

**INTER-EURÓPA BANK Rt.
and Subsidiaries**

Consolidated Financial Statements prepared in conformity with
International Financial Reporting Standards

31 December 2005

Inter-Európa Bank Rt. and Subsidiaries
Consolidated Financial Statements for the year ended 31 December 2005

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**To the shareholders
of Inter-Európa Bank Rt.**

**Independent Auditors' Report
(Free translation from Hungarian original)**

We have audited the consolidated balance sheet of Inter-Európa Bank Rt. (the "Bank") as of 31 December 2005 – in which the balance sheet total is MHUF 242,388 the profit per balance sheet is MHUF 2,073-, the related consolidated statements of income, cash flows and changes in shareholders' equity for the year ended 31 December 2005 and the notes for 2005 which are included in the consolidated financial statements of Inter-Európa Bank Rt. The consolidated financial statements and the business report are the responsibility of the Bank's management. The auditor's responsibility is to express an opinion on the consolidated financial statements based on the audit and to assess whether or not the accounting information disclosed in the business report is consistent with that contained in the consolidated financial statements.

The consolidated financial statements of the Bank for the year ended 31 December 2004 were audited by another auditor who issued an unqualified opinion on 25 April 2005.

We conducted our audit in accordance with Hungarian and International Standards on Auditing and with applicable laws and regulations in force in Hungary. Those standards require that we plan and perform the audit to obtain reasonable assurance as to whether the consolidated financial statements are free of material misstatements. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements and also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated 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 audit opinion.

During our work we have audited the components and disclosures along with the underlying accounting records and supporting documentation in the consolidated financial statements of Inter-Európa Bank Rt. in accordance with Hungarian and International Standards on Auditing and, on the basis of our audit work, we have gained sufficient and appropriate evidence that the consolidated financial statements have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union. In our opinion, the consolidated financial statements give a true and fair view of the financial position of Inter-Európa Bank Rt. as at 31 December 2005 and of the results of its operations for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union. The business report is consistent with the disclosures in the consolidated financial statements.

Budapest, 4 May 2006

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Inter-Európa Bank Rt. and Subsidiaries
Consolidated Balance Sheet
31 December 2005

(MHUF)	Note	<u>2005</u>	<u>2004</u> Adjusted
ASSETS			
Cash	8	2,008	1,718
Financial assets held for trading	9	10,304	7,863
Available-for-sale financial assets	10	3,431	3,259
Financial assets held to maturity	11	4,111	4,218
Interbank placements	8	42,134	35,320
Loans	12	171,621	145,963
Property, plant and equipment	14	6,745	6,005
Intangible assets	14	997	881
Tax receivables		1	10
Other assets	13	1,036	713
Total assets		<u>242,388</u>	<u>205,950</u>
LIABILITIES			
Interbank liabilities	15	42,574	43,124
Deposits	16	171,490	137,583
Issued securities	17	25	49
Financial liabilities held for trading	18	795	784
Subordinated loan capital	15	5,055	4,919
Tax liabilities		56	0
Deferred tax liabilities	31	693	637
Other liabilities	19	5,311	3,902
Total liabilities		<u>225,999</u>	<u>190,998</u>
Provisions	30	1	113
Share capital	22	7,019	7,019
Revaluation reserve	20	840	281
Other reserves	21	8,529	7,388
		<u>16,388</u>	<u>14,688</u>
Minority (external parties') interests	23	0	151
Total shareholders' equity		<u>16,388</u>	<u>14,839</u>
Total liabilities and shareholders' equity		<u>242,388</u>	<u>205,950</u>

Budapest, 4 May 2006

Dr. Luigi Mastrapasqua
Chief Executive Officer

Notes on pages 7-47 form an integral part of these consolidated financial statements.

Inter-Európa Bank Rt. and Subsidiaries
Consolidated Income Statement
31 December 2005

(MHUF)	Note	<u>2005</u>	<u>2004</u> Adjusted
Interest received	25	16,532	19,006
Interest paid	25	(8,069)	(10,023)
Net interest income		<u>8,463</u>	<u>8,983</u>
Commissions received	27	4,765	3,768
Commissions paid	28	(1,239)	(1,084)
Net commission income		<u>3,526</u>	<u>2,684</u>
Dividends		61	35
Net trading revenues	26	2,326	1,670
Net revenues from available-for-sale financial assets		25	125
Net other revenues		<u>2,412</u>	<u>1,830</u>
Impairment and provisions made	30	<u>(1,265)</u>	<u>(1,946)</u>
Net trading profit		13,136	11,551
Payments to personnel	29	(4,978)	(4,170)
Administrative expenses	29	(4,553)	(3,950)
Depreciation of property, plant and equipment	14	(661)	(710)
Amortization of intangible assets	14	(288)	(364)
Total operating costs		<u>(10,480)</u>	<u>(9,194)</u>
Other operating income		<u>73</u>	<u>23</u>
PROFIT BEFORE TAXATION		2,729	2,380
Corporate tax liability	31	(656)	(631)
AFTER-TAX PROFIT		<u>2,073</u>	<u>1,749</u>
Of which: Owners' interests		2,073	1,746
Minority interests			3
EPS (HUF/Share)	32	295	249

Budapest, 4 May 2006

Dr. Luigi Mastrapasqua
Chief Executive Officer

Notes on pages 7-47 form an integral part of these consolidated financial statements.

Inter-Európa Bank Rt. and Subsidiaries
Consolidated Statement of Changes in Shareholders' Equity
31 December 2005

(MHUF)	Shareholders' share of equity				Minority interests	Total
	Share capital	Revaluation reserve	Other reserves	After-tax profit		
Balance at 31 December 2003	7,019	(14)	4,584	2,098	0	13,687
Adjustments (Note 3)	-	(112)	(426)	4	151	(383)
Adjusted balance at 1 January 2004	7,019	(126)	4,158	2,102	151	13,304
Allocation of profit						
Minority share	-	-	-	(4)	4	0
Dividend paid	-	-	-	(617)	(4)	(621)
Reclassification to reserves	-	-	1,481	(1,481)	-	0
Fair value of available-for-sale financial assets	-	407	-	0	-	407
Profit per balance sheet for 2004	-	-	-	1,749	-	1,749
Adjusted balance at 31 December 2004	7,019	281	5,639	1,749	151	14,839
Allocation of profit						
Minority share	-	-	-	(3)	3	0
Dividend paid	-	-	-	(933)	(3)	(936)
Reclassification to reserves	-	-	813	(813)	-	0
Decrease in minority share	-	-	-	-	(151)	(151)
Fair value of available-for-sale financial assets	-	200	-	-	-	200
Fair value of real properties	-	359	-	-	-	359
Unclaimed dividend	-	-	4	-	-	4
After-tax profit for 2005	-	-	-	2,073	-	2,073
Balance at 31 December 2005	7,019	840	6,456	2,073	0	16,388

Notes on pages 7-47 form an integral part of these consolidated financial statements.

Inter-Európa Bank Rt. and Subsidiaries
Consolidated Cash Flow Statement
31 December 2005

	2005	2004
Cash flows from operating activities		
Profit before taxation	2,729	2,380
Amortisation charge	288	364
Depreciation charge	661	710
Corporate tax paid	(789)	(441)
Gain/loss on sale of property, plant and equipment	(168)	0
Provision made for expected loan losses	1,281	1,752
Provision released for other assets	(40)	0
Provision made for contingent liabilities	39	115
Provision (released) made for other liabilities	(15)	80
Change in financial assets held for trading	61	1,786
Change in trading securities	(2,502)	6,809
Change in available-for-sale securities	102	6
Change in securities held to maturity	107	(18)
Change in interbank receivables	6,284	(3,721)
Change in customer receivables	(26,939)	(20,353)
Change in other assets	(274)	601
Change in short-term interbank liabilities	4,734	(2,333)
Change in customer liabilities	33,907	4,441
Change in liabilities from issued securities	(24)	(19)
Change in financial liabilities held for trading	15	(1,555)
Change in other liabilities	1,391	(253)
Net cash provided by/(used in) operating activities	<u>20,848</u>	<u>(9,649)</u>
Cash flows from investing activities		
Purchase of intangible assets	(353)	(278)
Acquisition of subsidiary	(195)	
Purchase of property, plant and equipment	(1,119)	(932)
Proceeds from sale of property, plant and equipment	291	20
Net cash used in investing activities	<u>(1,376)</u>	<u>(1,190)</u>
Cash flows from financing activities		
Decrease in long-term interbank liabilities	(5,861)	(2,902)
Increase in long-term interbank liabilities	713	8,264
Dividend paid	(936)	(621)
Net cash provided by/(used in) investing activities	<u>(6,084)</u>	<u>4,741</u>
Net increase (decrease) in cash and cash equivalents	<u>13,388</u>	<u>(6,098)</u>
Cash and cash equivalents at beginning of year	18,511	24,609
Cash and cash equivalents at end of year	<u>31,899</u>	<u>18,511</u>
Net increase (decrease) in cash and cash equivalents	<u>13,388</u>	<u>(6,098)</u>

Notes on pages 7-47 form an integral part of these consolidated financial statements.

1. General information

Inter-Európa Bank Rt. (“the Bank”) is a public limited company incorporated in conformity with Hungarian statutory regulations. The Bank has an operating licence for the provision of commercial banking and investment services in both Hungarian forint and foreign currency.

The address of the Bank’s registered office is: Budapest, V., Szabadság tér 15. The Bank operates 32 branches around the country. The Bank is a member of the San Paolo-IMI Group, where the Parent Bank is SanPaolo IMI SpA. A list of the Bank’s subsidiaries is provided in Note 4. The Bank and its subsidiaries are collectively referred to as “the Group”.

2. Summary of most significant accounting policies

The Group has applied the following principal accounting policies in preparation of these consolidated financial statements:

(a) Basis of preparation of financial statements

These consolidated financial statements have been prepared in conformity with International Financial Reporting Standards (“IFRS”) adopted by the European Union. All amounts included in the financial statements are to be understood in millions of Hungarian forints (MHUF).

The Bank’s transactions with shareholders and other related parties include credit transactions (where the related parties are borrowers or guarantors) and deposit transactions. Such transactions are basically carried out on an arm’s length basis.

The consolidated financial statements have been prepared under the historical cost convention, except for certain financial instruments that are stated at fair value in the financial statements. The items within the consolidated income statement have been recorded based on the accrual principle.

