CONCORDE

# 2·0·0·9

CONCORDE SECURITIES LTD.

# ANNUAL REPORT

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# COMPANY DESCRIPTION

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Concorde Securities Ltd. is Hungary's leading independent investment banking firm, offering integrated financial services in the areas of securities trading, research and analysis, corporate finance, capital market transactions, asset management and investment advice. Concorde is a member of the Budapest Stock Exchange, Frankfurt Stock Exchange, Warsaw Stock Exchange and the Association of Securities Dealers.

Concorde's activities and strategy are based on the following business philosophy:

Concorde conducts its business activity within a clearly defined set of financial services, and thus its strategy is influenced by the development and growth of these markets. In line with its profile as an integrated service provider, Concorde's goal is to develop its business as an organic whole, with its various activities complementing and reinforcing one another. By the same token, it avoids entering into areas that do not fit with its core activities, regardless of the potential returns.

In terms of its turnover, Concorde – particularly when compared to traditional industrial, trading or service companies – is a relatively large concern. As such, it needs to have well-designed processes and mechanisms in place to ensure the security, efficiency and profitability of its operation. At the same time, we understand that our customers would prefer not to deal with impersonal corporate processes, but rather with people – and for this reason, we continue to operate as a "small shop" consisting of a modest number of highly skilled and dedicated "artisans".

Concorde's owners consist of Hungarian financial investors who do not take part in the actual running of the Company. This means that we do not enjoy the support of a multinational, or even a national, financial group. However, on the principle that a solitary sapling will, if properly nurtured, grow into a sturdy oak, we were determined from early on to turn this apparent handicap into a strength. Realising that we had nothing but ourselves to fall back on, we strove from the start to create a company that was self-reliant and strong in its own right – and one that attracts customers and does business with other market participants purely on the strength of its products and services.

We are well aware that to function as a large company without losing touch with one's clients, as well as to succeed as an independent company, present challenges that only an exceptionally motivated and dedicated team can meet. In order to achieve this level of commitment, Concorde is, itself, completely committed to its employees, providing them with every opportunity to develop their skills and knowledge, and thereby to realise their personal ambitions. While maintaining the utmost respect for the freedom of the individual, the ultimate aim is to maximise the performance of the team, since it is not only accomplished soloists that we need, but an orchestra playing in perfect harmony – a whole that is greater than the sum of its parts.

Another indication of Concorde's maturity is the fact that, whereas in the first decade the various social and cultural, welfare and healthcare programmes that we regarded as worthy causes were supported not from the company's own money but from the private resources of the owners, in the last few years, in addition to the private support given by the owners, Concorde has also acted as a significant corporate patron and sponsor. Our philosophy is that we should always provide, first and foremost, support to the causes that are most in need of our help, but that we should at the same time establish connections, points of contact between the various programmes we sponsor, and consequently we also set considerable store by the emergence of long-term collaborative relationships with the civil organisations operating in the supported areas.

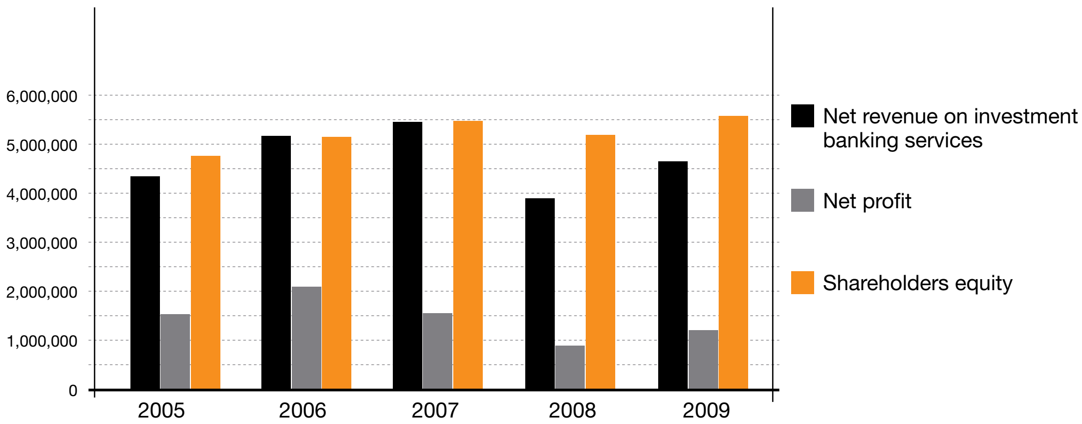
# CONDENSED FINANCIAL INFORMATION

## Condensed financial information (HUF thousand)

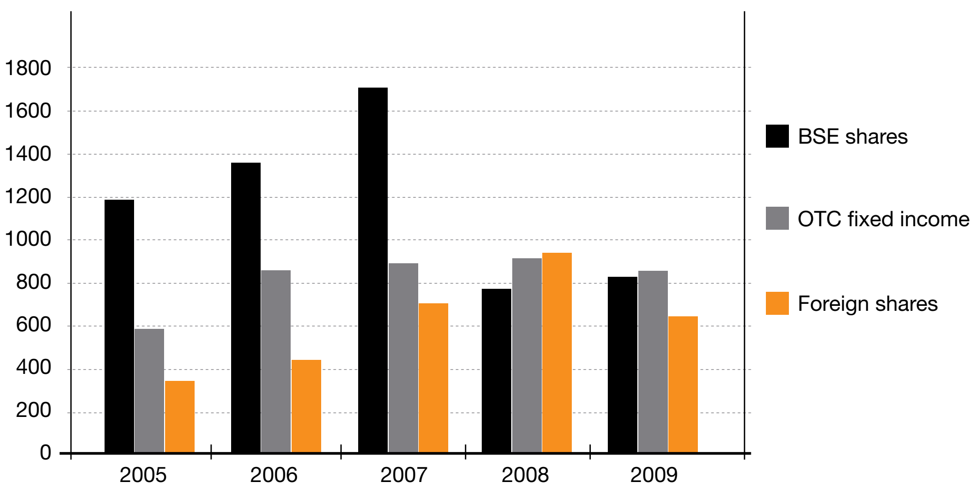
| | 2005 IFRS consolidated | 2006 IFRS consolidated | 2007 IFRS consolidated | 2008 IFRS consolidated | 2009 IFRS consolidated |
|---|---|---|---|---|---|
| Total assets | 9,035,290 | 14,451,075 | 12,969,743 | 11,713,884 | 16,729,597 |
| Shareholders equity | 4,759,689 | 5,616,396 | 5,476,264 | 5,174,474 | 5,586,505 |
| Share capital | 1,000,000 | 1,000,000 | 1,000,000 | 1,000,000 | 1,000,000 |
| Net revenue on investment banking services | 4,362,938 | 5,206,518 | 5,465,185 | 3,904,190 | 4,640,772 |
| Net profit | 1,531,149 | 2,071,113 | 1,552,845 | 920,821 | 1,185,586 |
| Turnover (HUF million) | 2,139,214 | 2,842,093 | 3,296,025 | 2,681,066 | 2,346,009 |
| Number of employees | 109 | 118 | 135 | 143 | 128 |
| Return on equity | 50% | 44% | 28% | 17% | 23% |

