INTER-EURÓPA BANK Rt.
and Subsidiaries

Consolidated Financial Statements
prepared in accordance with
International Financial Reporting Standards
31 December 2003

Inter-Európa Bank Rt. and Subsidiaries

Consolidated Financial Statements for the year ended December 31, 2003

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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 2003, 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 2002.

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 2003, 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
8 March 2004

(HUF million)	Note	2003	2002
ASSETS			
Cash	6	1.428	1.339
Deposits with Central Bank	7	24.182	21.438
Short term placements with banks		13.755	23.544
Securities	8	19.643	9.463
Loans and advances to customers	9	126.815	108.439
Other assets	10	5.397	2.420
Equity investments	11, 12	811	294
Fixed assets	13	6.768	7.060
Total assets		**198.799**	**173.997**
EQUITY AND LIABILITIES			
Deposits from banks		4.025	2.590
Current accounts and deposits from customers		127.312	118.509
Long term funding	14	46.856	36.777
Deferred tax liability	23	286	256
Other liabilities and accruals	15	6.478	3.496
Total liabilities		**184.957**	**161.628**
Minority interest	16	**155**	**249**
Share capital	18	7.019	7.019
Share premium		772	727
Statutory reserves	19	1.811	1.673
Revaluation reserve		(14)	217
Retained earnings		4.099	2.535
Treasury shares	18	-	(51)
Total shareholders' equity		**13.687**	**12.120**
Total equity and liabilities		**198.799**	**173.997**

Budapest, 08 March 2004.

Dr. Luigi Mastrapasqua
Managing Director

The notes to the financial statements on pages 7 to 32 are integral to the consolidated financial statements.

(HUF million)	Note	2003	2002
Interest income:			
Loans and advances to customers		11.090	10.891
Deposits with banks		1.586	1.579
Other		1.533	821
Total interest received		**14.209**	**13.291**
Interest expense:			
Deposits and loans from banks		1.726	2.224
Customer current and deposit accounts		4.908	4.377
Other		56	792
Total interest paid		**6.690**	**7.393**
NET INTEREST INCOME		**7.519**	**5.898**
Foreign exchange gains		693	727
Dividends received		37	26
Commissions, fees and other revenues		4.595	4.263
Gains less losses from securities		545	395
Total other operating income		**5.870**	**5.411**
Commissions and fees paid		1.362	1.204
Losses on loans and investments	22	1.205	1.146
Total other operating expenses		**2.567**	**2.350**
OTHER OPERATING PROFIT		**3.303**	**3.061**
GENERAL AND ADMINISTRATIVE EXPENSES		8.425	7.624
Revenues from associates	13	25	27
PROFIT BEFORE TAX		**2.422**	**1.362**
Corporate income tax	24	320	291
PROFIT AFTER TAX		**2.102**	**1.071**
Minority interest	18	4	2
NET PROFIT FOR THE YEAR		**2.098**	**1.069**
EPS (HUF/share)	25	299	152

The notes to the financial statements on pages 7 to 32 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	(84)	727	1.938	1.554	217	11.371
Profit distribution							
Dividends paid	-	-	-	(353)	-	-	(353)
Amounts paid in reserves	-	-	-	(119)	119	-	-
Revaluation of treasury shares	-	33		-	-	-	33
Net profit for 2002	-	-	-	1.069	-	-	1.069
Balance 31 December 2002	7.019	(51)	727	2.535	1.673	217	12.120
Profit distribution							
Dividends paid	-	-	-	(351)	-	-	(351)
Amounts paid in 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

