Deposits from banks	25.568	82	17.311	5	42.966
Current accounts and deposits	107.557	7.134	20.776	1.368	136.835
Other liabilities	4.722	135	636	735	6.228
Total liabilities	137.847	7.351	38.723	2.108	186.029
Subordinated loan			4.919		4.919
Equity	15.492				15.492
Minority interest	154				154
Total equity and liabilities	153.493	7.351	43.642	2.108	206.594
Balance sheet position	(6.134)	(897)	2.222	4.809	0
Forward position	4.643	(1.711)	(2.395)	(290)	247
Swap position	1.512	2.586	492	(4.635)	(45)
Spot position	0	6	1	(9)	(2)
Total	21	(16)	320	(125)	200

2003					
Total assets	151.339	10.403	31.844	5.213	198.799
Total equity and liabilities	146.001	8.888	41.847	2.063	198.799
Balance	5.338	1.515	(10.003)	3.150	0

29. Average balances and interest rates

	2004		2003	
	Average volume	Interest rate	Average volume	Interest rate
Assets	MHUF	%	MHUF	%
Placements with banks	35.532	6,2%	34.067	4,7%
Customer loans	**144.717**	**10,6%**	**117.988**	**9,4%**
- short term loans	63.092	11,2%	65.541	9,7%
- long term loans	81.625	9,1%	52.447	9,1%
Securities	21.688	10,5%	20.428	7,1%
Liabilities				
Deposits from banks	44.308	4,4%	37.003	4,5%
Customer deposits	**136.727**	**6,1%**	**123.657**	**3,9%**
- short term deposits	129.908	5,8%	118.310	3,7%
- long term deposits	6.819	11,3%	5.347	7,8%
Subordinated loan	4.926	3,0%	4.941	3,9%

30. Maturity structure of assets and liabilities

MHUF	2004						2003					
	0-3 month	3-12 month	1-5 years	Over 5 years	No maturity	Total	0-3 month	3-12 month	1-5 years	Over 5 years	No maturity	Total
Assets												
Cash and current accounts with banks		-	-	-	-	1.718	1.428	-	-	-	-	1.428
Deposits with National Bank	3.935	18.499	-	-	-	22.434	10.162	14.020	-	-	-	24.182
Placements with banks	12.858	-	-	-	-	12.858	13.019	736	-	-	-	13.755
Net loans	36.806	31.150	27.906	49.717	-	145.579	25.270	45.446	21.952	34.147	-	126.815
Securities	3.417	1.594	6.315	401	2.231	13.958	9.289	2.727	5.563	997	1.601	20.177
Equity investment	-	-	-	-	-	-	-	-	-	-	277	277
Fixed assets	-	-	-	-	6.883	6.883	-	-	-	-	6.768	6.768
Accrued interest and fees receivable	1.517	-	-	-	-	1.517	1.362	-	-	-	-	1.362
Other assets	716	-	-	-	931	1.647	897	-	-	-	3.138	4.035
Total assets	60.967	51.243	34.221	50.118	10.045	206.594	61.427	62.929	27.515	35.144	11.784	198.799
Equity & Liabilities												
Deposits from banks	1.334	362	-	-	-	1.696	3.357	668	-	-	-	4.025
Current accounts and deposits from customers	124.196	4.402	-	-	-	128.598	106.461	18.814	2.037	-	-	127.312
Long term funding		15.376	19.430	19.620	-	54.426	3.081	4.724	16.576	22.475	-	46.856
Accrued interest and other expense		-	-	-	-	955	752	-	-	-	-	752
Other liabilities	4.504	-	-	-	769	5.273	3.319	-	-	-	2.693	6.012
Total liabilities	130.989	20.140	19.430	19.620	769	190.948	116.970	24.206	18.613	22.475	2.693	184.957
Minority interest					154	154					155	155
Total equity					15.492	15.492					13.687	13.687
Total equity & liabilities	130.989	20.140	19.430	19.620	16.415	206.594	116.970	24.206	18.613	22.475	16.535	198.799
Net position	(70.022)	31.103	14.791	30.498	9.276	15.646	(55.543)	38.723	8.902	12.669	9.091	13.842

31. Related party transactions

Transactions with related parties are presented in the following table:

MHUF

	Receivables	Liabilities	Incomes	Expenses
Owners	335	12.765	63	253
Associates	1.198	1.198	1.494	1.494
Total	1.533	13.963	1.557	1.747

At 31 December 2004 there were no contingencies and derivative transactions.

Loans to members of Board of Directors and Supervisory Board are as follows:

THUF

	Board of Directors	**Supervisory Board**
At beginning of year 2004	8.638	9.483
Adjusted opening volume*	9.152	7.695
Repaid principal in 2004	4.194	737
Principal outstanding at 31 December 2004	4.958	6.958
Interest paid in 2004	508	426

* adjustment made as a result of change in the membership of the Supervisory Board

32. Reconciliation of the statutory and IFRS financial statements

	2004	2003
	MHUF	MHUF
Statutory profit after tax	2.198	1.822
Depreciation after revaluation of building	(1)	(1)
Amortisation of Europool negative goodwill	(26)	-
Profit from AXON shares	-	25
Correction related to sale of AXON	(2)	-
Securities marked to market	-	(15)
Fair valuation reserve of available for sale securities	(174)	199
Derivatives marked to market, net	-	69
Sale of BSE shares	100	-
Deferred tax expense	(133)	1
Other	1	(2)
Net after-tax profit per IFRS financial statements	1.963	2.098

	2004	2003
Shareholders' equity per statutory financial statements	13.795	12.191
Minority interest	(154)	(155)
Reversal of general risk reserve	1.364	1.364
Dividends	936	621
Amortisation of Europool's negative goodwill between 1998 and 2000	-	26
Depreciation of building	(9)	(8)
AXON related adjustment	35	37
Reversal of the revaluation recognised on the investment in BSE	-	(100)
Deferred tax	(475)	(286)
Other	-	(3)
Total shareholders' equity	15.492	13.687

25 April 2005, Budapest