Note: IFRS - International Financial Reporting Standards

## Financial figures (HUF thousand)




## Turnover (HUF billion)



# MANAGEMENT REPORT

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## Economic crisis – business as usual

In 2009, its sixteenth full year of business, Concorde achieved a total investment services revenue of HUF 6,619 million (in 2008: HUF 7,233 million), with a securities trading volume of HUF 2,346 billion (in 2008: HUF 2,681 billion). The company's pre-tax profit resulted in HUF 1,750 million (in 2008: HUF 1,163 million) and after deducting income tax expenses, the net profit for the year was HUF 1,186 million (compared to HUF 921 million in 2008).

## Collapse and rescue

The global financial and economic crisis that began in 2007 reached its nadir in 2009, and as a consequence of the liquidity shortage that followed the Lehman Brothers bankruptcy the dramatic scale of the collapse, and the speed at which it ran its course, exceeded all previous expectations.

The financial crisis that had developed by autumn 2008 (and the contraction in the real economy, which this aggravated), deepened further in the first months of 2009, threatening market players, governments and central banks with the spectre of a protracted recessive period similar to the Great Depression that lasted from 1929 until the Second World War. Historical studies of the Great Depression were produced, accompanied by a plethora of recommendations on how to avoid making similar economic sacrifices this time round (35% fall in production, 25% rate of unemployment, 30% drop in world trade, 90% plunge in share indexes).

The most important task was restoring the banks' liquidity, capital position and refinancing circumstances, because even if we disregard the decline in end-user demand, these were having a severely negative impact on the consumption, investments and output of households and companies. A key role in resolving these issues was played by the central banks' interest-reducing and liquidity-boosting measures, as well as the various government bank rescue initiatives.

Most of the world's global banks and investment banks, and several insurance companies, effectively went bankrupt in 2008; but following the doctrine that these were "too big to fail", their governments and central banks, in a series of measures that continued into 2009, rescued and recapitalised them, and bolstered them with state guarantees. The growth in banks' refinancing opportunities, and the improvement in the capital situation, led to a reduction in the banks' funding costs, which had risen to a long-unseen level in comparison to the benchmark interest rates (in other words the banks were reluctant to finance not only their customers, but each other, even in the first months of 2009).

Due to the improving financing situation and the critical levels of inventory stock, which had been depleted by the earlier liquidity crisis and companies' negative prospects (or rather: a lack of any prospects), and to the fall in exchange-listed commodities and equities to dramatically low levels (S&P 500 index 666 points, BUX index 9338 points, WTI oil USD 35, gold USD 700), by spring 2009 the time was ripe for an upward correction in both the real economy and in the markets.

This was greatly assisted by the world's governments' and central banks' adamant stance that they would not shy away from using any means to avoid the emergence of a trend similar to that of 1929. At the forefront of this campaign was the US Federal Reserve, headed up by Great Depression expert Ben Bernanke, which sent a clear message to the market not only by setting interest rates at close to zero, but also through its liquidity-generating actions (quantitative easing) and verbal statements to the effect that it is prepared to buy up as many securities as it takes to halt the decline. (Accordingly, the Fed's balance sheet quadrupled in size, growing by some USD 1,500 billion.)

The upturn began at the beginning of March, with almost the same momentum as the fall that had preceded it; but the majority of players (including ourselves) took an overly pessimistic stance, and although counting on a recovery, failed to correctly predict both its scale and its duration. Consequently, companies' production, restocking levels and order books, as well as stock exchanges, came to be characterised by the spiralling upward pressure that arises from "underweightedness", which essentially lasted until the end of the year, taking the S&P 500 index above 1,100 points, the BUX over 20,000 points, the WTI oil price to over USD 80 a barrel, and the price of gold to more than USD 1,200 an ounce.

## With the wind filling our sails on a still stormy sea

We began the year 2009 with mixed feelings. On the one hand, we were pleased that in contrast to most of our competitors, clients and banks we had weathered the crisis under our own steam, without assistance from our government and central bank; however, we weren't exactly thrilled about the significant drop in our profit, or the results of our own mistakes, brought home to us by the crisis. And to make matters worse, at the beginning of the year it was plain to see that the situation would deteriorate further.

Accordingly, the year 2009 continued to be dominated by the crisis management measures that had already taken precedence for some time. The banks' weak financing capacity represented a serious problem for us too, because although Concorde in itself has no substantive borrowing requirement, our short-term financing needs related to the execution and settlement of our clients' transactions are, depending on turnover, considerable. Owing to the excellent and dependable relationships that we have built up with our banks over the past decade and a half, with only one or two exceptions none of our credit lines were significantly reduced, and

the only organisations that did lower our borrowing limits were those that would probably have gone bankrupt without the assistance of their governments, and for this reason were forced to dramatically curb their lending operations.
Paradoxically, in the situation precipitated by the banks' irresponsible lending and risk management practices, it was their customers who sustained considerable damage, while as a result of the state intervention the banks themselves, and their managers, emerged from the situation in good shape, indeed many of them posted record results in 2009. Well we certainly weren't aiming for record profits, especially given the fact that, after resolving our financing situation, the second major headache for us was precisely the problem of how to prevent a further deterioration in our profitability.

The dilemma is easily summed up: our revenues had fallen to the level of the mid-2000s while our staff numbers and costs amounted to roughly two thirds of the previous year's, but we were reluctant to implement a crisis management regime that would have a severe impact on the livelihood of our employees, our corporate culture, motivation and working atmosphere; so what was to be done?

Now, while there is certainly no praise due for taking so long to make the decision, taking human nature into account, and in the light of the dilemma we faced, it is perhaps understandable that we placed our trust in an imminent improvement of the market situation, and the sufficiency of less painful cost-cutting measures. In the end we decided to manage the situation without redundancies, with only a relatively slight lowering of staff incomes and the reigning-in of other expenses, which, although it meant that profits were lower in 2008-2009 than in previous years, sent a clear message to our staff that the management and shareholders are willing to make considerable sacrifices in the interests of ensuring our employees' security and livelihoods. We are sure that this will result in an even higher level of motivation and integrity within the company and among our employees, the signs of which were clearly reflected in our growing market share and improving profitability in the second half of the year.

