

**BUDAPEST BANK RT
AND SUBSIDIARIES**

**CONSOLIDATED
FINANCIAL STATEMENTS**

DECEMBER 31, 2000

CONTENTS

Auditors' Report

Consolidated statement of profit and loss

Consolidated balance sheet

Consolidated statement of cash flows

Consolidated statement of changes in shareholders' equity

Notes to Consolidated financial statements

BUDAPEST BANK RT AND SUBSIDIARIES
Consolidated Statement of Profit and Loss
for the year ended December 31, 2000

	Note	2000 (Millions of HUF)	1999
Interest income		34,885	34,519
Interest expense		<u>(15,302)</u>	<u>(18,374)</u>
Net interest income	4	19,583	16,145
Other income, net of expenses	5	<u>11,345</u>	<u>13,777</u>
Operating income		30,928	29,922
Operating expenses	6	<u>(26,140)</u>	<u>(26,808)</u>
Net operating income before provision		4,788	3,114
Provision for credit, investment and other losses	7	<u>(3,327)</u>	<u>(1,194)</u>
Net operating income after provision		1,461	1,920
Net gain on disposals of subsidiaries	23	1,069	-
Other unusual items	27	<u>(278)</u>	<u>882</u>
Profit before taxation		2,252	2,802
Taxation	8	<u>(302)</u>	<u>(590)</u>
Net profit after taxation		<u>1,950</u>	<u>2,212</u>
Earnings per share	25	<u>HUF 103</u>	<u>HUF 116</u>

Approved by the Board of Directors on 6 February 2001.

The accompanying notes form part of the consolidated financial statements.

BUDAPEST BANK RT AND SUBSIDIARIES
Consolidated Balance Sheet
as at December 31, 2000

	Note	2000	1999
		(Millions of HUF)	
Assets			
Cash		6,749	9,843
Deposits with the National Bank of Hungary	9	49,264	72,437
Deposits with other banks	10	35,826	37,095
Loans and advances	11	172,795	118,597
Prepayments and accrued interest receivable		3,629	2,791
Trading securities	12	9,857	5,178
Investment securities	13	3,330	9,678
Securities available for sale	14	26,274	17,750
Other assets		12,748	8,966
Premises and equipment	15	<u>15,079</u>	<u>24,704</u>
Total Assets		<u>335,551</u>	<u>307,039</u>
Liabilities			
Deposits and other customer accounts	16	244,888	229,240
Borrowings from the National Bank of Hungary	17	5,857	7,573
Deposits from other banks	18	26,014	17,440
Other government borrowings	19	1,624	456
Accruals and accrued interest payable		2,019	1,975
Other creditors		16,440	11,641
Provision for off balance sheet and other items	7	<u>2,342</u>	<u>3,356</u>
		<u>299,184</u>	<u>271,681</u>
Subordinated debt	20	<u>3,861</u>	<u>3,861</u>
Total Liabilities		<u>303,045</u>	<u>275,542</u>
Shareholders' Funds			
Share capital	21	19,350	19,337
Legal reserves	22	5,768	5,189
Retained earnings		<u>7,388</u>	<u>6,971</u>
		<u>32,506</u>	<u>31,497</u>
Total Liabilities and Shareholders' Funds		<u>335,551</u>	<u>307,039</u>
Commitments and contingent liabilities	24		

Approved by the Board of Directors on 6 February 2001.

The accompanying notes form part of the consolidated financial statements.

BUDAPEST BANK RT AND SUBSIDIARIES
Consolidated Statement of Cash Flows
for the year ended December 31, 2000

	Note	2000	1999
(Millions of HUF)			
Cash Flows (Used in) / Provided by Operating Activities			
Net profit		2,252	2,802
<i>Adjustments to determine net cash provided by operating activities:</i>			
Depreciation	6	3,543	4,289
Loss (Gain) on disposals of subsidiaries	23	(1,069)	
Release of provision for loss on investments	7	(3)	(2)
(Release)/charge in provision on trading securities	7	-	(91)
(Release)/charge in provision for loans	7	733	628
(Release)/charge in provision for off balance sheet and other items	7	(1,014)	1,058
Net change in accrued income and other assets and accrued expense and other liabilities		227	4,946
Income taxes paid		(302)	(590)
Deposits with banks	10	1,269	(3,722)
Loans and advances	11	(54,931)	(21,638)
Trading securities and securities available for sale	12, 14	(13,203)	5,384
Deposits, net of withdrawals	16, 18	<u>24,222</u>	<u>30,443</u>
		<u>(38,276)</u>	<u>23,507</u>
Cash Flows (Used in) / Provided by Financing Activities			
Treasury shares and other		45	(200)
Proceeds from disposals of subsidiaries	23	7,655	
Dividend paid		(986)	(1,938)
Net decrease in refinancing and other government borrowings		<u>(548)</u>	<u>(1,053)</u>
		<u>6,166</u>	<u>(3,191)</u>
Cash Flows (Used in) / Provided by Investing Activities			
Investment securities	13	6,348	2,315
Net purchase of premises and equipment	15	6,081	(4,709)
Net assets of subsidiaries disposed	23	<u>(6,586)</u>	<u>-</u>
		<u>5,843</u>	<u>(2,394)</u>
Net increase in cash and cash equivalents		(26,267)	17,922
Cash and cash equivalents at beginning of year		<u>82,280</u>	<u>64,358</u>
Cash and cash equivalents at year end		<u>56,013</u>	<u>82,280</u>
Cash		6,749	9,843
Liquid deposits with the National Bank of Hungary		<u>49,264</u>	<u>72,437</u>
Cash and cash equivalents at year end		<u>56,013</u>	<u>82,280</u>

The accompanying notes form part of the consolidated financial statements.