	2003	2002
	MHUF	MHUF
Cash flows from operating activities:		
Profit before tax	2.422	1.362
Amortisation	396	619
Depreciation	781	679
Profit on fixed assets sale	(23)	(4)
Negative goodwill recognised as income in the year	-	(10)
Provision made/(released) for possible impairment losses	868	1.042
Provision made/(released) for other assets	38	(14)
Provision made/(released) for contingencies	(27)	18
Dividends received from associates, net	(25)	(27)
Correction from the revaluation of available for sale securities with deferred taxation	(231)	-
(Increase)/decrease in deposits with the National Bank	(13.299)	7.480
(Increase)/decrease in short term placements with other banks	225	13.814
(Increase)/decrease in securities	(10.180)	1.487
(Increase)/decrease in loans and advances	(19.244)	(13.083)
Decrease in other assets	(3.065)	388
(Decrease)/increase in short-term deposits placed by banks	1.435	(10.644)
Increase in other short-term deposits and customer accounts	8.803	16.223
Increase/(decrease) in long-term liabilities	10.079	(2.851)
Increase/(decrease) in other liabilities and accruals	3.012	(1.824)
Corporate income tax recognised	(320)	(291)
Net cash(used)/provided from operating activities	(18.355)	14.364
Cash flows from investing activities:		
Expense of intangible fixed assets buying	(259)	(315)
Expense of tangible fixed assets buying	(630)	(454)
Income from tangible fixed assets selling	75	218
(Increase)/decrease in investments	(517)	11
Net cash used in investing activities	(1.375)	(754)
Cash flows from financing activities:		
Dividend paid to minority shareholders	-	(7)
Sale of treasury shares	51	33
Dividends paid	(351)	(346)
Net cash used in financing activities	(300)	(320)
Net increase/(decrease) in cash and cash equivalents	(20.030)	13.290
Cash and cash equivalents at the beginning of the year	44.639	31.349
Cash and cash equivalents at the end of the year	24.609	44.639
Supplemental information		
Interest received	*14.631*	*13.169*
Interest paid	*6.721*	*7.418*
Coporate tax paid	*320*	*244*

The notes to the financial statements on pages 7 to 32 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 25 other branches in Hungary. The Bank is the 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 by 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 and adjusted with the eventual differences between the preliminary and the final audited reports.

The Bank has one associate.

(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. Accrual of interest income is discontinued when the collectibility of 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 made 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, 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 where 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.

(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 incomes 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 incomes originating from external and internal transactions of all segments, or
b. the result of 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 term; or
c; its assets make up at least 10 percent of total value of assets of all segments.

(s) Repurchase agreements

With repurchase obligation in future fixed date, sold assets are recognised in the balance sheet and in line with the accounting policy concerning trading investments shall be valued.

Obligations stemming from such agreements are among liabilities toward customers. The difference between the selling and repurchase price is shown as interest expense.

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

(t) Fiduciary services

Assets held in custodian or asset managing capacity are managed 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 when material.

(y) Reclassification

Reclassifications of prior periods' data have been made to conform with current period classifications as follows:

a.) Assets:
   1) From Cash to Nostro accounts were reclassified to Receivables from banks, (2003: 2.062, 2002: 783 M HUF)
   2) From Other receivables, customer claims of investment services (net of provision) were reclassified to Loans, (2003: 236, 2002: 206 M HUF)

b.) Liabilities:
   1) From Other liabilities, Receivables from customers of investment services were reclassified to Other customer deposits, (2003: 1.264, 2002: 637 M HUF)

c.) Profit and Loss Account:

1.) From Commissions, loan commissions (commitment fee) were reclassified to Interest income (2003: 658, 2002: 415 M HUF)
2.) From Gains/(losses) of securities, Incomes from premium were reclassified to Commission income, (2003: - 81, 2002: -200 M HUF)

4. Risk management policies

The most significant four business risks to which the Group is exposed are credit, market 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 monitoring of risk exposures.

The Bank contracts 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 Group.

Credit risk is managed by the Board of Directors, that 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 creates 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 adjusted equity 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 limited 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	2003	2002
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 Közvetíto Rt. (investment service agent)	100%	100%
Sygman Szolgáltató és Kereskedelmi Kft.	100%	100%
Europool Befektetési Alapkezelo Rt. (asset management company)	51%	51%
Associate		
Axon Rt. (leasing company)	22,71%	22,71%

6. Cash and cash equivalents

	2003	2002
	MHUF	MHUF

Cash	1.428	1.339
Cash equivalents	23.181	43.300
Cash and cash equivalents	24.609	44.639