In summary, despite all the difficulties, overall the Concorde Group did well last year, as profit began to rise once again, as did our market share and the volume of clients' assets under our management. The equity trading division, in terms of the services it provides to both institutional and private clients, is clearly on the way to regaining its former positions and revenue levels. New products have come to the fore (e.g. trading in foreign currency bonds), making up for the shortfall in revenue from other products, while trading on foreign markets continued to gain ground, thus reducing our dependence on the Budapest Stock Exchange; half of our commission revenues came from transactions concluded on foreign bourses in 2009.

Our wealth management division closed a record year, largely due to the fact that virtually all of our portfolios performed better than had originally been expected on the basis of our mandates. Consequently, we expect to achieve serious growth due to the migration of clients (assets) disappointed in other services providers. In anticipation of this, Concorde Securities Ltd. and Concorde Investment Fund Management Ltd. are launching a private banking service this year. Although the key components of the new service already exist within the group, integrating them and communicating them more effectively to clients will enable us to develop them further while acquiring new clients and portfolios on a major scale.

As a result of the usual cycles, our corporate financial consulting business, following what had been a very strong year in 2008, found itself in a very tough operating environment in 2009, as the market for corporate transactions essentially ground to a halt. However, as a result of some excellent marketing work it seems likely that if the mandates begun towards the end of 2009 bear fruit this year, we will have a lot more cause for celebration in this line of our business too. The film industry was least affected by the crisis, and so although the search for financing sources did cause us a very serious headache due to the crisis mid-year, the high demands of producers and a subsequent improvement in the financing situation generated a substantial volumes in the film financing business by the end of the year.

## The change we need – a new captain at the helm

The greatest change of last year, and in the history of the company (apart from its establishment), was the withdrawal of the three of us from operative management, and the appointment of Árpád Pál as CEO. We will continue our work as members of the company's most important governing body, the Board of Directors (and of the committees governing the subsidiaries), but our role in this respect will be limited to strategic aspects.

What was the reason for this change? It is our firmly held conviction that in a constantly changing world, only organisations that remain agile and receptive to change are capable of surviving and evolving. Concorde is probably the most adaptable, flexible and innovative company in the financial sector; however, it was beginning to be paralysed by a complete rigidity in one respect – its shareholder structure and management. While we have no influence over the former, the latter is about us and us alone. We should have been giving serious consideration to the need for a change even if we'd been performing our work faultlessly, which unfortunately, however, was not the case.

Not only did we make mistakes, we reproduced certain errors by coding them into our operation, and were incapable of breaking free of a vicious circle in which we continued to give the same (bad) response to the same situations. However great our desire to do so at a conscious level, we were regrettably unable to shake off the reflexes of an overly hands-on management style, thus stunting the professional development of the division heads and other managers working alongside us, and like an increasingly tired and weary parent, frustrating ourselves and those around us.

Fortunately, none of this was reflected in the company's performance, as Concorde remained among the most profitable (financial) enterprises in Hungary and the world, even in the midst of the economic crisis; but nevertheless, we knew full well that we could do even better. It takes a great deal of self-awareness and self-control for a company's founding management to take a step back and relinquish a large proportion of the governance tasks; and it is similarly hard for the organisation as a whole to digest this. We believe that both we and our employees have grown up sufficiently to meet this challenge, and in Árpád we have found a chief executive who is "Concorde-compatible" in terms of both his interpersonal skills and professional qualities, allowing the company, rejuvenated and strengthened, to continue its voyage on the seas of the world's financial markets.

## Sponsorship and non-profit programmes

The crisis had a particularly devastating effect on Hungary's economy, but it put the voluntary sector and cultural institutions in an even tougher position, as both state and private sources of funding dried up at the same time. In this situation we felt an obligation to not simply retire to lick our own wounds, but to continue in our efforts, maintaining the enthusiasm of previous years, to assume a role in supporting these areas, and to keep up all our existing programmes and initiatives of this kind as best we can under the given circumstances, while persuading our business partners to do the same. Fortunately we managed to achieve this objective, despite the fact that in some areas crisis management was necessary on a day-to-day basis.

With regard to the cause that is closest to our hearts, the "Fogadj be" (Take Us In!) programme run by the Mosoly Otthon Foundation (MOHA) for the housing and integration of handicapped youngsters, the grants due in 2009, raised in a charity auction held the previous year, were successfully drawn down. As a result, last year another HUF 20 million went to supporting the artists and residential homes, a sum that was supplemented with several more millions from the company's and MOHA's own resources, while not only the residential homes, but various therapeutic institutions also received assistance. Our patronage of the fine arts served to support contemporary culture, and we were overjoyed that, with our help, the works of several young contemporary artists were displayed at some of the world's most prestigious artistic exhibitions, while Hungarian students also had an opportunity to view these international displays.

Classic non-profit sponsorship in 2009:

- Programme aiding the social integration, living conditions, therapeutic care and training of young people living with assistance: HUF 34 million,
- Cultural and arts programme: HUF 16 million,
- Programme aimed at implementing social objectives: HUF 4 million.

Besides the above, we provided HUF 6.2 million in vocational training contributions to support institutions caring for disabled or underprivileged children. Support for film productions totalled HUF 121 million.

## Best Equity House in Hungary

The excellence of Concorde's work is reflected not just in the company's financial results, but in the considerable acclaim and recognition it has received in the past years. Particularly worthy of note in this regard is that, based on a survey of several hundred international investment institutions, Euromoney named Concorde Best Equity House in Hungary in 1996, 1997, 1998 and 2000, as did the financial journal Emerging Markets Investor in 1997.

Perhaps more important than international recognition, however, is the fact that the members of the Budapest Stock Exchange, its own financial community, awarded Concorde the title of Best Brokerage House every year from 1998 through to 2002. This view was supported by the Budapest Business Journal, which, based on an annual survey conducted among its readers, awarded our company the title of Best Equity House in 2003 and again in 2004. After an interval of two years, the professional community of the Budapest Stock Exchange once again awarded us the title of Best Investment Service Provider in 2005.

In recognition of the accuracy of his forecasts, our firm's senior economist and macroeconomic analyst, János Samu, won the title of Best Macroeconomic Analyst in 2005 and 2006, and again in 2009, awarded by the Hungarian financial daily Napi Gazdaság, while the Budapest Stock Exchange awarded the title of Stock Market Best-of-the-Best of 2005 to our analysts Attila Vágó and Mónika Tabányi.