(b) New IFRSs

IAS 19 (Amendment), Employee Benefits (effective from 1 January 2006). This standard introduces the option of an alternative recognition approach for actuarial gains and losses in the case of defined pension benefit plans. The amendment also sets forth how entities belonging to the same group should account for benefit plans defined on a group level in their stand-alone financial statements and it also imposes additional disclosure requirements. Management is currently assessing whether this revised standard will have any impact on the Group's accounting policy and accounting figures. The Group will apply this amended standard effective from 1 January 2006.

IAS 39 (Amendment), Recognition of Forecast Intra-Group Cash Flow Hedges (effective from 1 January 2006). The amended standard allows entities to designate forecast intra-group transactions denominated in a foreign currency as hedged items in the consolidated financial statements under certain circumstances. Under IAS 39 currently in force, only transactions made with third parties may be designated as hedged items. The amendment is not relevant to the Group’s operations, since no hedges have been stated in the consolidated financial statements as at 31 December 2004 and 2005.

IAS 39 (Amendment), The Fair Value Option (effective from 1 January 2006). The revised IAS 39 changes the definition of financial instruments recognised at fair value through profit or loss and restricts the application of the fair value option. Management is currently assessing whether this revised standard will have any impact on the Group's accounting policy and accounting figures. The Group will apply this amended standard effective from 1 January 2006.

IAS 39 and IFRS 4 (Amendment), Financial Guarantee Contracts (effective from 1 January 2006). On 18 August 2005, IASB issued the amendment Financial Guarantee Contracts to IAS 39, Financial Instruments: Recognition and Measurement, and to IFRS 4, Insurance Contracts. The purpose of the amendment is to ensure that liabilities from financial guarantee contracts are stated in the balance sheet by the issuers of financial guarantee contracts. Management is currently assessing whether this revised standard will have any impact on the Group's accounting policy and accounting figures. The Group will apply this amended standard effective from 1 January 2006.

IFRS 1 (Amendment), First-time Adoption of International Financial Reporting Standards and IFRS 6 (Amendment), Exploration for and Evaluation of Mineral Resources (effective from 1 January 2006). These amendments are not relevant to the Group's operations.

IFRS 7, Financial Instruments: Disclosures, and IAS 1 (Amendment), Presentation of Financial Statements - Capital Disclosures (effective from 1 January 2007). IFRS 7 introduces new requirements to improve the disclosures about financial instruments contained in the financial statements and it replaces *IAS 30, Disclosures in the Financial Statements of Banks and Similar Financial Institutions*, and certain requirements of *IAS 32, Financial Instruments: Disclosure and Presentation*. The amended IAS 1 introduces disclosure requirements regarding the level of an entity's capital. Management is currently assessing whether this revised standard will have any impact on the Group's accounting policy and accounting figures. The Group will apply IFRS 7 and amended IAS 1 effective from 1 January 2007.

IFRIC 4, Determining whether an Arrangement Contains a Lease (effective from 1 January 2006). IFRIC 4 specifies the criteria based on which it can be established whether an arrangement is or contains a lease (eg: certain take-or-pay contracts). IFRIC 4 defines clearly the circumstances under which such arrangements not made in the legal form of lease should be nevertheless recognised under *IAS 17, Leases*. Management is currently assessing whether this interpretation will have any impact on the Group's accounting policy and accounting figures.

IFRIC 5, Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds (effective from 1 January 2006). IFRIC 5 is not relevant to the Group's operations.

IFRIC 6, Liabilities arising from Participating in a Specific Market – Waste Electrical and Electronic Equipment (effective from 1 December 2005). IFRIC 6 is not relevant to the Group's operations.

(c) *Consolidation policy*

The consolidation includes all subsidiaries over which the Group has control, i.e. the Parent Company has a shareholding of more than one half of the Subsidiary's voting rights; or where the Parent Company has the power to govern the Subsidiary's financial and operating policies; or where the Parent Company exercises control over revocation or appointment of a majority of the Subsidiary's Board members.

All significant intra-group balances and transactions have been eliminated.

(d) Foreign currency transactions

The Group keeps its books in Hungarian forints (“HUF”). Transactions carried out in other currencies are translated to forint using the exchange rates of the National Bank of Hungary prevailing at the dates of the transactions. Assets and liabilities denominated in foreign currency are translated to forint using the exchange rates prevailing at the balance sheet date. Foreign exchange gains and losses are included in the profit or loss per balance sheet.

(e) Recognition of interest income and expenses

Interest income and expenses are recorded using the effective interest method for all instruments that are valued at amortised cost.

The effective interest method is the method applied to calculate the amortised cost of financial assets and financial liabilities and to allocate the interest income and expenses over a particular period. The effective interest rate is the interest rate that discounts the estimated future cash outflows and inflows exactly to the net book value of the financial asset or financial liability over the estimated life of the financial instrument or, if applicable, over a shorter period. On calculating the effective interest rate, the Group determines the cash flows considering all the contractual terms and conditions of the financial instrument (eg: prepayment, call or similar options), excluding future loan losses. The calculation includes all fees and items paid to or received from the other contracting party which form integral part of the effective interest rate.

(f) Commission and fee income

Commission and fee income is recognised based on the accrual principle when incurred (and not when the cash or its equivalent is received or paid) and is recorded in the accounting records of the periods and is shown in the financial statements of the periods to which they relate. Lending fees (including direct costs) are accrued and are taken into account in the calculation of the effective interest rate of loans.

(g) Cash and cash equivalents

Cash and cash equivalents recognised in the cash flow statement include cash and interbank placements with an original maturity not longer than 90 days.

(h) Financial assets held for trading

Financial assets held for trading are financial instruments acquired principally for the purpose of selling the instruments in the short term. These include:

- securities held for trading unless they are designated as effective hedging instruments;
- positive valuation difference of derivative financial instruments unless they are designated as effective hedging instruments;
- positive valuation difference of derivative financial instruments which are embedded in other compound transactions and which should be separated from the underlying transactions.

Derivative financial instruments include interest-rate futures, interest-rate swaps, foreign exchange futures, foreign exchange swaps and options. The Group primarily uses these financial instruments to hedge the interest rate and foreign currency risks of its transactions made on the money markets. These derivative transactions do not qualify as hedges under IAS 39, and are therefore stated at fair value, with any unrealised gains or losses recognised directly in the income statement.

Financial instruments held for trading are recorded at market value, and any gains or losses arising from this are recognised against profit or loss.

The market value for financial instruments traded on organised money markets is determined on the basis of current bid prices quoted on the stock exchange at the balance sheet date, at the time of closing.

The fair value of interest-bearing items is determined on a discounted cash flow basis, with reference to interest rates applicable to items with similar remaining maturity.

The fair value of investments that do not have quoted market prices is established using the current market value of other instruments that are substantially the same or on an estimated discounted cash flow basis.

(i) *Financial assets held to maturity*

Financial assets held to maturity are initially recognised at fair value, which generally corresponds with the purchase price, and which is adjusted for transaction costs/revenues incurred, if their effect is material. After initial recognition, financial assets held to maturity are stated at amortised cost determined using the effective interest method. Held-to-maturity assets are financial assets with fixed or determinable payments and fixed maturity, which the Group has the positive intent and ability to hold to maturity. This category principally includes securities issued by the Hungarian State.

(j) *Available-for-sale financial assets*

Available-for-sale financial assets are initially recognised at fair value, which generally corresponds with the purchase price, and which is adjusted for transaction costs/revenues incurred, if their effect is material. After initial recognition, available-for-sale financial assets are stated at market value. Positive and negative valuation differences are recognised in equity until the assets are sold, mature or recover in any other way. If there is any indication that the available-for-sale assets are impaired, the cumulative gain or loss is removed from equity and is recognised against the profit or loss for the period.

The market value for financial instruments traded on organised money markets is determined on the basis of current bid prices quoted on the stock exchange at the balance sheet date, at the time of closing.

The fair value of interest-bearing items is determined on a discounted cash flow basis, with reference to interest rates applicable to items with similar remaining maturity.

If the market for an investment is not active, the Group establishes fair value using the current market value of other instruments that are substantially the same or on an estimated discounted cash flow basis.

Equity securities, whose fair value cannot be determined reliably, are recognised at cost adjusted for impairment loss.

(k) *Loans and interbank placements*

Receivables are initially recognised at fair value, which generally corresponds with the disbursed amount, and which is adjusted for transaction costs/revenues incurred, if their effect is material. After initial recognition, loans are stated at amortised cost determined using the effective interest method. Short-term loans are not stated at amortised cost, because the effect of using the effective interest method would be immaterial.

(l) *Impairment and uncollectibility of financial assets*

In conformity with Group policy, it is assessed regularly whether there is objective evidence that a financial asset or a group of financial assets is impaired.

A financial asset or a group of financial assets is considered to be impaired if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated. Losses expected as a result of future events, no matter how likely, are not recognised.

Objective evidence that a financial asset is impaired includes observable data that come to the attention of the Group about the following loss events:

- significant financial difficulty of the issuer or obligor;
- a breach of contract, such as a default or delinquency in interest or principal payments;
- the lender, for economic or legal reasons relating to the borrower's financial difficulty, granting to the borrower a concession that the lender would not otherwise consider;
- if becoming probable that the borrower will enter bankruptcy or other financial reorganisation;
- the disappearance of an active market for that financial asset because of financial difficulties.

Objective evidence that a group of financial assets is impaired includes observable data that come to the attention of the Group and indicate that there is a measurable decrease in the estimated future cash flows from a group of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the group. Such observable data include the following:

- adverse changes in the payment status of borrowers (eg: an increased number of delayed payments or an increased number of credit card borrowers who have reached their credit limit and are paying the minimum monthly amount); or
- national or local economic conditions that, based on past experiences, correlate with defaults on the assets in the group (eg: an increase in the unemployment rate in the geographical area of the borrowers, a decrease in property prices for mortgages in the relevant area, or other adverse changes in industry conditions that affect the borrowers in the group).

If there is objective evidence that an impairment loss on individually significant loans and receivables or held-to-maturity investments carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future loan losses that have not been incurred) discounted at the financial asset's original effective interest rate. The amount of the individual loss is recognised in profit or loss.

If no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, the asset is included in a group of financial assets with similar credit risk characteristics and are collectively assessed for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment. Portfolio-level impairment loss is charged to profit or loss.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed. The amount of the reversal is recognised in profit or loss.