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

	2003 MHUF	2002 MHUF
Statutory reserve	4.920	4.527
Other deposits	19.262	16.911
Total	24.182	21.438

The Bank is required to maintain a minimum average balance for the month equivalent to 5% (31 December 2002, 5 %) of its resident customer deposits and foreign customer HUF and currency (short term) deposits, with the National Bank of Hungary

8. Securities

	2003 MHUF	2002 MHUF
Trading securities:		
Treasury bonds	11.456	1.448
Government bonds	1.219	1.434
Listed shares	292	237
Investment units	760	610
	13.727	3.729
Securities available for sale		
Government securities	1.991	-
Investments in shares	18	40
	2.009	40
Securities being held to maturity		
Government bonds	3.376	5.163
National Bank of Hungary bonds	531	531
	3.907	5.694
Total securities	19.643	9.463

9. Loans and advances to customers

	2003 MHUF	2002 MHUF
Loans and advances to customers:		
Less than one year to maturity	66.762	61.967
More than one year to maturity	62.040	47.661
	128.802	109.628
Bills of exchange and other instruments:		
Less than one year to maturity	809	657
Receivables from investment services	236	318
Total outstanding	129.847	110.603
Reduced by provisions for eventual losses of lending and investment services	(3.032)	(2.164)
	126.815	108.439

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

	2003 MHUF	%	2002 MHUF	%
Manufacturing	30.707	24	24.152	22
Trading	23.615	19	19.344	18
Services	20.796	16	27.342	25
Agriculture	8.837	7	8.389	8
Construction	4.646	4	6.209	6
Retail	30.492	24	15.746	15
Other	7.722	6	7.257	6
	126.815	100	108.439	100

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

	2003 MHUF	%
Mortgage	80.495	63,5
Cash	7.417	5,8
Security	4.540	3,6
Banking guarantee	2.419	1,9
Other	398	0,3
Total secured loan	95.269	75,1
Not secured loan	31.546	24,9
Total loan	126.815	100,0

The aggregate amount of non-performing loans at 31st December 2003. was MHUF 4,885 (in 2002 it was MHUF 4,101).

10. Other assets

	2003 MHUF	2002 MHUF
Accrued interest	1.362	1.468
Provisions	(43)	(51)
Positive fair value difference of derivatives	3.138	174
Other	940	829
	5.397	2.420

11. Equity investments

	2003 MHUF	2002 MHUF
Axon Rt, associate	277	252
Hitelgarancia Rt.	10	10
Giro Rt.	20	20
FHB	491	0
Focus Rt.	2	2
Impairment, Focus Rt.	(2)	(2)
Inter-Swift shares	10	9
Shares listed on BSE	3	3
	811	294

All equity investments as at 31 December 2002 and 2003 were in Hungarian companies not listed on a stock exchange except for Inter-Swift, the shares of which are recorded in EUR.

12. Investment in associate, Axon Rt.

	2003	2002
	MHUF	MHUF
Balance on 1 January	252	263
Distribution of net profit	27	27
Prior years' difference between final and preliminary financial statements	(2)	(38)
Balance on 31 December	277	252

13. Fixed assets

	Intangible assets	Properties	Equipment, machinery and vehicles	Assets under construction	Total
	MHUF	MHUF	MHUF	MHUF	MHUF
Cost/valuation					
At beginning of year	2.850	4.570	4.197	71	11.688
Additions	259	206	429	933	1.827
Disposals		(51)	(45)	(894)	(990)
At end of year	3.109	4.725	4.581	110	12.525
Depreciation					
At beginning of year	1.716	419	2.493	-	4.628
Charge for the year	396	116	665	-	1.177
On disposals	-	(5)	(43)	-	(48)
At end of year	2.112	530	3.115	-	5.757
Net book value					
At 31 December 2002.	1.134	4.151	1.704	71	7.060
At 31 December 2003.	997	4.195	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.