The 2009 edition of the Austria and Central Europe Yearbook of the London-based AQ Research compared the recommendations of brokerage firms and individual analysts with the EPS average derived from all analysts' recommendations, as well as with actual earnings per share. In Hungary, Concorde's team of analysts was ranked third, while Attila Gyurcsik came in first among individual analysts. Based on the fifth, 2010 edition of AQ Research, Concorde Securities Ltd. finished in the top three again, while in the analysts' rankings Concorde's chief analyst Attila Vágó was awarded a similar position.

Among the new awards launched by Mastercard in Hungary in 2006, the title of "Investment Fund Manager of the Year 2006" went to Concorde Fund Management based on the votes of a 72-member judging panel.

György Jaksity received the "Ernst & Young Businessperson of the Year 2007" award, which is generally regarded as the ultimate accolade in the business community. The reasons cited for awarding him the title included not only his considerable business and financial achievements, but also the type of responsibility that he has displayed towards his broader economic and social environment. This encompasses his professional work and social initiatives, and efforts to raise the general level of financial awareness among the public in Hungary, as well as the social, healthcare and other projects that have been launched through the various foundations established and funded by him and his business associates.

The fact that for years now we, the three most senior executives of Concorde, have personally undertaken an active role in the work of the stock exchange, as well as in educational, cultural and humanitarian initiatives, gives us at least as much satisfaction as receiving recognition for our management work. Furthermore, while we continue to be motivated by the conviction that our clients make the right decision in choosing the services of Concorde, we never forget that without their continued trust and confidence Concorde would not be able to achieve its own objectives. We would therefore like to take this opportunity to thank those who have contributed hard work and commitment to the fulfilment of these aims.

| | | |
|---|---|---|
| Gábor Borda | György Jaksity | Norbert Streitmann |


# REPORTS OF THE DIVISIONS

# REPORTS OF THE DIVISIONS

## Equity trading

The Budapest Stock Exchange experienced a slight fall in equity trading volume in 2009, but in contrast, the volume of equities traded by Concorde Securities Ltd. on the BSE increased. The total trading volume of the Budapest Stock Exchange was 3% lower than in the previous year, while Concorde's equity trading turnover rose by 6.6%, giving the company, with its 8.02% market share, the fourth-highest turnover in the market. Turnover in foreign securities was 31% down.

*Market share and ranking based on BSE trading volume*

| | 2005 | 2006 | 2007 | 2008 | 2009 |
|---|---|---|---|---|---|
| BSE equity turnover (HUF mln) | 9,661,044 | 13,000,952 | 17,383,639 | 10,568,527 | 10,276,332 |
| Concorde turnover (HUF mln) | 1,189,112 | 1,532,623 | 1,704,403 | 773,104 | 824,101 |
| Market share (%) | 12.31% | 11.79% | 9.80% | 7.31% | 8.02% |
| Ranking | 3 | 3 | 4 | 5 | 4 |

Against the backdrop of the aforementioned change in trading figures, our revenues from commission-based activity decreased by 13%. Equities accounted for more than 97% of the turnover transacted on the Budapest Stock Exchange, while the proportion of turnover in government securities and corporate bonds (mortgage bonds) was 3%.

*Turnover transacted on the Budapest Stock Exchange (HUF thousand)*

| | 2005 | 2006 | 2007 | 2008 | 2009 |
|---|---|---|---|---|---|
| Equities | 1,189,111,947 | 1,532,623,432 | 1,704,402,627 | 773,104,902 | 824,101,000 |
| Government securities | 121,395 | - | - | 38,060,812 | 595,512 |
| Corporate bonds | 852,641 | 7,503,935 | 1,501,958 | 14,822,184 | 21,763,675 |
| Other securities | 14,416,943 | 1,236,091 | 2,922,615 | 3,454,841 | 3,007,698 |
| **Total** | **1,204,502,926** | **1,541,363,458** | **1,708,827,201** | **829,442,739** | **849,467,885** |

A considerable proportion of Concorde's commission revenue (49%) is generated by commission-based trading on foreign stock exchanges. In 2009 our foreign securities trading operations posted a 31% drop in turnover relative to the previous year. The commission earned on transactions executed on foreign bourses decreased by 16% in 2009.

*Foreign securities trading volume (HUF thousand)*

| | 2005 | 2006 | 2007 | 2008 | 2009 |
|---|---|---|---|---|---|
| Equities | 318,618,480 | 397,846,340 | 664,984,281 | 906,226,724 | 627,773,142 |
| Government securities | 24,338,039 | 39,171,906 | 31,580,669 | 16,156,974 | 3,829,651 |
| Other securities | 546,409 | 3,371,214 | 5,061,772 | 15,335,137 | 12,721,054 |
| **Total** | **343,502,928** | **440,389,460** | **701,626,722** | **937,718,835** | **644,323,847** |

## Retail customers

2009 was a year of stabilisation, following the 25% decline of 2008. In 2009 the division managed to increase its annual sales revenue by almost 10%.

In equity trading, domestic revenue regained its lead position, although its share of overall revenue only exceeded the proportion of income derived from foreign equity trading by a few percentage points.

The rise in the number of new client-account contracts was exceptionally high in the spring months. This period saw accounts being opened with us by clients who had hitherto made little or no investments in the capital market. We attribute this to the media attention that preceded and followed the low point in the market that was reached in March. Naturally, however, the dramatic fall at the beginning of the year had a tangible impact on our existing base of clients, and overall in the course of the year, customer churn and the influx of new clients more or less cancelled each other out.

In 2009 we also offered new products to our clients, and transacted a considerable turnover in the foreign currency bonds of domestic corporations (MOL, OTP).

## Fixed-income business and treasury operations

The fixed-income markets behaved similarly to the equity markets in 2009. In terms of yield levels this means that by March the yields on government securities rose to around 12%, from which level they dropped steadily, essentially with no corrections, right down to 6-7% at the end of the year. The National Bank of Hungary (MNB) continuously lowered the base interest rate in line with this trend. The EUR/HUF exchange rate fell from its peak of around HUF 310, to around HUF 270. Trading volume was extremely volatile, with days of high turnover and days of total inactivity following each other unpredictably in all markets and with respect to all instruments.