When a decline in the fair value of an available-for-sale financial asset has been recognised directly in equity and there is objective evidence that the asset is impaired, the cumulative loss that had been recognised directly in equity shall be removed from equity and recognised in profit or loss. The amount of the cumulative loss that is removed from equity and recognised in profit or loss is the difference between the acquisition cost and current fair value, less any impairment loss on that financial asset previously recognised in profit or loss. If, in a subsequent period, the fair value of a debt instrument classified as available-for-sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed, with the amount of the reversal recognised in profit or loss.

(m) Property, plant and equipment, and intangible assets

Real property is stated at market value based on independent expert valuation, while the rest of tangible assets and intangible assets are stated at cost, net of accumulated depreciation or amortisation. There is a regular review of non-current assets to determine if the net realisable value of equipment or leasehold improvements reduces below the net carrying value. If the net realisable value is lower than the net carrying value, this latter is reduced to the level of the net realisable value. The impairment loss is recognised as expenditure in the income statement.

With the exception of land and investment projects, all other non-current assets are depreciated using the straight-line method to write-down their cost or revalued amounts to the residual value over their estimated useful lives, which are revised annually. The applied annual depreciation rates are as follows:

	<u>Depreciation rate (%)</u>
Intangible assets, software	10-20%
Buildings	1-6%
Data processing equipment	9-25%
Office and other fittings	9-20%
Vehicles	15-33%

No amortisation is recognised on goodwill.

(n) Investments in subsidiaries

The assets and liabilities of subsidiaries are initially recognised at fair value. Any goodwill or negative goodwill arising on acquisition of a subsidiary is included in the consolidated balance sheet.

Goodwill represents the excess of the cost of an acquisition over the fair value of the investor's share of the acquired assets, liabilities and contingent liabilities at the date of acquisition. Goodwill is included in intangible assets in the consolidated financial statements and is carried at cost net of accumulated impairment losses. Goodwill acquired in an acquisition is tested annually or more frequently for impairment, if events taking place or changes in circumstances indicate impairment. The need for recognition of impairment loss is assessed on the subsidiary's future cash flow generating potential.

Negative goodwill, which represents the excess of the fair value of the investor's share of the acquired assets, liabilities and contingent liabilities at the date of acquisition over the costs of the acquisition, is recognised as revenue in the consolidated income statement.

(o) Deposits, interbank liabilities and issued securities

Deposits, interbank liabilities and issued securities are initially recognised at fair value, which generally corresponds with the received amount or the issue price, and which is adjusted for transaction costs/revenues incurred, if their effect is material. After initial recognition, these transactions are stated at amortised cost determined using the effective interest method. Short-term and sight deposits are not stated at amortised cost, because the effect of using the effective interest method would be immaterial.

(p) *Financial liabilities held for trading*

Financial liabilities held for trading are financial instruments that the Group holds principally for the purpose of trading in the short-term. These include:

- negative valuation difference of derivative financial instruments unless they are designated as effective hedging instruments;
- negative valuation difference of derivative financial instruments, which are embedded in other compound transactions and which should be separated from the underlying transactions.

Derivative financial instruments include interest-rate futures, interest-rate swaps, foreign exchange futures, foreign exchange swaps and options. The Group primarily uses these financial instruments to hedge the interest rate and foreign currency risks of its transactions made on the money markets.

Certain derivative transactions that ensure an efficient hedging of positions originating from the Group's risk management process are not classified as hedges under IAS 39, and are therefore categorised as derivatives held for trading, which are stated at fair value, with any unrealised gains or losses recognised directly in the income statement.

Financial instruments held for trading are recorded at market value, and any gains or losses arising from this are recognised against profit or loss.

The market value for financial instruments traded on organised money markets is determined on the basis of current bid prices quoted on the stock exchange at the balance sheet date, at the time of closing.

The fair value of interest-bearing items is determined on a discounted cash flow basis, with reference to interest rates applicable to items with similar remaining maturity.

The fair value of investments that do not have quoted market prices is established using the market value of other instruments that are substantially the same or on an estimated discounted cash flow basis.

(q) *Income tax*

The amount of the income tax is based on the tax liability determined on the basis of applicable laws, which is adjusted for the amount of deferred tax.

Deferred income tax is provided on temporary timing differences between profit/loss as stated in the financial statements and as stated in the tax return. Deferred income tax is determined using tax rates that are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax on transactions recognised in equity (e.g.: fair valuation difference of available-for-sale securities) is stated in equity.

(r) *Treasury shares*

Equity shares held by the Group as at the balance sheet date are called treasury shares. These treasury shares reduce the amount of the Group's current shareholders' equity.

(s) *Contingent liabilities and provisions*

Provisions are recognised when the Group has actual valid or implied liabilities in the current period resulting from past events, and it is probable that settlement of the liability will go along with an outflow of resources embodying economic benefits, and the amount of the liability can reasonably be estimated.

During the ordinary course of business the Group also deals with off-balance sheet transactions, which includes provided bank guarantees, letters of credit and loan commitments. The Group recognises a provision for contingent liabilities on an item-by-item basis, if there is objective evidence that loss may occur. The Group recognises portfolio-level provisions on performing transactions on the basis of a risk management model developed by the SanPaoloIMI Group. Individual and portfolio-level provisions are charged to profit or loss.

(t) Trade date or settlement date accounting

Regular way sale or purchase of financial assets is recognised at the date of settlement. The date of settlement is the day when the asset passes over to the entity's ownership. Regular way sale or purchase transactions are transactions whereby the asset has to be delivered to its destination during a time interval specified by applicable laws or normally accepted on the market.

(u) Segment information

The Bank defines business or geographical segments if a greater part of its revenues is derived from sales to external customers and:

- a. its revenues arising from sales to external customers and from transactions with other segments account for at least 10% of the total revenues of all the segments arising from external or internal transactions; or
- b. the result of the segment, whether profit or loss, accounts for at least 10% of the aggregated profit of all the profitable segments or the aggregated loss of all the loss-making segments, taking the larger in absolute terms of the two as a basis; or
- c. its assets account for at least 10% of the total value of the assets of all the segments.

(v) Repo transactions

The sale of assets with a commitment of repurchasing those at a specified future date is recognised in the balance sheet. Repo transactions are valued in conformity with the accounting policy pertaining to investments held for trading. Liabilities arising from such agreements are recognised as liabilities to customers. The difference between the sale price and the repurchase price is recognised as interest expense.

Reverse repo transactions, when an asset is purchased with the intent of resale at a specified future date, are not recognised in the balance sheet. Amounts paid under such agreements are recognised as bank placements and other deposits. The difference between the purchase price and the resale price is recognised as interest income.

(w) Assets in trusteeship

Assets held in a depositary or trustee capacity are not treated as the Bank's assets, and are therefore not recognised on the balance sheet.

(x) Estimates

The preparation of financial statements in conformity with IFRS principles requires the use of estimates and assumptions that may cause adjustments to the figures and the related Notes included in the financial statements (e.g.: if there is no market price quoted in an organised market for the determination of fair value, the fair value is established using different valuation techniques. These techniques are presented in Items (i), (k) and (m)).

Though these estimates are based on management's best knowledge of current events, the resulting accounting estimates may differ from the related actual results.

The investment funds operated by the Group qualify as special purpose entities whose operations are regulated within stringent limits defined strictly based on the publicly issued prospectus and the relevant regulations relating to investment funds and which are not

controlled by the Bank Group. Therefore, the participations in these investments funds are recorded in compliance with the requirements of IAS 39.

(y) *Subsequent events*

Events taken place subsequent to the balance sheet date that provide additional information on the Group's circumstances existing as at the balance sheet date (adjusting entries) have been disclosed in the financial statements. Events taking place subsequent to the balance sheet date that do not cause adjustments to the data of the financial statements are disclosed in the Notes, if material. There were no significant events taking place subsequent to the balance sheet date.

3. Adjustments to the 2004 financial statements

The Bank's parent company, SanPaoloIMI Bank, as a listed company, qualifies as an enterprise falling under the scope of Article 4 of EC Regulation No 1606/2002 and, therefore, in conformity with the procedure formulated in the aforesaid regulation, effective from 2005 it prepares its consolidated financial statements in accordance with the International Accounting Standards published in the form of a regulation in the Official Journal of the European Union. The rules of SanPaoloIMI Group relating to preparation of financial statements in accordance with the International Accounting Standards also apply to Inter-Európa Bank Rt. as a group member. In addition, the International Accounting Standards Board made a number of amendments to the International Financial Reporting Standards and introduced new standards and interpretations in 2003 and 2004, which became effective on 1 January 2005.

For the above reasons, the Bank has reviewed its 2004 financial statements and made the following adjustments therein:

- (a) Receivables are stated at amortised cost determined using the effective interest method as described in the "Summary of significant accounting policies" section. Using this accounting treatment, a MHUF 294 amortisation difference was stated as of 31 December 2004, which reduced the 2004 after-tax profit and other reserves shown under shareholders' equity by MHUF 118 and MHUF 176, respectively.
- (b) Impairment loss of receivables is recognised in compliance with the risk management principles developed by the SanPaoloIMI Group. As an effect of this modification, MHUF 319 additional impairment loss was recognised in 2004, which reduced the 2004 after-tax profit and other reserves shown under shareholders' equity by MHUF 43 and MHUF 276, respectively.
- (c) The Hungarian Corporate Tax Law requires that the profit before taxation should be reduced by the amount of depreciation determined as per the Corporate Tax Law in the calculation of the corporate tax base even if it exceeds the size specified in the company's accounting policy.

The amortisation difference (between the amortisation recognised as per the Corporate Tax Law and that recognised as per the accounting policy) has been reviewed and MHUF 313 deferred tax liability was recognised, which reduced the 2004 after-tax profit and other reserves shown under shareholders' equity by MHUF 122 and MHUF 191, respectively.

- (d) Based on those discussed in Items (a) and (b) above, MHUF 146 deferred tax was recognised due to temporary timing differences arising between the profit stated in the financial statements and the profit stated in the tax returns, which increased the 2004 after-tax profit and other reserves shown under shareholders' equity by MHUF 38 and MHUF 108, respectively.

- (e) The fair valuation of available-for-sale securities and the recognition of their sale have been reviewed. Based on the review, the revaluation reserve and the 2004 profit increased by MHUF 64 and MHUF 28, respectively, while other reserves decreased by MHUF 69.
- (f) In previous years, a MHUF 176 revaluation reserve was recognised as the fair valuation difference of real property. An adjustment was made in relation to the review of real property, which did not affect the 2004 income statement.
- (g) As required by the revised International Accounting Standards, the minority interests have been shown under shareholders' equity. Pursuant to this adjustment, the 2004 profit increased by MHUF 3, while the balance of minority interests decreased by MHUF 3.
- (h) The structure of both the balance sheet and income statement has been amended in line with the account formats applied by the Parent Company.