14. Long term funding

	2003 MHUF	2002 MHUF
European Investment Bank	5.609	6.592
EXIM Bank	2.571	2.176
IFC	0	675
FHB	13.418	5.346
National Bank of Hungary (MNB)	0	723
Syndicated loan	6.556	5.898
OTP	3.000	3.000
MFB	2.649	3.090
Subordinated loan Paolo IMI	5.245	4.718
SPA Torino interbank limit	2.622	0
Total long term funds from banks	**41.670**	**32.218**
Customer deposits	5.186	4.559
	46.856	**36.777**

(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 are of fix interest and depending on drawdown mature between 2005 and 2008. At 31st December 2003. the Bank had in its records M EUR 12.2 and HUF 2.4 Bn drawdown.

(b) EXIM Bank

The facility is not specified, the drawdowns are subject to approval. Drawdowns amounted to EUR 9.8 million as at 31 December 2002. The interest is payable at fixed rates.

(c) International Finance Corporation

A facility of USD 15 million was granted in April 1996 which was repaid in December 2003..

(d) Földhitel és Jelzálogbank Group

Refinancing takes place when pledge and mortgage rights are sold and repurchased in „instalments". The MHUF 13,418 balance as of 31 December 2003 had been accumulated since 30 May 2002. Terms vary between 6 and 35 years; the typical being 20 years.
Refinancing interest rates vary every one and five years.

(e) National Bank of Hungary (MNB)

The Bank has received loans from the National Bank of Hungary in order to finance medium and long term lending. These facilities were fully repaid in 2003.

(f) 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.

(g) 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.

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

The facility is not specified; the drawdowns are subject to approval. Drawdowns amounted to HUF 2.6 billion as at 31 December 2003. The interest payable is BUBOR plus a spread.

(i) 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.

15. Other creditors and accrued expenses

	2003	2002
	MHUF	MHUF
Accrued interest	752	783
Dividends payable	7	7
Settlement accounts	899	337
Negative valuation difference of derivatives	2.594	244
Taxes (less deferred tax)	232	247
Provisions	100	128
Other creditors and accrued expenses	1.894	1.750
	6.478	3.496

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

16. Minority interest

	2003	2002
	MHUF	MHUF
At beginning of year	249	254
Dividend paid	-	(7)
Decrease of minority interest	(98)	-
Share of the profits/(losses) of subsidiaries	4	2
	155	249

17. 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, 2002	5.438.750	157.982	5.596.732
At December 31, 2003	5.438.750	157.982	5.596.732

	Share capital		***Total***
	Class „A”	Class „B”	MHUF
At December 31, 2002	5.439	1.580	7.019
At December 31, 2003	5.439	1.580	7.019

Changes concerning ownership structure

In the first half of 2003 Sanpaolo SanPaolo IMI S.p.A. the strategic owner of Inter-Európa Bank Rt. transferred its total shareholding in IEB (22,5092% + 9,9999%) to its newly founded, 100 % owned subsidiary, SanPaolo IMI Internazionale SpA ("SPIMINT"). At the same time (on 26 February 2003), SPIMINT made a public bid for buying all of the Bank’s (Class „A”) shares against cash. The bid price was HUF 2,000 per share. After the closing of the bids and the issue of the relevant authority permits (Economic Competition Authority, Hungarian Financial Supervisory Authority, Banca d’Italia), SANPAOLO IMI Internazionale S.p.A. became an 85.225% owner of Inter-Európa Bank holding 4.401.771 pieces of Class „A” common shares with a face value of HUF 1.000 each plus 157.982 pieces of Class „B” preference shares, having veto right, with a face value of 10.000 each.

The relevant entry in the Register of Shares is dated of 12 May 2003.
Holneth B.V. a 100 % affiliate of Banco Santander Central Hispano (Spain) is registered as the holder of 9.9999% of 701.650 pieces of class "A" shares.

At 31st December 2003 according to data of the book of shares, 0,0021% of the shares were owned by domestic legal persons; 0,6289%-domestic private individuals; 95,8664%-foreign legal persons and 0,0017%-foreign private individuals. 3,5009% of the owners did not register.