As a non-primary dealer, the main task of our fixed-income division in 2009 continued to be to serve, to a high standard, both the company's (mainly domestic) institutional and retail clients, and to arrange the FX trades related to international securities trading and other capital market transactions. In the year 2009 we traded a total of HUF 768 billion-worth of fixed-income products, mainly Hungarian government securities. This turnover was some 7% lower than in the previous year. The volume of our FX trading came to HUF 352 billion.

## Derivative products

The continuing financial crisis led to a further decline in turnover in the BSE's futures market. Trading volumes in derivative products on the Budapest Stock Exchange decreased by around 19% in 2009. Unfortunately, this tendency was reflected the most markedly in our equity futures turnover. In our FX futures turnover, however, we achieved a further 40% growth, while our BUX futures trading volume also increased by some 10%. Thus, Concorde's total futures turnover rose by 9% overall in comparison to the previous year.

Our commission revenue amounted to approximately HUF 70 million in 2009.

The most important challenge for this division was to appropriately manage the large exchange-rate and account movements, a task that we successfully performed. The continued growth in our FX turnover was due to the constant fluctuations in the forint exchange rate and the conclusion of new hedge transactions, while we owe the increase in our BUX turnover to a rise in the popularity of shorting. We also acquired new clients in 2009, with the total number of our customers rising by around 10%.

## Research

The year 2009 brought a number of major challenges, as we had to prepare both macroeconomic and corporate analyses to a high degree of accuracy in a rapidly changing business environment. In the first quarter of the year our forecasts were far more optimistic than the market consensus with regard to both the forint exchange rate and the degree of macroeconomic stabilisation, and our expectations were borne out by events. At the same time, from September onwards we adopted a more cautious stance, and in our opinion economic growth, and thus the trajectory with regard to corporate profits, will in future be more moderate than it has been in the recent upswing, and for this reason we regard the current mood in the market as being somewhat over-optimistic.

The range of companies covered by our research team underwent a marked expansion over the year, as we began to monitor certain property-market companies in the region, Poland's BRE Bank, Austria's ÖMV oil and gas company, Poland's PKO and Pekao Bank, as well as RFV in Hungary. This was achieved without an increase in staff numbers, meaning that our research operations became far more efficient over the course of the year.
The focus of our research, which was formerly Hungary-centred, has undergone a shift, and the objective is now to become a regional research centre, and it was in this spirit that we prepared our reports in 2009. A prime example of this is our publication entitled CEE Quarterly Report, which was first published last year, and on more than 200 pages gives a comprehensive picture of the region's macroeconomic trends and companies.

In recognition of our professional work during the year, Attila Vágó, our analyst with responsibility for the region's pharmaceutical and oil companies, was named the Hungarian analyst providing the second most accurate estimates on the basis of a survey by the London-based AQ Research, while Concorde's team of analysts also achieved second place in the competition, beating out many notable rivals with international banking backgrounds.
In 2010, too, we will continue to provide services and forecasts to a number of international news agencies and companies that publish and collate market research. Among our important corporate partners are Bloomberg, S&P EMDB, Morgan Stanley Capital International, I/B/E/S, JCF, Multex and Reuters, while Concorde's research reports can be downloaded from the subscriber pages of FactSet and Reuters.

## Concorde Asset Management Ltd.

The assets managed by Concorde Asset Management Ltd. grew by 27%, rising from HUF 166 billion at the end of 2008 to HUF 211 billion by the close of 2009. The change was most pronounced in the institutional asset management segment, and especially the private wealth management segment, while moderate growth was experienced in the investment fund portfolio.

Thanks to new asset-management mandates won in the course of the year, the growth in managed assets exceeded the Hungarian average by a significant extent. This is particularly important if we examine the past two years, 2008 and 2009, together. In the space of these two years the assets managed by Concorde Asset Management have grown by almost 20%! The world's equity and bond markets have put behind them a year of extreme volatility. The panic experienced in the first quarter, which was even more dramatic than that of autumn 2008 and which also tested the limits of our clients' tolerance, had abated by the end of the year. The portfolios managed by the Fund Manager profited from the raising in the degree of risk between autumn 2008 and spring 2009, and good results were achieved by all portfolios.

All of the portfolios linked to the institutional reference yield succeeded in outperforming their benchmarks. As a result of this, we tangibly strengthened our position in the independent pension fund market, which we regard as an important achievement. We managed to increase the number of our clients despite the hostile market environment, which is a testament to the high regard in which Concorde Asset Management's institutional asset management services are held.

At the beginning of the year, following autumn 2008, the risk exposure of absolute-return portfolios continued to rise. We raised the level of risk exposure in every asset class, buying a particularly high quantity of corporate bonds to augment the portfolios. We also raised the maturity of the Hungarian government securities held. In the second half of the year, as the markets rose, we gradually lowered risk exposure, thus realising the profit earned on our previously opened positions.

In private wealth management, over the past twelve years, we have succeeded in developing a structure that has earned an excellent reputation in the private asset management market, and which has now also been proven to perform well in a time of crisis. As a result of this, the number of our clients has grown, despite the high entry threshold and steady deterioration in investor sentiment. Our aim is to further strengthen our operations in this area, because we are filling a gap in the Hungarian market by providing a service for which, in our judgement, there is a growing demand.

The number of managed funds increased further in 2009. We launched an absolute-return derivative fund, an equity investment fund, a low-risk absolute-yield short-term bond fund, and a private investment fund. In our experience, selling investment funds in the Hungarian market is still an unwieldy task, and we expect no dramatic change to this situation in the near future.
We maintain our goal of assuring our clients of good yields over the mid and long term while managing the attendant risks, and we are regarded as being among the best-performing companies in terms of managing portfolios. With an eye on preparing for the coming decade, the number of staff of the fund management company has also grown. We now have a Polish colleague, including whom the total number of the company's employees was 23 at the end of the year.

## Concorde Corporate Finance Ltd.

The most important – and indeed the only – positive aspect of last year was that from here the only way is up.

2009 will go down as a black year in the history of the corporate mergers and acquisitions market (too). A corporate sector crippled by the economic crisis, the drying up of credit sources, and the risk avoidance that followed the previous period of excessive risk assumption, all resulted in a dramatic fall in the value and number of transactions. In Hungary, all this was exacerbated by a particularly draconian tightening of the credit supply on the part of the banks, and the "world-first restriction" applied out of necessity as a punishment for earlier budgetary misdemeanours, as a result of which the Hungarian economy was plunged into a deep recession. Passing potential foreign buyers were far from encouraged by the macroeconomic risk, which for a long period was regarded as especially high; and as a result of all these factors the corporate M&A market went into a state of hibernation.