BUDAPEST BANK RT AND SUBSIDIARIES
Consolidated Statement of Changes in Shareholders' Equity
for the year ended December 31, 2000

(Millions of HUF)		2000				Retained earnings
		Share Capital	Legal Reserves			
	Note		General Reserve	General Risk Reserve	Foreign Exchange Risk/Loss Reserve	
Balance at January 1, 2000		<u>19,337</u>	<u>2,967</u>	<u>2,040</u>	<u>182</u>	<u>6,971</u>
Paid dividend on 1999 results						(986)
Treasury shares and other		13				32
Transfer to General Risk Reserve	22			558		(558)
Transfer to Foreign Exch. Risk Reserve	22				89	(89)
Transfer from Foreign Exchange Loss Reserve	22				(110)	110
General Reserve adjustment	22		42			(42)
Net profit for the year		—	—	—	—	<u>1,950</u>
Balance at December 31, 2000		<u>19,350</u>	<u>3,009</u>	<u>2,598</u>	<u>161</u>	<u>7,388</u>

(Millions of HUF)		1999				Retained earnings
		Share Capital	Legal Reserves			
	Note		General Reserve	General Risk Reserve	Foreign Exchange Risk/Loss Reserve	
Balance at January 1, 1999		19,343	2,967	1,743	181	5,479
Treasury shares and other		(6)				(194)
Transfer to General Risk Reserve	22			297		(297)
Transfer from Foreign Exch. Risk Reserve	22				(33)	33
Transfer to Foreign Exchange Loss Reserve	22				34	(34)
Securities available for sale	14					(228)
Net profit for the year						2,212
Dividends		—	—	—	—	—
Balance at December 31, 1999		<u>19,337</u>	<u>2,967</u>	<u>2,040</u>	<u>182</u>	<u>6,971</u>

The accompanying notes form part of the consolidated financial statement

Amounts in tables are expressed in million HUF unless otherwise stated

1. General information

Budapest Bank Rt. ("Budapest Bank" or "the Bank") was formed in 1987 as a joint venture between the State, State-owned enterprises and co-operatives when a two-tier banking system was formed in Hungary. At that time a proportion of the customers and business of the National Bank of Hungary (the "NBH") was transferred to the Bank, together with the associated assets, liabilities, rights and obligations.

Following privatization of the Bank in December 1995, the principal shareholders are General Electric Capital Services 28.4%, European Bank for Reconstruction and Development ("EBRD") 33.3% and the Hungarian State (First: Ministry of Finance, now The State Privatization and Holding Company) 23.6%. The remaining shares - 14.7% - are owned by other shareholders. The registered office of the Bank is H-1054, Budapest, Alkotmány Street 3-5, Hungary.

2. Summary of significant accounting policies

(a) Basis of preparation

These consolidated financial statements comprising of the Bank and its subsidiaries ("the Group") have been prepared in accordance with International Accounting Standards issued by the International Accounting Standards Committee. The Bank and its subsidiaries maintain their official accounting records and prepare their financial statements in accordance with relevant Hungarian accounting regulations. The accompanying consolidated financial statements reflect certain adjustments not recorded in the local statutory records.

The carrying values of financial assets and liabilities are substantially equivalent to their fair values and transactions have been effected at market rates, unless otherwise disclosed.

(b) Principles of consolidation

The financial statements have been consolidated in accordance with International Accounting Standard 27. They include the financial statements of Budapest Bank and its subsidiaries except those subsidiaries where control is intended to be temporary because the subsidiary is acquired and held exclusively with a view to its subsequent disposal in the near future. Subsidiary companies included in these consolidated accounts are shown below. All inter company balances have been eliminated.

Control is presumed to exist when more than one half of a subsidiary's voting power is controlled by the parent company; or the parent company is able to govern the financial and operating policies of a subsidiary; or control the removal or appointment of the management or Board of Directors of a subsidiary.

Gains and losses on sales of subsidiaries during the year are reflected in the statement of profit and loss account for the year.

The Bank directly or through its subsidiaries, owns controlling interests in the following entities all of which are incorporated in Hungary and have been consolidated:

Company	Ownership %		Business activity
	2000	1999	
Budapest Ingatlanhasznosító Rt.	100%	100%	Non banking services
Budapest Értékpapír Rt.	100%	100%	Brokerage
Budapest Lízing Rt.	100%	100%	Leasing
Budapest Autófinanszírozási Rt.	100%	100%	Car leasing
Budapest Alapkezelő Rt.	100%	100%	Investment fund manager
Eszközfinszírozó Kft. (formerly 2B)	100%	100%	Trading&Leasing Company
Budapest Autóparkkezelő Rt.	100%	100%	Fleet leasing
Budapest Autóbérlet Kft. (formerly AVA Liz)	100%	100%	Car leasing
Budapest Áruhitel Rt.	100%	-	Retail loans
Budapest Agent Kft.	100%	100%	Financial agent services

Amounts in tables are expressed in million HUF unless otherwise stated

During the year the Bank sold its interest in the following subsidiaries:

Company	Ownership %	Ownership %	Business activity
	<u>2000</u>	<u>1999</u>	
Pater Credit Bank Ltd.	-	99.9%	Banking
Rentpress8 Ingatlanhasznosító Kft.	-	100%	Non banking services
Vosca Ingatlanhasznosító Kft.	-	100%	Non banking services

Értéktár Kft. merged into 2B Kft. on September 7, 1999. In December 2000, 2B Kft acquired the operating lease portfolio of Budapest Autóparkkezelő Rt., and changed its name to Eszközfinanszírozó Kft.

Pater Credit Bank Ltd., incorporated in Romania, was sold in April 2000. Vosca Ingatlanhasznosító Kft. and Rentpress8 Ingatlanhasznosító Kft. were sold in March 2000.

Budapest Áruhitel Rt. was incorporated in 1999 and started its sales finance activity in January 2000. Budapest Autóbérlet Kft., formerly AVA Liz, was consolidated for the first time during 2000, effective 31 December 1999; its main activity being car finance leasing.

A fully controlled company, Rent-Oil Kft. is not consolidated and was not consolidated in 1999 as the Bank intends to dispose of this entity.