The treasury shares held by the Group at December 31, 2002 and 2003 comprise class "A" shares and are owned as follows:

	2003 Number of treasury shares	2002 Number of treasury shares
New York Bróker Befektetési és Pénzügyi Köz-vetíto Rt.	-	25.100
Inter-Európa Bank Fejlesztési Kft.	-	30.420
Total	-	55.520
Book value MHUF	-	51

18. Statutory reserves

	2003	2002
	MHUF	MHUF
General reserve	447	309
General risk provision	1.364	1.364
Closing balance	1.811	1.673

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 must 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 2002.

(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 138 million was transferred from the 2003 net earnings to general reserve.

19. Dividends

Dividends paid in 2003 amounted to HUF 351 million and was approved at the Annual General Meeting in April 2003. Owners of the company passed a resolution at the Annual General Meeting on 9 April 2004 to pay HUF 621 million dividends for 2003.

20. General and administrative expenses

	2003	2002
	MHUF	MHUF
Depreciation (Note 13)	1.177	1.298
Amortisation of negative goodwill	-	(10)
Wages and salaries	2.522	1.952
Other payments to personnel	257	380
Social security and similar charges	1.064	930
Materials	284	270
Services	2.591	2.379
Recharged services	71	59
Other	459	366
	8.425	7.624
Average number of staff	668	650

21. Losses on loans and investments

	2003	2002
	MHUF	MHUF
Provision for credit losses (Note 22)	1.203	1.018
Amounts written off	36	15
Provision on other assets (Note 22)	38	98
Gain on selling loans	(45)	(3)
Provision/(release) for contingencies (Note 22)	(27)	18
	1.205	1.146

22. Provisions

Movements in provisions for loans, investments and other assets for the years ended December 31, 2002 and 2003 are as follows:

	Loans MHUF	Other assets MHUF	Contingency MHUF	Total MHUF
As at December 31,2001	1.120	65	110	1.295
Specific provisions made/(released) in 2002	1.130	(14)	18	1.134
Amounts written off against provision	(86)	0	0	(86)
As at December 31,2002	2.164	51	128	2.343
Specific provisions made in 2003	1.203	38	(27)	1.214
Amount written off against provisions	(335)	-	-	(335)
	3.032	89	101	3.222

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 2003, the Bank and its subsidiaries were subject to a taxation rate of 18% (2002: 18%), with corporate tax being reduced to 16% for the 2004 fiscal year.

	2003 MHUF	2002 MHUF
Corporate income tax	321	244
Deferred tax liability	(1)	47
	320	291

Description of the difference between the calculated and actual taxation

MHUF	2003 Tax base	 Tax	2002 Tax base	 Tax
Profit before taxation	2.422	436	1.362	245
Profit of group members	290	(52)	(143)	26
Dividends	37	(6)	26	(5)
Tax base correction IEB, Europool (in-crease/decrease)	83	15	(17)	(3)
Axon Rt's profit	25	(4)	(11)	2
Minority interest	(4)	(1)	(2)	0
Goodwill amortisation	-	-	(200)	36
Sale of Jóléti Kft			57	(10)
Deferred tax 2% diff.	(1.591)	(32)	-	-
Due to fair valuation	(199)	(36)	-	-
Tax expense	-	320	-	291

	2003			2002 adjusted		
Item	Asset	Liability	Net	Asset	Liability	Net
Mark to market (securities)	-			-	(3)	(3)
Mark to market (derivatives)	-	-	-	44	(32)	12
Deferred tax on general risk provision	-	(218)	(218)	-	- (245)	(245)
Accounting difference of available for sale securities		(32)	(32)			
Depreciation related item	-	(55)	(55)	-	(79)	(79)
New York Broker profit	19	-	19	59	-	59
Deferred tax receivable/(payable), net	19	(305)	(286)	103	(359)	(256)

24. Earnings per share

	2003	2002
Net profit attributable to shareholders, MHUF	2.098	1.069
Weighted average number of shares in issue	7.018.570	7.018.570
Earnings per share:		
Basic, HUF	299	152
Diluted, HUF	299	152

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

	2003 MHUF	2002 MHUF
Call options sold	11.140	11.814
Call options bought	11.140	11.814
Put options sold	11.037	5.843
Put options bought	11.037	5.843

All option contracts are hedged in terms of notional amount and maturity. The positive and negative fair value difference of OTC options are both MHUF 429.