Since the second half of the year, however, the ice has appeared to be melting – negotiations that had previously ground to a halt have been reopened, and investor interest is strengthening. We hope that the budding transactions will not be stricken by another period of frost, and in 2010 we will harvest the fruits of our work in the form of closed deals.

## Concorde Financial Consulting Ltd.

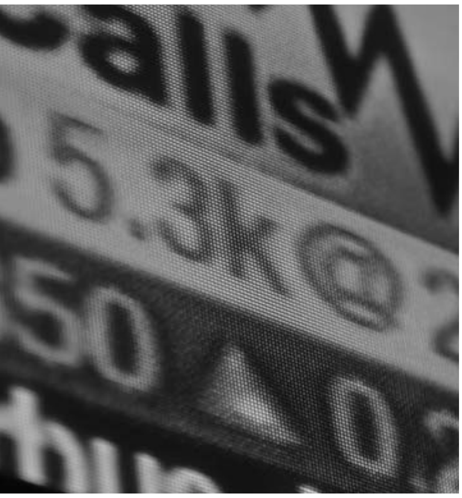
The volume of film subsidies disbursed by Concorde Financial Consulting (CFC) doubled in 2009 in comparison to the previous year, amounting to HUF 2,286 million.
This result bears witness to how CFC's success in overcoming the business challenges of 2009, such as the fall in profitability of the large corporate segment (where participation is encouraged by the corporate tax breaks available to providers of film financing subsidies), the environment of high interest rates and the consequent reduction in the number of Hungarian companies giving consideration to film sponsorship.

The most important developments and achievements of the year were as follows:

We increased the number of companies subsidising films – in return for entitlement to corporate tax breaks – and provided them with the means of channelling a substantial volume of subsidy. We acquired new large corporate clients that had considerable "tax capacity" and predictable earnings in their own right, which served to stabilise the sponsorship background of the division, thereby significantly improving its business outlook.

- On both the producer and sponsor side we succeeded in raising commission levels, which in turn contributed to a growth in the profitability of CFC in the 2009 business year.
- Owing to two successful consecutive film-industry events, and the media campaign that accompanied them, we further strengthened the Concorde Financial Consulting brand, and successfully deployed these tools in CFC's end-of-year fundraising.
- We maintained our relationships with film production companies, in spite of the hostile market environment. CFC did not lose a single film-industry client in 2009; ideed, towards the end of the year we undertook the support of new clients/film productions.

In 2009, despite the tough economic environment, CFC closed a financially successful year, during which it consolidated and strengthened its base of sponsors.



# FINANCIAL STATEMENTS

Deloitte.

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# INDEPENDENT AUDITOR'S REPORT

To the Shareholders of Concorde Securities Ltd.

We have audited the accompanying consolidated financial statements of Concorde Securities Ltd. and its subsidiaries, which comprise the consolidated statement of financial position as at December 31, 2009, and the related consolidated statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

*Management's Responsibility for the Financial Statements*

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards as adopted by the European Union. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

*Auditor's Responsibility*

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

*Opinion*

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of Concorde Securities Ltd. and its subsidiaries as of December 31, 2009, and of its consolidated financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

Budapest, April 1, 2010

Jack Bell
Deloitte Auditing and Consulting Ltd.
1068 Budapest, Dózsa György út 84/C
000083

# CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS OF DECEMBER 31, 2009

*(All amounts in thousands of HUF unless otherwise stated)*

| | Notes | December 31, 2009 | December 31, 2008 |
|---|---|---|---|
| **Assets** | | | |
| Current Assets: | | | |
| Cash and cash equivalents | 3 | 8,740,850 | 6,039,479 |
| Receivables from brokers, dealers and customers | 4 | 2,215,812 | 1,767,795 |
| Financial assets measured at fair value through profit or loss | 5 | 2,809,821 | 2,556,771 |
| Other receivables and accruals | 6 | 2,079,208 | 395,556 |
| Total current assets | | 15,845,691 | 10,759,601 |
| Non-current Assets: | | | |
| Goodwill | | 70,400 | 70,400 |
| Equity investments | 7 | 275,918 | 276,274 |
| Loans to employees | | 10,000 | 10,000 |
| Tangible and intangible fixed assets | 8 | 519,203 | 589,224 |
| Deferred tax assets | 17 | 8,385 | 8,385 |
| Total non-current assets | | 883,906 | 954,283 |
| **Total assets** | | **16,729,597** | **11,713,884** |
| **Liabilities and Shareholders' Equity** | | | |
| Current Liabilities: | | | |
| Liabilities to brokers, dealers and customers | 9 | 10,080,193 | 5,445,459 |
| Short term borrowings | 9 | 379,864 | 592,486 |
| Other liabilities | 10 | 683,035 | 501,465 |
| Total current liabilities | | 11,143,092 | 6,539,410 |
| Shareholders' Equity: | | | |
| Share capital | 11 | 1,000,000 | 1,000,000 |
| Statutory reserves | 11 | - | 791,870 |
| Retained earnings | | 4,281,809 | 3,309,217 |
| Treasury shares | 12 | (27,988) | (8,212) |
| Total shareholders' equity attributable to equity holders | | 5,253,821 | 5,092,875 |
| Non-controlling interest | | 332,684 | 81,599 |
| **Total liabilities and shareholders' equity** | | **16,729,597** | **11,713,884** |

The accompanying notes to consolidated financial statements on pages 30 to 54 form an integral part of these consolidated financial statements

# CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME FOR THE YEAR ENDED DECEMBER 31, 2009

| (All amounts in thousands of HUF unless otherwise stated) | Notes | December 31, 2009 | December 31, 2008 |
|---|---|---|---|
| **Revenue** | | | |
| Commissions | | 2,796,714 | 3,178,251 |
| Gains on securities traded on proprietary account | 13 | 1,701,080 | 1,937,619 |
| Corporate finance activities | | 43,089 | 333,876 |
| Custodianship, safe-keeping and portfolio management activities | | 1,377,583 | 838,374 |
| Interest and dividend income from securities | | 464,014 | 544,387 |
| Other income | | 236,592 | 400,991 |
| **Total revenue** | | **6,619,072** | **7,233,498** |
| **Expenses** | | | |
| Commission expenses | | (494,447) | (630,998) |
| Losses on securities traded on proprietary account | 13 | (772,378) | (1,702,873) |
| Wages and salaries | 14 | (1,548,614) | (1,618,704) |
| Brokerage, clearing and exchange fees | | (376,039) | (330,953) |
| Communication costs | | (269,496) | (243,852) |
| General and administration expenses | 15 | (986,628) | (964,368) |
| Interest paid | | (117,532) | (233,285) |
| Other expenses | 16 | (302,952) | (345,370) |
| **Total expenses** | | **(4,868,085)** | **(6,070,403)** |
| **Profit before tax** | | **1,750,987** | **1,163,095** |
| Income tax expense | 17 | (193,868) | (108,870) |
| **Profit for the year** | | **1,557,119** | **1,054,225** |
| Attributable to: | | | |
| Equity holders of parents | | 1,185,586 | 920,821 |
| Non-controlling interest | | 371,532 | 133,404 |
| | | 1,557,119 | 1,054,225 |
| Weighted average number of shares outstanding during the year | | 993,486 | 998,750 |
| **Consolidated diluted earning per share in thousand of HUF** | | **1,567** | **1,056** |
| **NET PROFIT FOR THE YEAR (EQUITY HOLDERS)** | | **1,185,586** | **920,821** |
| **NET COMPREHENSIVE INCOME** | | **1,185,586** | **920,821** |