(c) Derivatives

Derivative products include currency and interest rate swaps and spot and forward foreign exchange contracts. The Bank has a conservative approach towards derivative products and does not permit speculative trading transactions. Non-trading derivatives are primarily used for hedging purposes to minimize the Bank's risk on a deposit, loan or security or to comply with the Bank's funding or investing strategies. The recognition of income/expenses relating to hedging transactions is in line with the income/expense recognition of the underlying asset or liability, which is being hedged.

(d) Income and Expense Recognition

Items of income and expense are recognised on an accrual basis, except for certain commissions and fees, which are recognised as they are received and incurred. Accrual of interest is discontinued if loan collectibility is in doubt.

(e) Income tax

Income tax on the profit or loss for the year comprises current and deferred tax. Income tax is recognised in the income statement except to the extent that it relates to items recognized directly to equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantially enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted at the balance sheet date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the unused tax losses and credits can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Amounts in tables are expressed in million HUF unless otherwise stated

(f) Investment securities

Investments securities are investments intended to be held to maturity and are accounted for at cost less any provision for permanent impairment in value. Investments consist of minority shareholdings in Hungarian companies and government bonds.

(g) Trading securities

Trading securities include corporate bonds, government stock and investment units. These securities are not intended to be held to maturity and are carried at the lower of cost or market value.

(h) Securities available for sale

Financial assets are classified as available for sale if such securities are not held for trading or investment purposes. These securities are measured at fair value. The revaluation effect of a financial asset available for sale is charged to retained earnings if the fair value is less than cost or credited to retained earnings if the fair value is greater than cost.

(i) Loan losses

The loan portfolio of the Bank is divided into a commercial and a consumer loan portfolio. Provisioning policies of these portfolios are substantially different and are described as follows:

Commercial loans, which are more than 30 days past due, are segregated and managed separately. Loans in this 'past due' portfolio are individually assessed for possible and expected losses and appropriate provisions are set up. General credit risk inherent in the 'current' portfolio is provided for in general credit risk provision. Such a provision is calculated by analysing past patterns of delinquent loans and losses.

The consumer loan portfolio provisioning is monitored monthly for any overdue amounts. Provisions are set aside for doubtful amounts receivable based on a statistical analysis of the past pattern of losses incurred the ageing of overdue loans.

(j) Premises and equipment

Premises and equipment are stated at cost less accumulated depreciation calculated on a straight-line basis over the estimated useful lives of the assets. The depreciation rates used are as follows:

Buildings and leasehold improvements	2% or 6%
Furniture, fittings and equipment	14.5% or 33%
Vehicles	20%

(k) Intangible assets

Intangible assets, which are included in other assets, are stated at cost less accumulated amortisation calculated on a straight-line basis at 15% to 16% per year.

(l) Foreign currency translation

Foreign currency transactions are recorded in Hungarian Forint at rates of exchange ruling at the value dates of the transactions. Assets and liabilities denominated in foreign currencies are translated at the rates of exchange ruling at the balance sheet date. The resulting gains or losses are included in the statement of profit and loss account.

Amounts in tables are expressed in million HUF unless otherwise stated

(m) Goodwill

Goodwill represents the difference between the cost of acquisition and the fair value of identifiable net assets of the acquired undertaking at the date of acquisition. Positive goodwill is recognised as an asset and amortised over five years. Negative goodwill is treated as a negative asset (deferred income) and is recognised in income over the period of its expected future benefit.

(n) Finance leases

The Group, as a lessor, recognises assets held under a finance lease in its balance sheet and presents them as receivables at an amount equal to the net investment in the lease. The recognition of finance income is based on a pattern reflecting a constant periodic rate of return on the Group's net investment outstanding in respect of the finance lease. Lease payments relating to the accounting period are applied against the gross investment in the lease to reduce both the principal and unearned finance income.

3. Risk management policies

The Group's policies for managing interest rate, credit, foreign exchange and liquidity risk are reviewed regularly by the Asset and Liability Committee (ALCO) and the Credit Risk Committee. The policies are summarized as follows:

Interest rate risk

Gaps in the value of assets and liabilities that mature or reprice in a given period generate interest rate risk. In managing the Group's repricing structure, the ALCO considers macro and micro economic forecast and the anticipated trends in interest rates.

Liquidity risk

The objective of prudential liquidity management is to ensure that the Group has the ability to generate sufficient funds to meet all cash outflow obligations as they fall due. In managing its liquidity the Group takes into account various legal requirements and limitations and the need to maintain market confidence. Limits are set accordingly and the liquidity situation is reviewed continuously by senior management.

Foreign exchange rate risk

Foreign exchange risk arises when a mismatch arises in the assets and liabilities denominated in foreign currencies. The Group ensures that the foreign currency position, as far as practical, is minimised.

Credit risk

Credit risk is the possibility of financial loss from the default of borrower or counterparty to fully perform under the terms of a credit related contract and includes loan loss risk, pre-settlement risk, settlement risk and replacement risk. Credit risk arises primarily from the Group's lending activities, as well as from commitments to extend credits, securities and derivative financial instruments. The Bank oversees all credit related activities of the Group and is responsible for managing the Group's overall credit exposure, and for establishing credit approval policies, standards, limits and guidelines that define, quantify, and monitor credit risk. Although the Bank Group has an overall Risk Manager, it has separated management of consumer and commercial risk in order to evaluate the two specialized methodologies. It also reviews compliance with established credit limits and inspects industry, geographic region or country, product, and individual borrower or counterparty exposure, together with problem credits and credit losses.