Derivative transactions

MHUF	Notional/ contracted amount	Fair value	
		Assets	Liabilities
Forward foreign exchange contracts	112.871	2.312	(1.725)
Swap contracts	22.427	335	(385)
Spot	13.214	62	(55)
	148.512	2.709	(2.165)

Futures contracts (Budapest Stock Exchange)

MHUF	Notional/ contracted amount	Fair value	
		Assets	Liabilities
Future contracts (shares) on the Budapest Stock Exchange	296	1	-

26. Contingencies

(a) At December 31, 2003, the Bank had guarantees outstanding amounting to HUF 16,915 million (2002: HUF 16,899 million).

(b) Loans committed but not disbursed at December 31, 2003 amounted to HUF 29,817 (2002: HUF 17.081 million).

(c) Commitments under import letters of credit at December 31, 2003 and 2002 amounted to::

	2003 Equivalent in MHUF	2002 Equivalent in MHUF
EUR	89	42
Other	164	95
	253	137

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) Contingency for litigation as a result of its normal operating activities HUF 80 million (2002: HUF 43 million)

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 as held to maturity portfolio. There is currently no liquid market for these securities however the bonds yield interest rates that 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 and 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

2003	M HUF				
Bank assets	HUF	USD	EUR	Other CCY	Total
Cash	971	70	261	126	1.428
Deposits with National Bank	14.020	7.277	2.885	0	24.182
Placements with banks	4.492	2.375	3.686	3.202	13.755
Securities	19.643	-	-	-	19.643
Loans	102.515	709	25.486	1.137	129.847
Down: value loss	(2.289)	(48)	(695)	-	(3.032)
Net loans	100.226	661	24.791	1.137	126.815
Other assets	11.987	20	221	748	12.976
Total assets	151.339	10.403	31.844	5.213	198.799

Bank liabilities	HUF	USD	EUR	Other CCY	Total
Deposits from banks	23.413	674	15.396	152	39.635
Current accounts and deposits	104.515	7.808	20.059	931	133.313
Other liabilities	4.231	406	1.147	980	6.764
Total liabilities	132.159	8.888	36.602	2.063	179.712
Subordinated loan	-	-	5.245	-	5.245
Equity	13.687	-	-	-	13.687
Minority interest	155	-	-	-	155
Total equity and liabilities	146.001	8.888	41.847	2.063	198.799
Balance sheet position	5.338	1.515	(10.003)	3.150	0
Forward position	(12.953)	(2.653)	14.280	1.631	305
Swap position	7.202	1.767	(5.271)	(3.468)	230
Spot position	(127)	112	302	(282)	5
Total	(540)	741	(692)	1.031	540
2002					
Total assets	117.774	10.844	40.393	4.986	173.997
Total equity and liabilities	109.884	10.815	50.080	3.218	173.997
Balance	7.890	29	(9.687)	1.768	0

29. Average volume and average interests

	2003		2002	
	Average volume	Interest rate	Average volume	Interest rate
Assets	MHUF	%	MHUF	%
Placements with banks	34.067	4,7%	35.152	4,6%
Customer loans	**117.988**	**9,4%**	**102.877**	**10,6%**
- short term loans	65.541	9,7%	62.279	10,5%
- long term loans	52.447	9,1%	40.598	10,8%
Securities	20.428	7,1%	9.090	8,0%
Liabilities				
Deposits from banks	37.003	4,5%	36.949	4,5%
Customer deposits	**123.657**	**3,9%**	**107.989**	**4,3%**
- short term deposits	118.310	3,7%	105.547	4,2%
- long term deposits	5.347	7,8%	2.442	8,7%
Subordinated loan	4.941	3,9%	4.914	5,3%