The accompanying notes to consolidated financial statements on pages 30 to 54 form an integral part of these consolidated financial statements

# CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY FOR THE YEAR ENDED DECEMBER 31, 2009

*(All amounts in thousands of HUF unless otherwise stated)*

| | Share Capital | Treasury shares | Statutory reserve | Retained Earnings and Reserves | Total Share-holders' Equity | Non-controlling Interest | Total Shareholders' Equity & Non-controlling interest |
|---|---|---|---|---|---|---|---|
| Balance as at January 1, 2008 | 1,000,000 | (8,212) | 791,870 | 3,552,721 | 5,336,379 | 139,885 | 5,476,264 |
| Net comprehensive income for the year | - | - | - | 920,821 | 920,821 | 133,404 | 1,054,225 |
| Dividends paid | - | - | - | (1,164,325) | (1,164,325) | (191,690) | (1,356,015) |
| Balance as at December 31, 2008 | 1,000,000 | (8,212) | 791,870 | 3,309,217 | 5,092,875 | 81,599 | 5,174,474 |
| Net comprehensive income for the year | - | - | - | 1,185,586 | 1,185,586 | 371,532 | 1,557,118 |
| Dividends paid | - | - | - | (1,004,864) | (1,004,864) | (120,447) | (1,125,311) |
| Repurchase of treasury shares | - | (19,776) | - | - | (19,776) | - | (19,776) |
| Release of statutory reserve(*) | - | - | (791,870) | 791,870 | - | - | - |
| Balance as of December 31, 2009 | 1,000,000 | (27,988) | - | 4,281,809 | 5,253,821 | 332,684 | 5,586,505 |

* See Note 11

The accompanying notes to consolidated financial statements on pages 30 to 54 form an integral part of these consolidated financial statements.

# CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE YEAR ENDED DECEMBER 31, 2009

(All amounts in thousands of HUF unless otherwise stated)

| | Year ended December 31, 2009 | Year ended December 31, 2008 |
|---|---|---|
| **Cash flows from operating activities:** | | |
| Profit before tax | 1,750,987 | 1,163,095 |
| Adjustments for: | | |
| Depreciation and amortisation | 190,811 | 207,276 |
| (Gain)/loss on sale of investments | - | (196,048) |
| Interest expense | 117,532 | 233,285 |
| Interest income | (369,128) | (544,387) |
| Operating profit before working capital changes | 1,690,202 | 863,219 |
| Increase in securities held for trade and derivatives | (253,050) | (121,643) |
| (Increase)/Decrease in accounts receivable from settlement | (448,017) | 1,101,580 |
| (Increase)/decrease in accounts receivable and other current assets | (1,683,650) | (87,314) |
| Decrease in accounts payable from settlement | 4,634,734 | 186,004 |
| Decrease in accounts payable and accruals | 181,569 | 236,587 |
| Cash generated from operations | 4,121,788 | 2,198,703 |
| Interest paid | (117,352) | (239,615) |
| Interest received | 351,543 | 526,802 |
| Income taxes payable | (193,868) | (108,870) |
| Net cash flow provided by operating activities | 4,162,111 | 2,377,020 |
| **Cash flows from investing activities:** | | |
| Purchase of property, plant and equipment | (132,381) | (131,516) |
| Proceeds on sale of property, plant and equipment | 28,994 | 10,577 |
| Proceeds on sale of investments | 356 | 204,858 |
| Net cash flow generated by investing activities | (103,031) | 83,919 |
| **Cash flows from financing activities:** | | |
| Net Increase of short term loans | (212,622) | (1,196,656) |
| Dividends paid | (1,004,864) | (1,164,325) |
| Dividends paid to minority interest | (120,447) | (191,690) |
| Treasury shares acquired | (19,776) | - |
| Net cash flow used in financing activities | (1,357,709) | (2,552,671) |
| **Increase/(Decrease) in cash and cash equivalents** | 2,701,371 | (91,732) |
| **Cash and cash equivalents at beginning of year** | 6,039,479 | 6,131,211 |
| **Cash and cash equivalents at end of year** | 8,740,850 | 6,039,479 |

The accompanying notes to consolidated financial statements on pages 30 to 54 form an integral part of these consolidated financial statements.

# NOTES TO THE FINANCIAL STATEMENTS

## 1. GENERAL INFORMATION AND ADOPTION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS

Concorde Securities Ltd. (the "Company") is a company limited by shares incorporated under the laws of the Republic of Hungary. The Company is primarily engaged in stock-broking, fixed income and derivatives trading, corporate finance, investment and financial advisory services, asset management and private equity business. The registered office of the Company is located in Hungary (H-1123), at Alkotás utca 50, Budapest, and now the Company and its controlled subsidiaries (Concorde Corporate Finance Ltd. and Concorde Asset Management Ltd.) are referred to collectively as the "Group".

**Accounting**

The Entities of the Group maintain their accounting records and prepare its statutory accounts in accordance with regulations prevailing in Hungary.

The Group's functional currency is the Hungarian Forint ("HUF").

Certain adjustments have been made to the entities' statutory accounts in order to present the consolidated financial position and results of operations of the Bank in accordance with all standards and interpretations approved by the International Accounting Standards Board ("IASB"), which are referred to as International Financial Reporting Standards ("IFRS").

The consolidated financial statements have been prepared in accordance with IFRS as adopted by the European Union (the "EU"). IFRS as adopted by the EU do not currently differ from IFRS as issued by the IASB, except for portfolio hedge accounting under IAS 39 Financial Instruments: Recognition and Measurement ("IAS 39") which has not been approved by the EU. As the Group does not apply portfolio hedge accounting under IAS 39, there would be no impact on these consolidated financial statements, had it been approved by the EU at the balance sheet date.