4. Subsidiaries

Name	Ownership percentage and the Group's voting share	
	<u>2005</u>	<u>2004</u>
<i>Subsidiaries</i>		
Inter-Európa Fejlesztési Kft. (owner of assets used by the Bank)	100%	100%
Inter-Európa Szolgáltató Kft. (owner of assets used by the Bank)	100%	100%
Inter-Invest Risk Management Rt. (engaged in work-out of non-performing loans)	100%	100%
Inter-Európa Consulting Kft. (agency holding company)	100%	100%
Inter-Európa Beruházó Kft. (owner of assets used by the Bank)	100%	100%
IE-New York Bróker Befektetés és Pénzügyi Közvetítő Rt. (investment services agency activity)	100%	100%
Sygman Szolgáltató és Kereskedelmi Kft.	100%	100%
Inter-Európa Értékesítési Kft. (acquisition of customers and deals)	100%	100%
Europool Befektetési Alapkezelő Rt. (property management company)	100%	51%

5. Principles of risk management

The Group is exposed to the following five major business risks by its activities: credit risk, market risk, market interest rate risk, liquidity risk and foreign exchange risk. The principles of risk management are determined by the Bank's Board of Directors within the limits set by the National Bank of Hungary and the Hungarian Financial Supervisory Authority.

The application and enforcement of the principles thus developed is controlled by the Board of Directors. The Bank has developed reporting systems which allow the Bank to control risk areas.

The Bank enters into contracts in different foreign currencies (including Hungarian forint) and it also uses the various financial instruments that are available to it. Bank transactions are realised at market rates, unless otherwise stated.

The Bank uses certain financial instruments to hedge its portfolios. The Bank, however, does not make speculative deals and does not trade with assets that would result in significant contingent or future liabilities.

(a) Credit risk

Essentially, a credit risk is concerned when a customer is not able or does not want to fulfil his obligations undertaken towards the Group. Credit risk can generally arise from loan disbursement, trade financing, treasury and other activities performed by the Group.

It is the responsibility of the Bank's Board of Directors to control credit risk management. As part of this, it approves the regulations relating to lending activity, including the approval process, the loan facilities with no restricted use, the principles relevant to the concentration of the loan portfolio, the principles to be applied on measuring credit risks, the risk rating of customers, and the valuation of the activity of the Bank's Management from quality and financial aspects.

Outstanding loan debts are reviewed on a quarterly basis. Loans are rated using a scoring system that is based on both qualitative and quantitative parameters.

(b) Market risk

The Group assumes market risk. Market risks arise from the open positions of interest rate, foreign exchange and share products, since each of these is subject to both general and specific market movements. The Group uses the "value at risk" method to assess its market risk arising from the open positions and the maximum expected level of losses. This assessment is based on assumptions on changes in market conditions. The ALCO sets the value at risk the Group assumes and monitors it on a regular daily basis.

(c) Interest rate risk

The interest rate risk can be measured by the size of the effect which the movements in market interest rates have on interest margins and net interest income. The interest rate risk is subject to the open positions of assets, liabilities and off-balance sheet items which mature or are repriced in the period. The Bank reduces this risk by harmonising the repricings and maturities of its assets and liabilities, including the use of derivatives.

The interest rate risk is managed by the Asset/Liability Committee and the Treasury Department, based on the authorisation of the Board of Directors, which set position limits for the individual transactions and monitor observance of these limits in order to limit the effect of interest rate movements on current yields and the value of interest rate sensitive assets and liabilities.

The following tables summarize the Group's receivables and liabilities exposed to interest rate movements by major currency. The items have been categorised according to the repricing periods.

Analysis of assets and liabilities according to the repricing periods by major currency

Interest rate risk analysis (HUF)

31 December 2005	Items with fixed interest rate according to the period remaining up to maturity, items with variable interest rate according to the period remaining up to repricing												Non-interest bearing	Total
	MHUF	1 month	1 - 3 months	3 - 6 months	6 - 12 months	1 - 2 years	2 - 3 years	3 - 4 years	4 - 5 years	5 - 7 years	7 - 10 years	10 - 15 years		
Financial assets held for trading														
Fixed interest rate	1,228	608	1,228	0	3,879	0	0	314	0	0	0	0	0	7,257
Variable interest rate	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Non-interest bearing	0	0	0	0	0	0	0	0	0	0	0	0	3,047	3,047
Total	1,228	608	1,228	0	3,879	0	0	314	0	0	0	0	3,047	10,304
Available-for-sale financial assets and financial assets held to maturity														
Fixed interest rate	0	0	782	241	584	192	319	0	0	91	0	0	0	2,209
Variable interest rate	2,457	1,139	312	0	0	0	0	0	0	0	0	0	0	3,908
Non-interest bearing	0	0	0	0	0	0	0	0	0	0	0	0	1,412	1,412
Total	2,457	1,139	1,094	241	584	192	319	0	0	91	0	0	1,412	7,529
Interbank placements														
Fixed interest rate	23,803	2,000	0	0	0	0	0	0	0	0	0	0	0	25,803
Variable interest rate	11,358	0	0	0	0	0	0	0	0	0	0	0	0	11,358
Non-interest bearing	0	0	0	0	0	0	0	0	0	0	0	0	56	56
Total	35,161	2,000	0	0	0	0	0	0	0	0	0	0	56	37,217
Loans														
Fixed interest rate	283	418	1,160	2,279	1,258	10	0	0	0	9	0	0	0	5,417
Variable interest rate	68,783	174	8	27,108	0	0	0	0	0	0	0	0	0	96,072
Non-interest bearing	0	0	0	0	0	0	0	0	0	0	0	0	1,287	1,287
Total	69,066	592	1,168	29,386	1,258	10	0	0	0	9	0	0	1,287	102,776
Interest-bearing assets	107,912	4,339	3,490	29,627	5,721	202	319	314	0	100	0	0	5,802	157,826

Interest rate risk analysis (HUF) - Continued

31 December 2005	Items with fixed interest rate according to the period remaining up to maturity, items with variable interest rate according to the period remaining up to repricing													Total	
	MHUF	1 month	1 - 3 months	3 - 6 months	6 - 12 months	1 - 2 years	2 - 3 years	3 - 4 years	4 - 5 years	5 - 7 years	7 - 10 years	10 - 15 years	Over 15 years		Non-interest bearing
Interbank liabilities															
Fixed interest rate	288	0	0	4,000	0	0	0	0	2,094	0	0	0	0	0	6,382
Variable interest rate	14,429	3,071	0	0	0	0	0	0	0	0	0	0	0	0	17,500
Non-interest bearing	0	0	0	0	0	0	0	0	0	0	0	0	0	66	66
Total	14,717	3,071	0	4,000	0	0	0	0	2,094	0	0	0	0	66	23,948
Deposits															
Fixed interest rate	22,777	934	23	19	0	0	0	0	0	0	0	0	0	0	23,753
Variable interest rate	81,916	24,017	1,856	928	0	0	0	0	0	0	0	0	0	0	108,717
Non-interest bearing	0	0	0	0	0	0	0	0	0	0	0	0	0	807	807
Total	104,693	24,951	1,879	947	0	0	0	0	0	0	0	0	0	807	133,277
Subordinated loan capital															
Fixed interest rate	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Variable interest rate	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Non-interest bearing	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Total	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Interest-bearing liabilities	119,410	28,022	1,879	4,947	0	0	0	0	2,094	0	0	0	0	873	157,225
Net position	(11,498)	(23,683)	1,611	24,680	5,721	202	319	314	(2,094)	100	0	0	4,929	601	

Interest rate risk analysis (EUR)

31 December 2005	Items with fixed interest rate according to the period remaining up to maturity, items with variable interest rate according to the period remaining up to repricing													Non-interest bearing	Total
	MHUF	1 month	1 - 3 months	3 - 6 months	6 - 12 months	1 - 2 years	2 - 3 years	3 - 4 years	4 - 5 years	5 - 7 years	7 - 10 years	10 - 15 years	Over 15 years		
Financial assets held for trading															
Fixed interest rate	0	0	0	0	0	0	0	0	0	0	0	0	0	0	
Variable interest rate	0	0	0	0	0	0	0	0	0	0	0	0	0	0	
Non-interest bearing	0	0	0	0	0	0	0	0	0	0	0	0	0	0	
Total	0	0	0	0	0	0	0	0	0	0	0	0	0	0	
Available-for-sale financial assets and financial assets held to maturity															
Fixed interest rate	0	0	0	0	0	0	0	0	0	0	0	0	0	0	
Variable interest rate	0	0	0	0	0	0	0	0	0	0	0	0	0	0	
Non-interest bearing	0	0	0	0	0	0	0	0	0	0	0	0	13	13	
Total	0	0	0	0	0	0	0	0	0	0	0	0	13	13	
Interbank placements															
Fixed interest rate	0	0	0	0	0	0	0	0	0	0	0	0	0	0	
Variable interest rate	1,209	0	0	0	0	0	0	0	0	0	0	0	0	1,209	
Non-interest bearing	0	0	0	0	0	0	0	0	0	0	0	0	0	0	
Total	1,209	0	0	0	0	0	0	0	0	0	0	0	0	1,209	
Loans															
Fixed interest rate	53	1,949	742	2,624	172	768	331	445	3,031	319	11	0	0	10,445	
Variable interest rate	15,854	8,519	8,855	7,905	0	0	0	0	0	0	0	0	0	41,133	
Non-interest bearing	0	0	0	0	0	0	0	0	0	0	0	0	22	22	
Total	15,908	10,468	9,597	10,529	172	768	331	445	3,031	319	11	0	22	51,600	
Interest-bearing assets	17,117	10,468	9,597	10,529	172	768	331	445	3,031	319	11	0	35	52,822	