30. Maturity structure of assets and liabilities

	2003						2002					
	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	restated Total
Assets												
Cash and current accounts with banks		-	-	-	-	1.428	1.339	-	-	-	-	1.339
Deposits with National Bank	10.162	14.020	-	-	-	24.182	20.717	45	676	-	-	21.438
Placements with banks	13.019	736	-	-	-	13.755	22.583	961	-	-	-	23.544
Net loans	25.270	45.446	21.952	34.147	-	126.815	36.357	41.180	20.751	10.151	-	108.439
Securities	9.286	2.727	5.563	997	1.070	19.643	1.425	442	1.217	5.492	887	9.463
Equity investment	3	-	-	-	808	811	-	-	-	-	294	294
Fixed assets	-	-	-	-	6.768	6.768	-	-	-	-	7.060	7.060
Accrued interest and fees receivable	1.362	-	-	-	-	1.362	1.468	-	-	-	-	1.468
Other assets	897	-	-	-	3.138	4.035	776	-	-	-	176	952
Total assets	61.427	62.929	27.515	35.144	11.784	198.799	84.665	42.628	22.644	15.643	8.417	173.997
Equity & Liabilities												
Deposits from banks	3.357	668	-	-	-	4.025	1.484	1.106	-	-	-	2.590
Current accounts and deposits from customers	106.461	18.814	2.037	-	-	127.312	113.724	4.785	-	-	-	118.509
Long term funding		4.724	16.576	22.475	-	46.856	249	6.684	23.467	6.377	-	36.377
Accrued interest and other expense		-	-	-	-	752	783	-	-	-	-	783
Other liabilities	3.319	-	-	-	2.693	6.012	2.470	-	-	-	499	2.969
Total liabilities	116.970	24.206	18.613	22.475	2.693	184.957	118.710	12.575	23.467	6.377	499	161.628
Minority interest					155	155					249	249
Total equity					13.687	13687					12.120	12.120
Total equity & liabilities	116.970	24.206	18.613	22.475	16.535	198.799	118.710	12.575	23.467	6.377	12.868	173.997
Balance of assets and liabilities	(55.543)	38.723	8.902	12.669	9.091	13.842	(34.045)	30.053	(823)	9.266	7.918	12.369

31. Transactions with associates

Following changes in ownership structure effects of transactions with associated parties are shown in the following table:

MHUF

	Receivables	Liabilities	Incomes	Expenses
Owners	796	8.383	70	242
Associates	1.085	1.085	1.534	1.534
Associate AXON	240			
Total	2.121	9.468	1.604	1.776

At 31 December 2003 there were no contingencies and derivative transactions.

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

TH HUF

	Board of Directors	**Supervisory Board**
At beginning of year 2003	5.240	7.918
Adjusted opening volume*	5.240	8.759
Disbursed loan in 2003	4.000	3.000
Repaid principal in 2003	602	2.276
Principal outstanding at 31 December 2003	8.638	9.483
Interest paid in 2003	134	256

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

32. Reconciliation of the statutory and IFRS financial statements

	2003	2002
	MHUF	MHUF
Statutory after-tax profit	1.822	1.195
Depreciation after revaluation of building	(1)	(1)
Amortisation of Europool negative goodwill	-	10
Share of profits from associate (AXON)	25	27
AXON adjustment relating to previous years	-	(38)
Treasury shares	-	-
Securities marked to market	(15)	41
Fair valuation reserve of available for sale securities	199	-
Derivatives marked to market, net	69	(69)
Reversal of revalued value of BSE shares	-	(100)
Adjustment due to the disposal of IEB Jóléti Kft	-	57
Deferred tax expense	2	(47)
Other	(3)	(6)
Net after-tax profit per IFRS financial statements	2.098	1.069

	2003	2002
Shareholders' equity per statutory financial statements	12.191	11.435
Minority interest	(155)	(249)
Treasury shares	-	(51)
Reversal of general risk reserve	1.364	1.364
Dividends	621	
Amortisation of Europool's negative goodwill between 1998 and 2000	26	26
Depreciation of building	(8)	(8)
AXON related adjustment	37	13
Reversal of the revaluation recognised on the investment in BSE	(100)	(100)
Deferred tax	(286)	(256)
Derivatives marked to market, net		(69)
Securities marked to market	-	15
Other	(3)	-
Total shareholders' equity	13.687	12.120