Amounts in tables are expressed in million HUF unless otherwise stated

4. Net interest income

	2000		1999	
	<u>Income</u>	<u>Expense</u>	<u>Income</u>	<u>Expense</u>
Corporations and consumers	22,957	(12,709)	21,270	(15,049)
Other financial institutions	6,016	(1,959)	5,720	(2,316)
National Bank of Hungary	<u>5,912</u>	<u>(634)</u>	<u>7,529</u>	<u>(1,009)</u>
	<u>34,885</u>	<u>(15,302)</u>	<u>34,519</u>	<u>(18,374)</u>

5. Other income / expenses net

	2000			1999		
	<u>Income</u>	<u>Expenses</u>	<u>Net</u>	<u>Income</u>	<u>Expenses</u>	<u>Net</u>
Portfolio investments	360	(292)	68	576	(534)	42
Foreign exchange trading	2,360	(112)	2,248	2,128	(61)	2,067
Fees and commissions	23,398	(12,731)	10,667	19,257	(7,700)	11,557
Other	<u>6,710</u>	<u>(8,348)</u>	<u>(1,638)</u>	<u>7,978</u>	<u>(7,867)</u>	<u>111</u>
	<u>32,828</u>	<u>(21,483)</u>	<u>11,345</u>	<u>29,939</u>	<u>(16,162)</u>	<u>13,777</u>

6. Operating expenses

Operating expenses comprise the following:	2000	1999
Staff costs	10,655	10,335
Office administration and related expenses	11,129	11,457
Depreciation	3,543	4,289
Non-recoverable VAT and other taxation	<u>813</u>	<u>727</u>
	<u>26,140</u>	<u>26,808</u>

The Bank has introduced and administers a staff pension scheme. All of the Bank's employees are entitled to participate. The scheme is of the defined contribution type and its assets are managed by a third party. The retirement benefit cost for the period, included in staff costs was HUF 199 million (1999: HUF 199 million). No contributions were prepaid or accrued as at December 31, 2000 (1999: nil).

Amounts in tables are expressed in million HUF unless otherwise stated

7. Provision for credit, investment and other losses

Movements in provisions were as follows:

	2000						
	Loans	Trade Debtor	Investment	Securities	Inventories	Off-B/S and other items	Total
Balance at beginning of year, as restated	3,549	1,921	10	0	9	3,356	8,845
Amounts written off, net of recovery	(1,247)	(234)			(5)	(2,145)	(3,631)
Provision charge for extraordinary item	150						150
Provision charge/(release)	<u>1,830</u>	<u>198</u>	<u>(3)</u>	<u>0</u>	<u>171</u>	<u>1,131</u>	<u>3,327</u>
Balance at year end	<u>4,282</u>	<u>1,885</u>	<u>7</u>	<u>0</u>	<u>175</u>	<u>2,342</u>	<u>8,691</u>
	1999						
	Loans	Trade Debtor	Investment	Securities	Inventories	Off-B/S and other items	Total
Balance at beginning of year	2,921	1,086	12	91	0	2,298	6,408
Amounts written off, net of recovery	(1,401)	(41)	(139)	(39)			(1,620)
Provision for general credit risk	779						779
Provision charge for extraordinary item						1,752	1,752
Provision charge/(release)	<u>1,250</u>	<u>544</u>	<u>137</u>	<u>(52)</u>	<u>9</u>	<u>(694)</u>	<u>1,194</u>
Balance at year end	<u>3,549</u>	<u>1,589</u>	<u>10</u>	<u>0</u>	<u>9</u>	<u>3,356</u>	<u>8,513</u>

The balance at beginning of the year, as restated, includes the provision HUF 332 million of Budapest Autoberlet Kft (refer Note 23c).

The category of off-balance sheet and other items includes a reserve for potential litigation liabilities of HUF 1,792 million (1999: HUF 1,456 million).

8. Taxation

The taxation charge for the year is based on the profit for the year according to the statutory accounts of individual companies within the group, adjusted in accordance with relevant taxation regulations. The tax rate in Hungary for the year ended December 31, 2000 amounted to 18% (1999: 18%).

BUDAPEST BANK RT AND SUBSIDIARIES
Notes to Consolidated Financial Statements
December 31, 2000

Amounts in tables are expressed in million HUF unless otherwise stated

Reconciliation of effective tax rate:

	2000 (%)	2000	1999 (%)	1999
Profit before tax		2,252		2,802
Income tax using the domestic corporation tax rate	18.0	405	18.0	504
Tax effects of income/(expenses) that are/are not deductible for tax purposes:				
Permanent differences				
- Effect of General Risk Reserve	4.5	<u>100</u>	1.9	<u>53</u>
Current tax expense		<u>505</u>		<u>557</u>
Effect of temporary differences				
- Effect of mark to market valuation	1.0	23	1.5	41
- Effect of commercial provision adjustment	(3.5)	(79)	-	-
- Tax effect of tax basis adjustments	(5.1)	(114)	-	-
- Others	<u>(1.5)</u>	<u>(33)</u>	<u>(0.3)</u>	<u>(8)</u>
Change in deferred taxation		<u>(203)</u>		
Taxation	<u>12.8</u>	<u>302</u>	<u>21.1</u>	<u>590</u>

9. Deposits with the National Bank of Hungary (NBH)

	2000	1999
Restricted cash balance	28,931	10,711
Short term deposit	18,000	59,362
Long term deposit	<u>2,333</u>	<u>2,364</u>
	<u>49,264</u>	<u>72,437</u>

Regulations of the National Bank of Hungary require that banks maintain a specified level of monetary reserves in support of certain deposit balances. These reserves are maintained both in the form of cash and interest bearing deposits with the National Bank of Hungary and are not available for investment purposes.

10. Deposits with other banks

	2000	1999
Term to maturity		
Within 1 year	34,066	32,443
1-5 years	1,724	4,652
Over 5 years	<u>36</u>	<u>-</u>
	<u>35,826</u>	<u>37,095</u>

Amounts in tables are expressed in million HUF unless otherwise stated

11. Loans and advances

	2000	1999
Advances to customers	177,077	122,146
Less: provisions	<u>(4,282)</u>	<u>(3,549)</u>
	<u>172,795</u>	<u>118,597</u>

Provisions include provision for general and specific credit risk as follows:

	2000	1999
Specific provision	(783)	(2,223)
General provision		
- consumer portfolio	(2,281)	(547)
- commercial portfolio	<u>(1,218)</u>	<u>(779)</u>
	<u>(4,282)</u>	<u>(3,549)</u>

The Board of Directors approved the establishment a commercial general portfolio in 1999 and determined this to be set aside over a period of three years. As at December 2000, the provision required amounted to HUF 1,657million, of which HUF 1,218 million had been set aside.