Interest rate risk analysis (EUR) - Continued

31 December 2005	Items with fixed interest rate according to the period remaining up to maturity, items with variable interest rate according to the period remaining up to repricing													Total	
	MHUF	1 month	1 - 3 months	3 - 6 months	6 - 12 months	1 - 2 years	2 - 3 years	3 - 4 years	4 - 5 years	5 - 7 years	7 - 10 years	10 - 15 years	Over 15 years		Non-interest bearing
Interbank liabilities															
Fixed interest rate	2,505	0	442	0	0	22	0	0	0	0	0	0	0	0	2,969
Variable interest rate	22	12,518	0	0	0	0	0	0	0	0	0	0	0	0	12,541
Non-interest bearing	0	0	0	0	0	0	0	0	0	0	0	0	129	129	
Total	2,527	12,518	442	0	0	22	0	0	0	0	0	0	129	15,638	
Deposits															
Fixed interest rate	5,662	23	37	3	0	0	0	0	0	0	0	0	0	0	5,724
Variable interest rate	19,563	1,609	431	264	0	0	0	0	0	0	0	0	0	0	21,866
Non-interest bearing	0	0	0	0	0	0	0	0	0	0	0	0	30	30	
Total	25,224	1,632	467	267	0	0	0	0	0	0	0	0	30	27,620	
Subordinated loan capital															
Fixed interest rate	0	0	0	0	0	0	0	0	0	0	0	0	0	0	
Variable interest rate	0	5,055	0	0	0	0	0	0	0	0	0	0	0	5,055	
Non-interest bearing	0	0	0	0	0	0	0	0	0	0	0	0	0	0	
Total	0	5,055	0	0	0	0	0	0	0	0	0	0	0	5,055	
Interest-bearing liabilities	27,751	19,205	910	267	0	22	0	0	0	0	0	0	159	48,313	
Net position	(10,635)	(8,737)	8,687	10,263	172	746	331	445	3,031	319	11	0	(124)	4,509	

(d) *Liquidity risk*

The Bank's policy is to develop the structure of its assets and liabilities, as well as off-balance sheet items in such a way that enables the maximisation of revenues but, at the same time, also ensures that adequate funds are available to pay all liabilities when they fall due. Cash-flow plans and daily liquidity reports are prepared for the senior management, allowing the continuous monitoring of the liquidity position.

The following tables show the Group's assets and liabilities categorised according to their remaining term as at the balance sheet date.

Maturity analysis of assets and liabilities

At 31 December 2005

Maturity structure	0-3 months	3-12 months	1-5 years	Over 5 years	No maturity	Total
Assets						
Cash	2,008					2,008
Financial assets held for trading	3,222	3,087	1,049	62	2,884	10,304
Available-for-sale financial assets		1,050	1,204		1,177	3,431
Financial assets held to maturity	2,533	1,263		315		4,111
Interbank receivables	35,683	5,948	503			42,134
Loans	39,603	49,872	41,047	41,099		171,621
Property, plant and equipment					6,745	6,745
Intangible assets					997	997
Tax receivables			1			1
Other assets	541	382	7	73	33	1,036
Total assets	83,590	61,602	43,811	41,549	11,836	242,388
Liabilities						
Interbank liabilities	6,615	9,359	15,532	11,068		42,574
Deposits	152,608	12,075	6,807			171,490
Liabilities from issued securities					25	25
Financial liabilities held for trading					795	795
Subordinated loan capital			5,055			5,055
Tax liability		56				56
Deferred tax liability					693	693
Other liabilities	4,686	320	70		235	5,311
Provisions					1	1
Revaluation reserve					840	840
Reserves					6,456	6,456
Share capital					7,019	7,019
Minority interests					0	0
Net profit per balance sheet					2,073	2,073
Total liabilities	163,909	21,810	27,464	11,068	18,137	242,388
Net balance of assets and liabilities	(80,319)	39,792	16,347	30,481	(6,301)	0

At 31 December 2004

Maturity structure	0-3 months	3-12 months	1-5 years	Over 5 years	No maturity	Total
Assets						
Cash	1,718					1,718
Financial assets held for trading	0	3,628	1,970		2,265	7,863
Available-for-sale financial assets	95	0	2,181	94	889	3,259
Financial assets held to maturity			3,905	313		4,218
Interbank receivables	24,842	10,478				35,320
Loans	37,190	31,150	27,906	49,717		145,963
Property, plant and equipment					6,005	6,005
Intangible assets					881	881
Tax receivables		10				10
Other assets	713					713
Total assets	64,558	45,266	35,962	50,124	10,040	205,950
Liabilities						
Interbank liabilities	1,450	11,750	15,223	14,701		43,124
Deposits	124,094	9,282	4,207			137,583
Liabilities from issued securities					49	49
Financial liabilities held for trading					784	784
Subordinated loan capital				4,919		4,919
Tax liability		0				0
Deferred tax liability					637	637
Other liabilities	2,579	372	671		280	3,902
Provisions					113	113
Revaluation reserve					281	281
Reserves					5,639	5,639
Share capital					7,019	7,019
Minority interests					151	151
Net profit per balance sheet					1,749	1,749
Total liabilities	128,123	21,404	20,101	19,620	16,702	205,950
Net balance of assets and liabilities	(63,565)	23,862	15,861	30,504	(6,662)	0

(e) Foreign exchange risk

The Group's balance sheet items and off-balance sheet items include assets and liabilities denominated in different foreign currencies. Foreign exchange risk arises when the balance of recognised, whether actually existing or forecasted, assets denominated in a foreign currency is higher or lower than the balance of recognised liabilities denominated in the same foreign currency. The Bank develops the foreign exchange structure of its assets and liabilities carried on the balance sheet and its off-balance sheet assets and liabilities using forward exchange deals and other hedging transactions.

As per the Hungarian statutory regulations, the Group's total open foreign currency position against forint may not exceed 30% of the current guarantee capital. The Group's policy is not to make speculative foreign exchange deals and to open foreign currency positions according to the strictly limited rules. The Board of Directors develops the individual regulations based on the statutory and internal limits, as well as the strategy it has approved and it monitors compliance with the regulations. Observance of the limits (including intra-day limits) is monitored on an on-going basis.

Analysis of assets and liabilities by currency

At 31 December 2005

Assets	HUF	USD	EUR	Other	Total
Cash	1,144	98	620	146	2,008
Financial assets held for trading	10,304				10,304
Available-for-sale financial assets	3,418		13		3,431
Financial assets held to maturity	4,111				4,111
Interbank receivables	37,217	2,492	1,209	1,216	42,134
Loans	102,776	1,004	51,600	16,241	171,621
Property, plant and equipment	6,745				6,745
Intangible assets	997				997
Tax receivables	1				1
Other assets	717	15	15	289	1,036
Total assets	167,430	3,609	53,457	17,892	242,388
Liabilities	HUF	USD	EUR	Other	Total
Interbank liabilities	23,948	11	15,638	2,977	42,574
Deposits	133,277	8,360	27,620	2,233	171,490
Liabilities from issued securities	25				25
Financial liabilities held for trading	795				795
Subordinated loan capital			5,055		5,055
Tax liability	56				56
Deferred tax liability	693				693
Other liabilities	3,792	293	1,210	16	5,311
Provisions	1				1
Revaluation reserve	840				840
Reserves	6,456				6,456
Share capital	7,019				7,019
Minority interests	0				0
Net profit per balance sheet	2,628	(19)	(343)	(193)	2,073
Total liabilities	179,530	8,645	49,180	5,033	242,388
Net balance sheet position	(12,100)	(5,036)	4,277	12,859	0
Forwards	(754)	(1,322)	(1,964)	3,875	(165)
Swaps	12,757	6,764	(2,780)	(16,466)	275
Spot	547	(561)	286	(267)	5
Total position	450	(155)	(181)	1	115

At 31 December 2004

Assets	HUF	USD	EUR	Other	Total
Cash	1,198	90	353	77	1,718
Financial assets held for trading	7,863				7,863
Available-for-sale financial assets	3,250		9		3,259
Financial assets held to maturity	4,218				4,218
Interbank receivables	18,527	5,521	8,660	2,612	35,320
Loans	104,292	828	36,639	4,204	145,963
Property, plant and equipment	6,005				6,005
Intangible assets	881	0	0	0	881
Tax receivables	10	0	0	0	10
Other assets	471	15	203	24	713
Total assets	146,715	6,454	45,864	6,917	205,950
Liabilities	HUF	USD	EUR	Other	Total
Interbank liabilities	25,726	82	17,311	5	43,124
Deposits	108,305	7,134	20,776	1,368	137,583
Liabilities from issued securities	49	0	0	0	49
Financial liabilities held for trading	784				784
Subordinated loan capital	0		4,919		4,919
Tax liability	0				0
Deferred tax liability	637				637
Other liabilities	2,396	135	636	735	3,902
Provisions	113		0		113
Revaluation reserve	281				281
Reserves	5,639				5,639
Share capital	7,019				7,019
Minority interests	151				151
Net profit per balance sheet	1,749				1,749
Total liabilities	152,849	7,351	43,642	2,108	205,950
Net balance sheet position	(6,134)	(897)	2,222	4,809	0
Forwards	4,643	(1,711)	(2,395)	(290)	247
Swaps	1,512	2,586	492	(4,635)	(45)
Spot	0	6	1	(9)	(2)
Total position	21	(16)	320	(125)	200

6. Fair valuation of financial assets

The following methods and assumptions were used to estimate the fair values of financial assets and liabilities not carried at fair value on the balance sheet:

Cash and interbank receivables:

These assets comprise cash, interbank placements and accounts held with the central bank. The fair value of cash, placements with variable interest rates and current accounts corresponds to their net book value. The remaining term of placements with fixed interest rates is less than one year and therefore the fair value of these assets is also considered to approximate their net book value.

Financial assets held to maturity:

The Bank only classified the interest-bearing consolidation government bonds and NBH bonds to the “financial assets held to maturity” category. The fair value of these securities was determined applying similar techniques as for available-for-sale financial assets. The positive fair valuation difference was MHUF 2 (2004: MHUF 23) at the balance sheet date.

Loans:

Loans given to customers are carried at cost less provision for loan losses. The fair value of commercial loans is considered to approximate their net book value due to the frequent change of interest rates.

Interbank liabilities and deposits:

The estimated fair value of deposits with no maturity corresponds to the current repayable amount, which is stated in the period-end accounts. The majority of time deposits (placed by both banks and customers) are short-term deposits or are repriced within 12 months and therefore the fair value of time deposits is not considered to differ significantly from their year-end net book value.

Liabilities from issued securities:

The Bank had been issuing 1-3-6-12 month certificates of deposit, in four series, continuously. However, due to changes in the regulatory framework, the Bank ceased to issue such certificates of deposit as of 31 December 2002, and only the certificates of deposit in issue are currently redeemed by the Bank. The estimated fair value of securities with no maturity corresponds to the current repayable amount, which is stated in the period-end accounts.