(a) Industrial Sector

Loan concentration in percentage of value by industrial sectors is as follows:

Sector	2000	1999
	%	%
Infrastructure	35	33
Manufacturing industry	23	21
Agriculture	11	22
Energy, mining and construction	6	2
Other	6	4
Consumer finance	<u>19</u>	<u>18</u>
	<u>100</u>	<u>100</u>

(b) Maturity

Loans outstanding mature as follows:

Term to maturity	2000	1999
Within 1 year	91,068	73,393
1-5 years	73,071	37,276
Over 5 years	<u>12,938</u>	<u>11,477</u>
	<u>177,077</u>	<u>122,146</u>

Amounts in tables are expressed in million HUF unless otherwise stated

(c) Financial leases

As part of its financing activities, the Bank enters into finance lease transactions as a lessor. Loans and advances include lease receivable of HUF 32,431 million (1999: 22,207 million).

At December 31, 2000, the reconciliation of the Bank's gross investment in the lease, and the net present value of minimum lease payments receivable by relevant remaining maturity periods are the following:

	2000			1999	
	Up to 1 year	1 year to 5 years	Over 5 years	Total	Total
Gross investment in the lease	15,711	24,708	22	40,441	27,610
Unearned finance income	<u>(3,749)</u>	<u>(3,824)</u>	<u>(2)</u>	<u>(7,575)</u>	<u>(5,133)</u>
Net present value of minimum lease payments	<u>11,962</u>	<u>20,884</u>	<u>20</u>	<u>32,866</u>	<u>22,477</u>
Allowance for uncollectible minimum lease payments				<u>(435)</u>	<u>(270)</u>
				<u>32,431</u>	<u>22,207</u>

Finance lease transactions include assets of several types (cars, vehicles, and equipment).

(d) Loans provided to management and directors

Loans provided to:

	2000	1999
Management	92	138
Members of the Board of Directors	-	-
Members of the Supervisory Board	<u>10</u>	<u>7</u>
	<u>102</u>	<u>145</u>

12. Trading securities

	2000	1999
Cost, net of provision (2000: nil, 1999: nil)		
State bonds	8,211	3,462
Discount treasury bills	1,041	387
NBH Zero Coupon Bonds	5	-
Investment units	-	1,329
Other securities	<u>600</u>	<u>-</u>
	<u>9,857</u>	<u>5,178</u>

During 2000, securities have been reclassified, in order to present a more meaningful disclosures of the categories in the financial statements.

Amounts in tables are expressed in million HUF unless otherwise stated

13. Investment securities

	2000		1999	
	Investment at cost	Provision for losses	Net book value	Net book value
NBH Eurobonds	2,838	-	2,838	9,155
Other Investments	<u>499</u>	<u>7</u>	<u>492</u>	<u>523</u>
	<u>3,337</u>	<u>7</u>	<u>3,330</u>	<u>9,678</u>

NBH Eurobonds matures in 2002.

Other investments consists of:

	2000	1999
Aranypénz Rt	10	10
Swift	11	16
Nemzetközi Bankárképző Központ Rt	29	29
Rent-Oil Kft	88	99
Elszámolásforgalmi Központ Rt.	156	156
Hitelgarancia Rt.	190	190
Taverna Rt.	7	20
Other	<u>8</u>	<u>13</u>
Less: provision	<u>(7)</u>	<u>(10)</u>
	<u>492</u>	<u>523</u>

During 2000, securities have been reclassified, in order to present a more meaningful disclosures of the categories in the financial statements.

14. Securities available for sale

	2000	1999
Consolidation Bonds	26,096	16,028
Other, non-interest bearing securities	<u>184</u>	<u>1,950</u>
Less: revaluation difference	<u>(6)</u>	<u>(228)</u>
	<u>26,274</u>	<u>17,750</u>

During 2000, securities have been reclassified, in order to present a more meaningful disclosures of the categories in the financial statements.

Amounts in tables are expressed in million HUF unless otherwise stated

15. Premises and equipment

	Land and buildings	Equipment	Construction in progress	Total
Cost				
Balance at beginning of year, as restated	12,250	20,249	1,629	34,128
Additions	828	12,237	7,551	20,616
Disposals	<u>(6,165)</u>	<u>(15,939)</u>	<u>(8,494)</u>	<u>(30,598)</u>
Balance at end of year	<u>6,913</u>	<u>16,547</u>	<u>686</u>	<u>24,146</u>
Depreciation				
Balance at beginning of year, as restated	750	8,646	-	9,396
Additions	199	3,602	-	3,801
Disposals	<u>(260)</u>	<u>(3,870)</u>	-	<u>(4,130)</u>
Balance at end of year	<u>689</u>	<u>8,378</u>	-	<u>9,067</u>
Net book value at December 31, 2000	<u>6,224</u>	<u>8,169</u>	<u>686</u>	<u>15,079</u>
Net book value at December 31, 1999	<u>11,493</u>	<u>11,582</u>	<u>1,629</u>	<u>24,704</u>

During the year, Vosca Ingatlanhasznosító Kft., and Rentpress8 Ingatlanhasznosító Kft, each of which held bank property, were sold. Balance at beginning of year includes the premises and equipments of Budapest Autoberlet Kft (Note 23c).

16. Deposits and other customer accounts

	2000	1999
Current and demand accounts	107,843	104,939
Deposits and savings accounts	<u>137,045</u>	<u>124,301</u>
	<u>244,888</u>	<u>229,240</u>

Deposits and savings accounts primarily mature within one year.

17. Borrowings from the National Bank of Hungary

	2000	1999
Long term borrowings	2,015	2,177
Refinancing credits	<u>3,842</u>	<u>5,396</u>
	<u>5,857</u>	<u>7,573</u>

Refinancing credits mature from 1999 through 2012 and bear interest at rates ranging from 3% to 24% (1999: 3% to 24%) depending on the currency.

18. Deposits from other banks

The balance of HUF 26,014 million (1999: HUF 17,440 million) consists of HUF 23,292 million (1999: HUF 15,428 million) maturing within one year and HUF 2,722 million (1999: HUF 2,012 million) maturing after more than one year.

Amounts in tables are expressed in million HUF unless otherwise stated

19. Other government borrowings

Other government borrowings consist of amounts payable to the State for advances to customers on behalf of the State, for which the Bank is at risk, should the customer default. Accordingly, these loans have been recorded as assets and are included in Loans and Advances, with an equal corresponding liability.

20. Subordinated debt

On December 20, 1994 the Bank issued to the State subordinated bonds in the amount of HUF 3,861 million maturing in 2014. The bonds bear interest at the rate equal to the average interest rate on discount treasury bills in the last 6 month period to the interest payment due date (at year end: 13,2%). This debt is subordinated to all other liabilities.

21. Share capital

Authorized and issued

Par value in HUF	2000			2000 Total	1999 Total
	1,000	10,000	1,000,000		
	Number				
Ordinary shares		37,338	18,546	18,920	19,052
Employee shares		400		4	13
Preference shares				-	-
- Cumulative		8,227		82	82
- Non cumulative	98,815	24,548		344	350
Treasury shares	-	-	-	-	(160)
	<u>98,815</u>	<u>70,513</u>	<u>18,546</u>	<u>19,350</u>	<u>19,337</u>
Par value in HUF	1999			1999 Total	1998 Total
	1,000	10,000	1,000,000		
	Number				
Ordinary shares		38,228	18,670	19,052	19,474
Employee shares		1,300		13	16
Preference shares				-	-
- Cumulative		8,227		82	82
- Non cumulative	105,150	24,548		350	350
Treasury shares	(5,684)	(939)	(145)	(160)	(579)
	<u>99,466</u>	<u>71,364</u>	<u>18,525</u>	<u>19,337</u>	<u>19,343</u>

Amounts in tables are expressed in million HUF unless otherwise stated

22. Legal Reserves

General Reserve

In accordance with section 75 of Hungarian Act No. CXII of 1996, a General Reserve equal to 10% of net income after tax, as calculated under Hungarian accounting and banking rules is required to be made. Increases in the General Reserve are treated as appropriations from retained earnings under Hungarian accounting and banking rules and thus are not charged against income. The same treatment is applied under IAS. The balance of the General Reserve was HUF 3,009 and 2,967 million as at December 31, 2000 and 1999, respectively.

General Risk Reserve

In accordance with section 87 of Hungarian Act No. CXII, a General Risk Reserve of 1.25% of the risk-weighted assets, as calculated under Hungarian accounting and banking rules must be set up and is charged against profit and loss. The amount of the General Risk Reserve is treated as an appropriation of retained earnings under IAS. As at December 31, 2000 the Bank carried a General Risk Reserve of HUF 2,597 million (1999: HUF 2,040 million).

Foreign Exchange Risk Reserve

In accordance with section 13(7) of Government Decree No. 198/1996 a Foreign Exchange Risk Reserve must be set aside which is calculated based on the net open foreign currency position of the Bank as at the year end and is charged against profit and loss. The amount of the Foreign Exchange Risk Reserve is treated as an appropriation of retained earnings under IAS. As at December 31, 2000 the Foreign Exchange Risk Reserve amounted to 89 million HUF (1999: nil). No such reserve will be required under the amended Hungarian rules applicable 1 January 2001.

Foreign Exchange Loss Reserve

In accordance with section 13(8) of Government Decree No. 198/1996 a Foreign Exchange Loss Reserve must be set up based on the exchange differences, calculated for all foreign exchange assets and liabilities of the Bank resulting in an exchange gain and is charged against profit and loss. The amount of the Foreign Exchange Loss Reserve is treated as an appropriation of retained earnings under IAS. As at December 31, 2000 the Bank provided for the possible future loss of these unrealized gains in an amount of HUF 73 million (1999: HUF 182 million). No such reserve will be required under the amended Hungarian rules applicable 1 January 2001.

Amounts in tables are expressed in million HUF unless otherwise stated

23. Acquisition and disposals of subsidiaries

(a) Disposals of subsidiaries

During 2000, the Bank disposed the following subsidiaries (Note 2b):

	Proceeds of Disposals	Net Assets disposed	Net gain on the disposals of subsidiaries
Pater Credit Bank Ltd.	2,021	1,606	415
Rentpress8 Ingatlanhasznosító Kft.	1,613	1,428	185
Vosca Ingatlanhasznosító Kft.	<u>4,021</u>	<u>3,552</u>	<u>469</u>
	<u>7,655</u>	<u>6,586</u>	<u>1,069</u>

(b) Consolidation of subsidiary

In 1998 the Bank acquired Budapest Autóbérlet Kft. (formerly AVA Liz), a company engaged in the provision of auto finance. During the period to 31 December 1999 it was reported as not consolidated investment. Having stabilized its leasing portfolio and aligning it with the Bank's business policy it is consolidated with effect from 31 December 1999.

	Cost of Acquisition	Net Assets	Negative Goodwill
Budapest Autóbérlet Kft.	-	(360)	(360)

Negative goodwill resulting on the consolidation of Budapest Autóbérlet Kft, amounting to HUF 360 million, less of amortization of HUF 120 million for the year is included in other assets. Negative goodwill will be credited to income over 3 years which corresponds to the remaining life of the leasing portfolio held by Budapest Autóbérlet Kft, its principal assets, at the date of consolidation. Accordingly, negative goodwill of HUF 120 million is recorded in current year's income statement.