7. Business segments

The Group's activities in Hungary are organised according to the following major business segments:

Retail business:

It includes lending, account-keeping, deposit collection, investment services, dealing with card products, custody services and private banking services.

Corporate business:

It includes lending, account-keeping, deposit collection, investment services, issue of guarantees and surety bonds, custody services and sale of foreign currency and derivative products.

The financing costs are allocated among the business segments using transfer prices determined based on current market interests. Settlements among the business segments include no other significant settlements.

The following tables show the activity and profitability of the individual business segments for the past two years:

At 31 December 2005

MHUF	Retail segment	Corporate segment	Non-allocated	Elimination	Total
External revenues	7,438	12,636	3,635	0	23,709
Intra-segment revenues	2,483	0	0	(2,483)	0
Total revenues	9,922	12,636	3,635	(2,483)	23,709
External expenditures	(3,980)	(3,564)	(1,764)	0	(9,308)
Intra-segment expenditures	0	(1,742)	(741)	2,483	0
Total expenditures	(3,980)	(5,307)	(2,505)	2,483	(9,308)
Impairment, provisions made	(127)	(1,139)	0	0	(1,265)
Net trading profit	5,815	6,190	1,131	0	13,136
Operating expenses	(5,224)	(3,618)	(1,638)	0	(10,480)
Profit on other activities	0	0	73	0	73
Profit before taxation	591	2,572	(434)	0	2,729
Tax liability					(656)
After-tax profit					2,073
Segment assets	56,262	115,359	70,767		242,388
Segment liabilities	102,952	82,597	40,450		225,999

At 31 December 2004

MHUF	Retail segment	Corporate segment	Non-allocated	Elimination	Total
External revenues	6,099	14,131	4,375	0	24,604
Intra-segment revenues	3,397	0	0	(3,397)	0
Total revenues	9,496	14,131	4,375	(3,397)	24,604
External expenditures	(4,690)	(4,018)	(2,399)	0	(11,107)
Intra-segment expenditures	0	(2,866)	(532)	3,397	0
Total expenditures	(4,690)	(6,884)	(2,930)	3,397	(11,107)
Impairment, provisions made	(195)	(1,751)	0	0	(1,946)
Net trading profit	4,612	5,495	1,444	0	11,551
Operating expenses	(4,449)	(3,262)	(1,483)	0	(9,194)
Profit on other activities	0	0	23	0	23
Profit before taxation	163	2,233	(16)	0	2,380
Tax liability					(631)
After-tax profit					1,749
Segment assets	45,364	100,599	59,987		205,950
Segment liabilities	89,465	63,398	38,135		190,998

8. Cash and interbank placements

Cash and cash equivalents	<u>2005</u> MHUF	<u>2004</u> MHUF
Cash	2,008	1,718
Interbank placements with maturity less than 90 days	29,891	16,793
Total cash and cash equivalents	<u>31,899</u>	<u>18,511</u>
Interbank placements	<u>2005</u> MHUF	<u>2004</u> MHUF
Statutory reserve with NBH	7,413	8,049
Other receivables, short-term	4,272	10,450
Other receivables, long-term	504	0
Receivables from the Clearing House	2	0
Interest accruals	52	28
Total interbank placements	<u>12,243</u>	<u>18,527</u>

9. Financial assets held for trading

	2005	2004
	MHUF	MHUF
Trading securities		
Treasury bills	3,832	3,370
Government bonds	3,478	2,135
Listed shares	198	305
Investment units	1,824	1,037
Interest accruals	110	92
Total trading securities	9,442	6,939
Positive revaluation difference of derivative financial instruments	862	923
Total financial assets held for trading	10,304	7,862

10. Available-for-sale financial assets

	2005	2004
	MHUF	MHUF
Government securities	2,254	2,184
Shares, participations	1,086	984
Interest accruals	91	91
Total available-for-sale financial assets	3,431	3,259

Shares, participations	2005	2004
	MHUF	MHUF
Borsodi Sörgyár Rt.	13	13
Nógrádker. Rt.	3	3
Sportran Kft.	1	1
Ópusztaszeri Emlékpark	1	1
Eurázsia Kft.	0	11
Eurázsia Kft. – Impairment loss (Note 30 – “Other impairment”)	0	(11)
Hitelgarancia Rt.	10	10
Giro Rt.	20	20
FHB	1,025	832
Focus Rt.	2	2
Impairment loss: Focus Rt. (Note 30 – “Other impairment”)	(2)	(2)
Inter-Swift shares	13	9
AXON	0	95
Total shares, participations	1,086	984

Except for FHB, the fair value of the above equity securities cannot be determined reliably and therefore they are recognised at cost adjusted for impairment loss. The fair value of FHB preference shares has been determined using the “comparable market price method”.

11. Financial assets held to maturity

	2005	2004
	MHUF	MHUF
Hungarian government bonds	3,376	3,377
NBH bonds	531	531
Interest accruals	204	310
Total financial assets held to maturity	<u>4,111</u>	<u>4,218</u>

12. Loans

<u>Analysis of loans by major loan type</u>	2005	2004
	MHUF	MHUF
Bank overdrafts	15,629	13,741
Housing loans	35,141	31,720
Other loans	125,198	104,474
Total loans	175,968	149,935
Impairment loss (Note 30)	(5,194)	(4,970)
Total loans less impairment loss	170,774	144,965
Interest accruals	847	998
Grand total	<u>171,621</u>	<u>145,963</u>

<u>Analysis of loans by credit category</u>	2005	2004
	MHUF	MHUF
Gross non-performing loans	5,816	5,364
Impairment loss of non-performing loans (Note 30)	(3,286)	(3,464)
Net non-performing loans	2,530	1,900
Performing loans	170,152	144,571
Portfolio impairment loss (Note 30)	(1,908)	(1,506)
Net performing loans	168,244	143,506
Interest accruals	847	998
Grand total	171,621	145,963

Analysis of loans by industry sector

	2005		2004	
	MHUF		MHUF	
Manufacturing industry	28,172	16.4%	25,915	17.8%
Trade	25,543	14.9%	24,651	16.9%
Services	27,422	16.0%	25,247	17.3%
Agriculture	9,871	5.8%	8,741	6.0%
Building industry	7,168	4.2%	6,168	4.2%
Individuals	56,464	32.9%	44,429	30.4%
Other	16,134	9.4%	9,814	6.7%
Interest accruals	847	0.5%	998	0.7%
Total	171,621	100.0%	145,963	100.0%

Analysis of loans by collateral type

	2005		2004	
	MHUF		MHUF	
Mortgage	98,154	57.2%	93,302	63.9%
Cash	16,199	9.4%	11,231	7.7%
Securities	1,999	1.2%	1,325	0.9%
Bank guarantee	1,049	0.6%	799	0.5%
Other	4,427	2.6%	7,526	5.2%
Total secured loans	121,828	71.0%	114,183	78.2%
Non-secured loans	48,946	28.5%	30,782	21.1%
Interest accruals	847	0.5%	998	0.7%
Total loans	171,621	100.0%	145,963	100.0%

13. Other assets

	2005	2004
	MHUF	MHUF
Other impaired assets	38	84
Other impairment (Note 30)	(30)	(70)
Receivables of tax nature	200	37
Other receivables	828	662
Total other assets	1,036	713

14. Property, plant and equipment and intangible assets

At 31 December 2005

	Intangible assets		Property, plant and equipment			Total MHUF
	Goodwill MHUF	Software MHUF	Real property MHUF	Machinery, equipment MHUF	Capital WIP MHUF	
Cost/revaluation						
Opening balance	0	3,213	5,258	4,884	174	13,529
Additions	44	363	392	1,445	1,420	3,664
Reclassification	0	0	484	0	0	484
Disposals	0	(298)	(201)	(2,946)	(1,360)	(4,805)
Closing balance	44	3,278	5,933	3,383	234	12,872
Amortisation/ depreciation						
Opening balance	0	2,332	797	3,514	0	6,643
Charge for the year	0	288	143	518	0	949
Disposals	0	(295)	4	(2,171)	0	(2,462)
Closing balance	0	2,325	944	1,861	0	5,130
Net book value						
at 31 December 2004	0	881	4,461	1,370	174	6,886
at 31 December 2005	44	953	4,989	1,522	234	7,742

At 31 December 2004

	Intangible assets		Property, plant and equipment			Total MHUF
	Goodwill	Software	Real property	Machinery, equipment	Capital WIP	
	MHUF	MHUF	MHUF	MHUF	MHUF	
Cost/revaluation						
Opening balance	0	3,109	4,725	4,581	110	12,525
Additions	0	104	541	495	1,203	2,343
Disposals	0	0	(8)	(192)	(1,139)	(1,339)
Closing balance	0	3,213	5,258	4,884	174	13,529
Amortisation/ depreciation						
Opening balance	0	2,145	497	3,115	0	5,757
Charge for the year	0	187	309	578	0	1,074
Disposals	0	0	(9)	(179)	0	(188)
Closing balance	0	2,332	797	3,514	0	6,643
Net book value						
at 31 December 2003	0	964	4,228	1,466	110	6,768
at 31 December 2004	0	881	4,461	1,370	174	6,886

The Group last performed a revaluation of owned real properties in September and December 2005, with the involvement of independent appraisers. The valuation was performed by weighing the prices determined using the “comparable open market price method”, the “income method”, and the “depreciated replacement cost method” according to the type of the real property. As a result of the valuation, it was stated that the fair market value was lower than the carrying amount in the case of two real properties, on which the Company has therefore recorded extraordinary depreciation. For the rest of the real properties, the valuation difference, net of deferred tax was stated within the revaluation reserve shown under shareholders' equity.

If the real property was recognised at historical cost, the corresponding values would be the following:

	2005	2004
Historical cost	5,428	5,217
Accumulated depreciation	935	789
Net book value	4,493	4,428

In March 2005, the Group acquired the interest of the minority shareholder, Europool Rt. in the Bank. The purchase price was MHUF 195, which the Bank has fully paid in cash.