The consolidation effect has been treated as an adjustment to opening balances (Note 2b):

Lease receivable	447
Provision	(332)
Fixed assets, net	505
Other assets	614
Liabilities	<u>(874)</u>
Net assets	<u>360</u>

Amounts in tables are expressed in million HUF unless otherwise stated

24. Contingent liabilities and commitments

Off Balance Sheet Items

	2000	1999
<i>Commitments and contingent liabilities</i>		
Guarantees of indebtedness	18,869	12,582
Letters of credit	573	2,261
Unused overdraft facilities / Non-disbursed approved loans	52,438	30,692
Options	-	-
Other commitments	19,883	31,288
<i>Forward transactions</i>		
Forward – Securities to be purchased	-	11,951
Currency swap	2,774	-
Interest rate swap	1,356	-
<i>Spot transactions</i>		
Spot FX transactions (notional, payable side)	2,660	2,080

- a) In the normal course of business the Group enters into commitments for forward exchange contracts, guarantees, provision of credit and other engagements. These instruments involve various degrees and nature of credit, interest rate, foreign exchange and liquidity risk.
- b) Included in other commitments are legal claims, which are *indemnifiable* under the 15 December 1995 Share Purchase Agreement, amounting to HUF 1,009 million. According to the Share Purchase Agreement, a claim can only be accepted as indemnifiable by the State, once the Bank has made a payment under the claim and formally requested reimbursement for the payment. The Bank has notified the relevant State authorities that the Bank seeks reimbursement for any claims paid and for any costs associated with these cases. The discussions between the State and the Bank are currently ongoing regarding the claims. Management of the Bank does not anticipate losses arising from these claims.

Also included in other commitments are legal claims amounting to HUF 16,837 million arising from the ordinary course of business, which are *not indemnifiable* under the 15 December 1995 Share Purchase Agreement or secured by any other means. Management of the Group believes that these claims are not sustainable and is vigorously defending the cases and believes that the overall provision of HUF 1,792 million (refer Note 7) set aside is sufficient, should the Bank suffer loss.

- c) Not included in other commitments are claims brought against the Group arising out of the ordinary course of business that are considered by management either to be unsustainable and unsubstantiable or where counter action taken by management will ensure minimal, if any, loss to the Bank. Given the nature of such claims, management believes it would be misleading to quantify the amounts concerned.
- d) The Bank will move into its new Headquarters in Budapest, Hungary in April 2001. In relation to this move the Bank has entered into a forward lease contract, amounting to DEM 5.6 million per year for a period of 3 years, for its future Headquarters. The rental commitment does not commence until the planned occupation date of April 2001.

25. Earnings per share

A basic net earnings per ordinary share is based upon net income and upon the daily average equivalent of fully paid ordinary shares outstanding. The average number of ordinary shares (calculated shares with HUF 1,000,000 Nominal value) for 2000 was 18,919 (1999: 19,052). In 2000 and 1999, net income applicable to ordinary shares was HUF 1,950million (1999: HUF 2,212 million).

Amounts in tables are expressed in million HUF unless otherwise stated

26. Impairment of assets

As a result of an intended move as at April 2001, certain equipment and furniture currently in use at the Bank will not be taken into the new building and the carrying value of these assets will be written off. The Bank intends to minimize the resulting loss by sale of these assets. The net book value of these assets is estimated to be HUF 324 million before proceeds of sale. However, the Bank anticipates that certain of these assets cannot be sold and has written off impaired assets of HUF 210 million in the current year.

27. Other unusual items

	2000	1999
Gain on sale of buildings and equipments	452	2,056
Losses incurred as a result of suspected frauds	(730)	-
Losses incurred by the Bank as a result of unfavorable litigation judgements	-	(1,752)
Sale of non strategic business	<u>-</u>	<u>578</u>
	<u>(278)</u>	<u>882</u>

During the year the Group incurred losses as a result of alleged fraudulent activity. The Bank has written off these losses. Management will take all legal steps possible to recover these losses and believes the fraud loss will be lower than the amount set aside. However, as there is no certainty of recovery, these losses were written off in full.

28. Related party transactions

The Bank regularly enters into direct transactions with two of its shareholders (in million of HUF):

Company	Transaction	Volume For 2000	Balance at 31 December 2000
General Electric Capital	Capital expenses	1,117	619
	Operating expenses	<u>190</u>	<u>-</u>
		1,307	619
EBRD	Deposit Taken	N/A	1,772

The Bank also makes significant banking transactions with companies owned directly or indirectly by the third major shareholder of the Bank, the Hungarian State.

29. Assets pledged as security

In the ordinary course of business, securities and cash are pledged against liabilities. At December 31, 2000, included in the Bank's securities portfolio was HUF 163 million (1999: HUF 177 million) which was pledged as collateral for bankcard transactions.

At 2000 period-end, there were no fixed assets of the bank (1999: nil) burdened by mortgage charges.

BUDAPEST BANK RT AND SUBSIDIARIES
Notes to Consolidated Financial Statements
December 31, 2000

Amounts in tables are expressed in million HUF unless otherwise stated

30. Currency exposure

The Bank's assets and liabilities, denominated by currency (expressed in million HUF), are as follows:

	2000				1999		Total Foreign
	USD	EUR	Other	Total Foreign	HUF	Total	
Assets							
Cash and deposits with the National Bank of Hungary	1,294	1,467	844	3,605	52,408	56,013	5,715
Customer loans and interbank	32,476	12,549	20,953	65,978	142,643	208,621	41,822
Securities			2,731	2,731	36,730	39,461	10,157
Other	249	86	105	440	31,016	31,456	393
Total	<u>34,019</u>	<u>14,102</u>	<u>24,633</u>	<u>72,754</u>	<u>262,797</u>	<u>335,551</u>	<u>58,087</u>
Liabilities							
Deposits	32,090	3,068	23,856	59,014	185,874	244,888	56,379
Interbank	1,426	11,092	521	13,039	18,832	31,871	6,402
Provisions					2,342	2,342	
Other	667	807	181	1,655	22,289	23,944	1,045
Shareholders' Fund	-	-	-	-	32,506	32,506	-
	<u>34,183</u>	<u>14,967</u>	<u>24,558</u>	<u>73,708</u>	<u>261,843</u>	<u>335,551</u>	<u>63,826</u>
Net foreign currency exposure, long / (short)	<u>(164)</u>	<u>(865)</u>	<u>75</u>	<u>(954)</u>	<u>954</u>		<u>(5,739)</u>

Amounts in tables are expressed in million HUF unless otherwise stated

31. Segmental Reporting

The Bank segments its interest bearing portfolio and liabilities in order to analyse earnings as follows:

	Commercial	Consumer	Treasury	Other	Total
Assets					
Cash			6,749		6,749
Deposits with the National Bank of Hungary			49,264		49,264
Deposits with other banks			35,826		35,826
Loans and advances	130,775	42,020			172,795
Prepayments and accrued interest receivable				3,629	3,629
Trading securities			9,857		9,857
Investment securities			3,330		3,330
Securities available for sale			26,274		26,274
Other assets				12,748	12,748
Premises and equipment				15,079	15,079
Total Assets	<u>130,775</u>	<u>42,020</u>	<u>131,300</u>	<u>31,456</u>	<u>335,551</u>

	Commercial	Consumer	Treasury	Other	Total
Liabilities & Shareholders' Funds					
Deposits and other customer accounts	105,923	138,965			244,888
Borrowings from the National Bank of Hungary			5,857		5,857
Deposits from other banks			26,014		26,014
Other government borrowings			1,624		1,624
Accruals and accrued interest payable				2,019	2,019
Other creditors				16,440	16,440
Provision for off balance sheet items and other				2,342	2,342
Subordinated debt			3,861		3,861
Shareholders' Funds				32,506	32,506
Total Liabilities & Shareholders' Funds	<u>105,923</u>	<u>138,965</u>	<u>37,356</u>	<u>53,307</u>	<u>335,551</u>

Amounts in tables are expressed in million HUF unless otherwise stated

32. Maturity Analysis

	Less than 1 year	Over 1 year	Total
Assets			
Cash	6,749	-	6,749
Deposits with the National Bank of Hungary	46,931	2,333	49,264
Deposits with other banks	34,066	1,760	35,826
Loans and advances	91,068	81,727	172,795
Prepayments and accrued interest receivable	3,629	-	3,629
Trading securities	1,236	8,621	9,857
Investment securities	-	3,330	3,330
Securities available for sale	-	26,274	26,274
Other assets	12,748	-	12,748
Premises and equipment	<u>-</u>	<u>15,079</u>	<u>15,079</u>
Total Assets	<u>196,427</u>	<u>139,124</u>	<u>335,551</u>
Liabilities & Shareholders' Funds			
Deposits and other customer accounts	240,119	4,769	244,888
Borrowings from the National Bank of Hungary	545	5,312	5,857
Deposits from other banks	23,292	2,722	26,014
Other government borrowings	-	1,624	1,624
Accruals and accrued interest payable	2,019	-	2,019
Other creditors	16,440	-	16,440
Provision for off balance sheet and other items	-	2,342	2,342
Subordinated debt	-	3,861	3,861
Shareholders' Funds	<u>-</u>	<u>32,506</u>	<u>32,506</u>
Total Liabilities & Shareholders' Funds	<u>282,415</u>	<u>53,136</u>	<u>335,551</u>
Maturity Gap	<u>(85,988)</u>	<u>85,988</u>	

Amounts in tables are expressed in million HUF unless otherwise stated

33. Interest rate sensitivity: average interest rates

As at 31 December 2000, average domestic currency interest rates by the earlier of the contractual repricing or maturity dates were as follows (amounts are expressed in %):

Assets	Up to 1 month	1 month to 3 months	3 month to 1 year	1 year and over	Average interest rates
Deposits with the National Bank of Hungary	9.97				9.97
Deposits with other banks	11.64	11.77			11.68
Loans and advances	15.32	16.92	17.69	20.38	17.85
Securities	11.90	11.26	10.61	9.85	10.69
Mandatory reserves with the NBH		6.12			6.12

Liabilities	Up to 1 month	1 month to 3 months	3 month to 1 year	1 year and over	Average Interest Rates
Deposits and other customer accounts	6.44	4.01	8.05	8.92	5.70
Borrowings from the National Bank of Hungary	7.86				7.86
Deposits from other banks	11.00	10.91			10.96
Subordinated debt			10.58		10.58

As at 31 December 2000, average foreign currency interest rates by the earlier of the contractual repricing or maturity dates were as follows (amounts are expressed in %):

Assets	Up to 1 month	1 month to 3 months	3 month to 1 year	1 year and over	Average interest rates
Deposits with the National Bank of Hungary	5.03				5.03
Deposits with other banks	6.40	6.44	6.65		6.43
Loans and advances	6.78	7.88	6.88	6.78	6.70
Securities		5.96			5.96

Liabilities	Up to 1 month	1 month to 3 months	3 month to 1 year	1 year and over	Average interest rates
Deposits and other customer accounts	1.33	2.75	3.29	3.30	2.40
Borrowings from the National Bank of Hungary			4.50	4.50	4.50
Deposits from other banks	5.35	5.00	5.00		5.33

Amounts in tables are expressed in million HUF unless otherwise stated

34. Interest rate sensitivity: interest repricing

On non all inclusive basis, the groupings of the carrying amounts of the assets and liabilities by the contractual repricing or maturity periods, whichever dates are earlier, are as follows at 31 December 2000:

	Up to 1 month	1 month to 3 months	3 month to 1 year	1 year and over	Total
Assets					
Deposits with the National Bank of Hungary	19,330	29,934			49,264
Deposits with other banks	25,051	9,311	1,464		35,826
Loans and advances	79,265	21,663	20,503	55,646	177,077
Securities	3	17,545	13,927	7,986	39,461
Non interest earning assets and other					33,923
Total	123,649	78,453	35,894	63,632	335,551
	Up to 1 month	1 month to 3 months	3 month to 1 year	1 year and over	Total
Liabilities					
Deposits and other customer accounts	84,485	141,540	17,728	1,135	244,888
Borrowings from the National Bank of Hungary	5,829		9	19	5,857
Deposits from other banks	9,389	1,832	14,793		26,014
Subordinated debt			3,861		3,861
Non interest earning liabilities and other					22,425
Shareholders' Fund					32,506
Total	99,703	143,372	36,391	1,154	335,551
Sensitivity Position	23,946	(64,919)	(497)	62,478	