The fair value of acquired assets and liabilities and the goodwill is analysed as follows:

	MHUF
Purchase price	<u>195</u>
Cash	1
Financial assets held for trading	263
Loans	1
Property, plant and equipment	10
Intangible assets	10
Other assets	61
Other liabilities	(38)
Own property	<u>(157)</u>
Total	<u>151</u>
Goodwill	<u><u>44</u></u>

15. Interbank liabilities and subordinated loan capital

	2005	2004
	MHUF	MHUF
Demand	147	192
Short-term	5,472	661
Európai Befektetési Bank	4,142	4,862
EXIM Bank	442	1,313
SPA London	4,152	4,743
Földhitel és Jelzálogbank	14,060	15,280
Syndicated loan	6,318	6,148
OTP Bank	3,000	3,000
Magyar Fejlesztési Bank	4,715	4,308
SPA Torino interbank limit	<u>0</u>	<u>2,459</u>
Total long-term	<u>36,829</u>	<u>42,113</u>
Liabilities to the Clearing House	4	0
Interest accruals	<u>122</u>	<u>158</u>
Total interbank liabilities	<u>42,574</u>	<u>43,124</u>
Subordinated loan from San Paolo IMI	5,055	4,919

(a) *Európai Befektetési Bank (EIB)*

In May 1997, EIB made a loan facility of ECU 20 million available to the Bank. The Bank has repaid a part of the used loan facility over the past years. The remaining loans bear fixed interest rates and mature between 2005 and 2008 depending on the time of their drawdown. The Bank reported EUR 8.1 million (MHUF 2,094) as the used loan facility as at 31 December 2005.

(b) *SPA London SPA Torino*

Loans in the total amount of EUR 16.4 million were granted to the Bank against its long-term interbank limit. The interest rate of the loans is EURIBOR or EURIBOR plus an interest margin.

(c) *EXIM Bank*

The amount of the loan facility made available to the Bank has not been specified, and each drawdown is subject to individual approval. The Bank reported EUR 1.8 million as the used loan facility as at 31 December 2005, on which it has to pay a fixed interest rate.

(d) *Földhitel és Jelzálogbank*

A contract was made with FHB for the refinancing of state-subsidised housing loans. Refinancing is realised by the sale of independent mortgages and their repurchase "on instalment". Refinancing has no impact on the recognition of loans. The MHUF 14,060 balance of contracts as at 31 December 2005 includes contracts made after 30 May 2002. Terms may be between 6 and 35 years, and the typical term is 20 years. The refinancing interest rates are changed every one or five years.

(e) *Syndicated loan*

In December 2001, a 5-year syndicated loan facility of EUR 25 million was made available to the Bank. The Bank used the total amount of the loan facility. The interest rate of the loan is EURIBOR plus an interest margin.

(f) *Országos Takarékpénztár és Kereskedelmi Bank Rt.*

In October 2000, a long-term loan facility of HUF 3 billion was made available to the Bank. The Bank used the total amount of the loan facility. The interest rate of the loan is BUBOR plus an interest margin.

(g) *Magyar Fejlesztési Bank Rt.*

The amount of the loan facility made available to the Bank has not been specified, and each drawdown is subject to individual approval. The Bank used MHUF 4,715 of the loan facility until 31 December 2005. The interest rate of HUF loans is BUBOR plus an interest margin and that of EUR loans is EURIBOR plus an interest margin.

(h) *Subordinated loan*

In November 1999, San Paolo - IMI Spa, the Bank's majority shareholder, made a 7-year subordinated loan of EUR 20 million available to the Bank. In 2003, the maturity of the loan was modified to be 2010. The interest rate payable is EURIBOR plus an interest margin.

The above loan facilities were made available to the Bank without requiring collaterals or any other security of the Bank.

16. Deposits

	2005	2004
	MHUF	MHUF
Demand deposits	54,140	46,957
Time deposits	<u>116,767</u>	<u>89,828</u>
Total deposits	170,907	136,785
Accrued interests	<u>583</u>	<u>798</u>
Total deposits	<u>171,490</u>	<u>137,583</u>

17. Issued securities

Pursuant to Permission No 15001/97 dated 4 July 1997 of the State Money and Capital Markets Supervision, the Bank had been issuing 1-3-6-12 month certificates of deposit, in four series, as from 1 August 1997. However, due to changes in the regulatory framework, the Bank ceased to issue such certificates of deposit as of 31 December 2002, and only the certificates of deposit in issue are currently being redeemed by the Bank. The balance of not yet redeemed certificates of deposit was MHUF 25 as at 31 December 2005 (MHUF 49 as at 31 December 2004).

18. Financial liabilities held for trading

Financial liabilities held for trading represent financial instruments which are mainly held by the Group for short-term trading. Such liabilities also include the negative revaluation difference of derivative financial instruments which are not designated as hedging instruments and the negative revaluation difference of derivative financial instruments which are embedded in other compound transactions and which should be separated from the underlying transactions. The balance of financial liabilities held for trading was MHUF 795 as at 31 December 2005 (MHUF 784 as at 31 December 2004).

19. Other liabilities

	2005	2004
	MHUF	MHUF
Dividend payable	2	536
GIRO settlement account	1,855	843
Other settlement accounts	1,439	1,127
Liabilities of tax nature	451	333
Provision for guarantees (Note 30)	217	178
Other provisions (Note 30)	1	113
Other	<u>1,346</u>	<u>772</u>
Total other liabilities	<u>5,311</u>	<u>3,902</u>

20. Revaluation reserve

MHUF	Real property	Available-for-sale financial assets	Total
Balance at 1 January 2004	41	(167)	(126)
Fair valuation difference	0	514	514
Deferred tax	0	(107)	(107)
Balance at 31 December 2004	41	240	281
Fair valuation difference	484	263	747
Deferred tax	(125)	(63)	(188)
Balance at 31 December 2005	400	440	840

21. Other reserves

	2005 MHUF	2004 MHUF
Statutory reserves	2,260	2,020
Share premium	772	772
Retained earnings	5,497	4,596
Closing balance	8,529	7,388

Dividends may only be paid out of retained earnings i.e. in a maximum amount of MHUF 5,497. Each Hungarian bank is required to make a general reserve and has the option to make a general risk reserve against its profit before taxation. The aforesaid reserves cannot be paid as dividends. Both the general reserve and the general risk reserve can be used to compensate for losses.

(a) General risk reserve

The Bank has decided to make a general risk reserve for minimum 0.5% of risk weighted assets – adjusted balance sheet total – effective from 1 January 2001 in accordance with the Hungarian statutory regulations. In 2005, the Bank made no general risk reserve in excess of this level.

(b) General reserve

Under the terms of Section 75 of Act No CXII of 1996, a bank is required to make a non-distributable general reserve in an amount equal to 10% of its after-tax profit for the year. MHUF 240 should be reclassified from the 2005 profit (MHUF 209 from the 2004 profit) to the general reserve.

	<u>2005</u> MHUF	<u>2004</u> MHUF
General reserve	896	656
General risk reserve	1,364	1,364
Closing balance	2,260	2,020

22. Share capital

The Bank has issued 5,438,750 Series “A” shares with a face value of HUF 1,000 each and 157,982 Series “B” shares with a face value of HUF 10,000 each. Series “B” shares are preference shares, ensuring veto rights for the shareholders in the matters specified in the Articles of Association. All issued shares have been fully paid. The opening and closing balances are as follows:

	<i>Number of shares</i>		<i>Total</i>
	Series “A”	Series “B”	
At 31 December 2004	5,438,750	157,982	5,596,732
At 31 December 2005	5,438,750	157,982	5,596,732

	<i>Share capital</i>		<i>Total</i> MHUF
	Series “A”	Series “B”	
At 31 December 2004	5,439	1,580	7,019
At 31 December 2005	5,439	1,580	7,019

23. Minority (external parties’) interests

	2005 MHUF	2004 MHUF
Opening balance	151	151
Increase resulting from appropriation of profit	3	4
Dividend	(3)	(4)
Acquired minority interests	<u>(151)</u>	<u>0</u>
Closing balance	<u>0</u>	<u>151</u>

24. Dividends

In 2004, the Bank paid a MHUF 621 dividend. The dividend payment was approved by the Annual General Meeting held in April 2004. In 2005, the Bank paid a MHUF 936 dividend. The dividend payment was approved by the Annual General Meeting held in April 2005. The Bank's owners will decide on dividend payment for 2005 at the General Meeting to be held on 4 April 2006.

25. Net interest income

	2005	2004
	MHUF	MHUF
Interest received		
Loans	13,073	15,035
Interbank receivables	744	889
Receivables from central bank	1,522	1,170
Securities	1,193	1,912
Total interest received	<u>16,532</u>	<u>19,006</u>
 Interest paid		
Subordinated loan capital	149	150
Interbank liabilities	1,458	1,825
Deposits	6,462	8,048
Total interest paid	<u>8,069</u>	<u>10,023</u>

26. Net trading revenues

	2005	2004
	MHUF	MHUF
Net trading revenues		
Exchange gain on foreign currency holdings	1,809	1,062
Exchange gain on securities		
- Interest-bearing instruments	401	539
- Shares	116	69
Total	<u>2,326</u>	<u>1,670</u>

27. Commissions, fees received

	2005	2004
	MHUF	MHUF
Guarantee	125	152
Payment transactions	3,310	2,904
Safe custody, safekeeping of securities	57	69
Fee of securities trading	14	8
Safe custody of investment funds	316	173
Fee of orders for investment services	721	358
Exchange commission	4	1
Commission related to lending	140	24
Other commission	78	79
Total	<u>4,765</u>	<u>3,768</u>

28. Commissions, fees paid

	2005 MHUF	2004 MHUF
Payment transactions	747	683
Safe custody, safekeeping of securities	34	22
Fee of securities trading	40	10
Fee of orders for investment services	183	204
Expenditures related to lending	146	125
Other commission	89	40
Total	<u>1,239</u>	<u>1,084</u>

29. General and administrative expenses

	2005 MHUF	2004 MHUF
Wages	3,364	2,874
Contributions	1,614	1,296
IT costs	1,483	1,278
Real property related costs	628	522
Professional and insurance fees	280	152
Phone charges, energy costs	372	347
Marketing and publicity costs	645	518
General costs	709	796
Depreciation (Note 14)	949	1,074
Indirect taxes, contributions	436	337
Total general and administrative expenses	<u>10,480</u>	<u>9,194</u>
 Average headcount (persons)	 672	 682

30. Analysis of impairment and provisions made

<u>MHUF</u>	Provision for impairment of loans		Provision for guarantees		Other impairment	Other provision	Total
	Portfolio	Individual	Portfolio	Individual	Individual	Individual	
Balance at 31 December 2003	0	3,032	0	63	89	38	3,222
Adjustments (Note 3)	1,305	(1,029)	0	0	0	0	276
Balance at 1 January 2004	1,305	2,003	0	63	89	38	3,498
Provisions made	631	2,221	0	129	0	96	3,077
Provisions released	(430)	(653)	0	(14)	0	(16)	(1,113)
Write offs	0	(90)	0	0	(6)	(5)	(101)
Exchange differences	0	(17)	0	0	0	0	(17)
Balance at 31 December 2004	1,506	3,464	0	178	83	113	5,344
Provisions made	938	2,356	119	53	0	0	3,466
Provisions released	(496)	(1,477)	0	(133)	(40)	(15)	(2,161)
Write offs	0	(1,057)	0	0	(11)	(97)	(1,165)
Exchange differences	(40)	0	0	0	0	0	(40)
Balance at 31 December 2005	1,908	3,286	119	98	32	1	5,444

31. Taxation

The corporate tax liability is calculated on the basis of profits in accordance with the Hungarian tax and accounting regulations. In 2005, the corporate tax rate applied for the Bank and its subsidiaries was 24% and 16%, respectively (2004:16%).

	<u>2005</u>	<u>2004</u>
	MHUF	MHUF
Current tax	789	441
Deferred tax	(133)	190
	<u>656</u>	<u>631</u>

In 2004, the tax authorities performed a full-scope tax review at the Bank in relation to years 2002 and 2003. The tax authorities may examine the books and records after the respective tax year in accordance with the statutory regulations and may revise assessments or impose penalties. The Bank's management is not aware of any circumstances which might result in a significant liability in such a case.

MHUF	<u>2005</u>		<u>2004</u>	
	Tax base	Tax amount	Tax base	Tax amount
Profit before taxation	2,729	655	2,380	571
Reversal of non-deferred losses related to subsidiaries	206	50	87	21
50% (25%) of local business tax	(204)	(49)	(80)	(19)
Dividend	(61)	(15)	(35)	(8)
Tax additions	192	46	282	68
Effect of different tax rates	(386)	(31)	(30)	(2)
Corporate tax liability		<u>656</u>		<u>631</u>

The deferred but not yet capitalised losses of subsidiaries were MHUF 898 as at 31 December 2005.

Calculation of the deferred tax liability/asset is as follows:

	2005	2004
	MHUF	MHUF
Impairment difference of loans	76	10
Portfolio impairment for guarantees	28	0
Write-back of interests on suspense account	(71)	0
Adjustment due to available-for-sale financial assets	6	25
Amortisation difference of loans	79	28
Fair valuation difference of embedded derivatives	0	0
General risk reserve	0	(109)
Different recognition of depreciation	15	(125)
Deferred losses of IE NYBroker	0	(19)
Deferred tax liability/asset	<u>133</u>	<u>(190)</u>

Deferred tax receivables and liabilities as at 31 December 2005 and 2004 relate to the following items:

	2005 MHUF		2004 MHUF	
	Recognised against profit or loss	Recognised in shareholders' equity	Recognised against profit or loss	Recognised in shareholders' equity
General risk reserve	327		327	
Amortisation difference of loans	(149)		(71)	
Impairment difference of loans	(152)		(76)	
Portfolio impairment for guarantees	(28)			
Fair valuation difference of embedded derivatives	0			
Write-back of interest on suspense accounts	71			
Revalued buildings		98	0	
Different recognition of depreciation	387		362	
Available-for-sale financial assets	0	139	(6)	101
Other	0		-	
Net deferred tax liability	456	237	536	101

32. Earnings per share

	<u>2005</u>	<u>2004</u>
After-tax profit, MHUF	2,073	1,749
Weighted average number of shares in issue	7,018,570	7,018,570
Earnings per share:		
Basic, HUF	295	249
Diluted, HUF	295	249

At the end of 2004 and 2005, there were no transactions that would have an impact on the earnings per share.

33. Market derivatives

The following table shows the contract values of derivative transactions. The contract value represents the value of the asset or the amount of the reference yield or index related to the derivative transaction against which the change in the value of the derivative transaction can be measured. The contract value reflects the value of open transactions at period-end and not the market or credit risk.

Foreign exchange derivatives

Foreign exchange OTC options

	<u>2005</u> MHUF	<u>2004</u> MHUF
Sold call options	1,061	1,139
Purchased call options	1,061	1,139
Sold put options	1,216	1,983
Purchased put options	1,216	1,983

Both the maturities and values of sold and purchased options are identical, and both the positive and negative revaluation difference is MHUF 58.

Foreign exchange derivatives

MHUF	Contract value	Market value	
		Assets	Liabilities
Forward foreign exchange deals	112,103	564	(622)
Swaps	51,844	289	(170)
Spot deals	5,489	5	(1)
	169,436	858	(793)

The Group applies strict limits for net open foreign exchange derivative positions – differences of purchase and sale transactions – as regards both the amount and term. In any case, the value at credit risk is limited to the current fair value of profitable instruments (assets), which – for derivatives – only represents a small portion of the contract or notional principle amount reflecting the volume of not yet matured instruments. The Group manages this credit risk as part of the customer credit limits, together with the potential exposure resulting from market movements. For a credit risk arising from these instruments, the Group does not require collaterals or any other security, except for trading with customers, where the Group requires caution money or securities deposit in most of the cases.

BSE traded share futures

MHUF	Contract value	Market value	
		Assets	Liabilities
Sale of BSE traded share futures	11	4	0

34. Contingent liabilities

- (a) As at 31 December 2005, unused guarantees and surety bonds issued by the Bank amounted to MHUF 12,675 (as at 31 December 2004: MHUF 11,875).
- (b) The total balance of loan facilities made available and promissory notes issued by the Bank but not used was MHUF 39,897 as at 31 December 2005 (MHUF 31,448 as at 31 December 2004).
- (c) Analysis of contingent liabilities from import letters of credit as at 31 December 2004 and 2005:

	2005		2004	
	HUF equivalent		HUF equivalent	
	MHUF		MHUF	
EUR	143		361	
Other	385		45	
	528		406	

The Bank's contingent liabilities from the above contracts are secured by bank guarantees, mortgages registered on real properties, surety deposits and revenue assignments on export sales.

- (d) As at 31 December 2005, the Bank had no contingent liabilities – which are shown in their amount less provision – from litigations arisen during the normal course of business (as at 31 December 2004: MHUF 14).

35. Average balances and average interest rates by major currency

2004	HUF		EUR	
	Average balance	Interest rate	Average balance	Interest rate
	MHUF	%	MHUF	%
Assets				
Interbank placements	14,852	11.15%	7,992	2.11%
Customer placements	94,610	11.98%	30,705	4.21%
- Short-term placements	47,328	13.01%	15,269	3.27%
- Long-term placements	47,282	10.95%	15,436	5.13%
Securities	18,481	10.30%	0	0.00%
Total	127,943	11.64%	38,697	3.77%

Liabilities

Interbank liabilities	26,597	5.45%	14,755	2.19%
Customer deposits	103,605	7.65%	20,448	0.66%
- Short-term deposits	98,276	7.45%	20,448	0.66%
- Long-term deposits	5,329	11.35%	0	0.00%
Subordinated loan capital	0	0.00%	4,919	3.00%
Total	130,202	7.20%	40,122	1.51%

2005	HUF		EUR	
	Average balance	Interest rate	Average balance	Interest rate
	MHUF	%	MHUF	%
Assets				
Interbank placements	28,368	6.95%	5,292	2.11%
Customer placements	90,064	8.71%	44,082	5.01%
- Short-term placements	44,719	9.00%	17,317	3.53%
- Long-term placements	45,345	8.43%	26,765	5.96%
Securities	16,190	7.29%	0	0.00%
Total	134,622	8.17%	49,374	4.70%

Liabilities

Interbank liabilities	26,080	3.79%	15,457	2.34%
Customer deposits	119,415	5.19%	23,652	0.73%
- Short-term deposits	109,490	5.00%	23,439	0.72%
- Long-term deposits	9,925	7.34%	213	2.37%
Subordinated loan capital	0	0.00%	5,055	3.00%
Total	145,495	4.94%	44,163	1.56%

36. Related party transactions

The effects of transactions made with related parties are presented in the following table:

	Receivables	Liabilities	Revenues	MHUF Expenditures
Owners	352	9,469	31	(504)

Expenditures mainly derive from interests paid on financing transactions provided by the Parent Company.

Information about appointed board members:

Loans

	Board of Directors	MHUF Supervisory Board
Opening balance at 1 January 2005	5	7
Adjusted opening balance*	27	3
Principal amounts repaid in 2005	3	0
Outstanding principal amounts at 31 December 2005	24	3
Interest paid in 2005	1	0

*The adjustment results from changes in the persons of the Board of Directors and Supervisory Board members.

Honoraria paid and employee benefits provided to members of the Board of Directors and Supervisory Board

Honoraria:	MHUF 31
Employee benefits:	MHUF 176

Employee benefits have paid by IEB Rt., while honoraria have been paid by IEB Rt., New York Broker Rt., Értékesítési Kft. and IE Befektetési Alapkezelő Rt.

Board members of other companies involved in consolidation received no emoluments.

37. Reconciliation of the Hungarian statutory and International financial statements

	<u>2005</u>	<u>2004</u>
	MHUF	MHUF
After-tax profit as per the Hungarian Accounting Law	2,430	2,198
Depreciation on building revaluation	(1)	(1)
Depreciation of the negative goodwill of Europool	-	(26)
Impairment difference of loans	(318)	(43)
Difference of provision made for guarantees	(119)	-
Write back of interests on suspense account	296	-
Adjustment due to available-for-sale financial assets	(25)	(174)
Amortisation difference of loans	(329)	(118)
Fair valuation difference of embedded derivatives	(2)	-
Sale of share in BSE	-	100
Deferred tax liability/asset	133	(190)
Goodwill amortisation	6	-
Other	2	3
	<hr/>	<hr/>
After-tax profit as per International Standards	<u>2,073</u>	<u>1,749</u>
Total shareholders' equity as per the Hungarian statutory financial statements	15,826	13,795
General risk reserve	1,364	1,364
Amortisation difference of loans	(623)	(294)
Dividend	976	936
Impairment difference of loans	(637)	(319)
Difference of provision made for guarantees	(119)	-
Fair valuation difference of embedded derivatives	(2)	-
Write back of interests on suspense account	296	-
Deprecation recognised on revalued buildings	(6)	(5)
Goodwill amortisation	6	-
Deferred tax	(693)	(638)
	<hr/>	<hr/>
Total shareholders' equity	<u>16,388</u>	<u>14,839</u>

Budapest, 4 May 2006

Dr. Luigi Mastrapasqua
Chief Executive Officer