**The effect of adopting new and revised International Financial Reporting Standards effective from 1 January 2009**

The following amendments to the existing standards issued by the IASB and interpretations issued by the International Financial Reporting Interpretations Committee ("IFRIC") are effective for the current period:

- IAS 1 (Revised) Presentation of Financial Statements – a revised presentation (effec tive for annual periods beginning on or after 1 January 2009)
- IAS 23 (Revised) Borrowing Costs (effective for annual periods beginning on or after 1 January 2009)
- IAS 32 (Amendment) Financial Instruments: Presentation and IAS 1 Presentation of

Financial statements – Puttable financial instruments and obligations arising on liqui dation (effective for annual periods beginning on or after 1 January 2009)

- IFRS 1 (Amendment) First-time adoption of IFRS and IAS 27 (Amendment) Consolidat ed and Separate Financial Statements – Cost of investment in a subsidiary, jointly-controlled entity or associate (effective for annual periods beginning on or after 1 January 2009)
- IFRS 2 (Amendment) Share-based Payment – Vesting conditions and cancellations (effective for annual periods beginning on or after 1 January 2009)
- IFRS 7 (Amendment) Financial Instruments: Disclosures - Improving disclosures about financial instruments (effective for annual periods beginning on or after 1 January 2009)*
- IFRS 8 Operating Segments (effective for annual periods beginning on or after 1 Janu ary 2009)
- IFRIC 9 (Amendment) Reassessment of Embedded Derivatives and IAS 39 (Amend ment) Financial Instruments: Recognition and Measurement – Embedded derivatives (effective for annual periods ending on or after 30 June 2009)
- IFRIC 13 Customer Loyalty Programmes (effective for annual periods beginning on or after 1 July 2008)
- IFRIC 15 Agreements for the Construction of Real Estate (effective for annual periods beginning on or after 1 January 2009)*
- IFRIC 16 Hedges of a Net Investment in a Foreign Operation (effective for annual pe riods beginning on or after 1 October 2008)*
- Amendments to various standards and interpretations resulting from the Annual qual ity improvement project of IFRS published on 22 May 2008 (IAS 1, IFRS 5, IAS 8, IAS 10, IAS 16, IAS 19, IAS 20, IAS 23, IAS 27, IAS 28, IAS 29, IAS 31, IAS 34, IAS 36, IAS 38, IAS 39, IAS 40, IAS 41) primarily with a view to removing inconsistencies and clari fying wording (most amendments are to be applied for annual periods beginning on or after 1 January 2009).

The adoption of the above presented Amendments and new Standards and Interpretations did not have a significant impact on the consolidated financial statements of the Group.

**Amendments to IFRSs effective on or after 1 January 2010, not yet adopted**

At the balance sheet date of these financial statements, the following Standards and Interpretations were issued but not yet effective

- IAS 24 (Amendment) Related party disclosures - Simplifying the disclosure require ments for government-related entities and clarifying the definition of a related party (effective for annual periods beginning on or after 1 January 2011)*
- IAS 27 (Amendment) Consolidated and Separate Financial Statements (effective for annual periods beginning on or after 1 July 2009)
- IAS 32 (Amendment) Financial instruments: Presentation – Accounting for rights is sues (effective for annual periods beginning on or after 1 February 2010)

- IAS 39 (Amendment) Financial Instruments: Recognition and Measurement – Eligible hedged items (effective for annual periods beginning on or after 1 July 2009)
- IFRS 1 (Amendment) First time adoption of IFRS – Additional exemptions for First-time Adopters (effective for annual periods beginning on or after 1 January 2010)*
- IFRS 2 (Amendment) Share based payment – Group cash-settled share based pay ment transactions (effective for annual periods beginning on or after 1 January 2010)*
- IFRS 3 (Revised) Business Combinations (effective for annual periods beginning on or after 1 July 2009)
- IFRS 9 Financial instruments (effective for annual periods beginning on or after 1 Jan uary 2013)*
- IFRIC 14 (Amendment) The Limit on a defined benefit Asset, Minimum Funding Re quirements and their interaction – Prepayments of a minimum funding requirement (effective for annual periods beginning on or after 1 January 2011)*
- IFRIC 17 Distributions of Non-cash Assets to Owners (effective for annual periods beginning on or after 1 July 2009)
- IFRIC 18 Transfers of Assets from Customers (effective for transfer of assets from customers received on or after 1 July 2009)
- IFRIC 19 Extinguishing Liabilities with Equity Instruments (effective for annual periods beginning on or after 1 July 2010)*
- Amendments to various standards and interpretations resulting from the Annual qual ity improvement project of IFRS published on 16 April 2009 (IFRS 2, IFRS 5, IFRS 8, IAS 1, IAS 7, IAS 17, IAS 18, IAS 36, IAS 38, IAS 39, IFRIC 9, IFRIC 16) primarily with a view to removing inconsistencies and clarifying wording, (most amendments are to be applied for annual periods beginning on or after 1 January 2010*

*Not yet endorsed by the EU.

The adoption of the above presented Amendments and new Standards and Interpretations would not have a significant impact on the consolidated financial statements of the Group.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### Basis of preparation

These consolidated financial statements have been prepared under the historical cost convention with the exception of certain financial instruments, which are recorded at fair value. Revenues and expenses are recorded in the period in which they are earned or incurred.

The accounting policies followed by the Group in these financial statements conform with IFRS's. Some of the accounting principles prescribed for statutory purposes are different from those generally recognized in international financial markets. Certain adjustments have been made to the Group's Hungarian statutory accounts, in order to present the financial position and results of operations of the Group in accordance with all standards and interpretations approved by IASB, which are referred to as IFRS. These standards and interpretations were previously called International Accounting Standards ("IAS").

The Financial Statements were authorised for issue on April 1, 2010.

According to the management the future application of the new and modified standards and interpretations will not have a material impact on the Group's financial statements.

**Revenue recognition**

Gains and losses on securities trading are recognised on the trade date. Commissions from security trading as an agent are recognised at trade date. Income from fund management and portfolio management are recognised on an accrual basis and when the service is delivered. Revenue from investment lending and deferred payment service is recognised on an effective interest rate basis, while the receivables are measured at amortized cost.

**Foreign currency**

Transactions arising in foreign currencies are translated into HUF at the rate of exchange prevailing at the date of the transaction. Assets and liabilities denominated in foreign currencies at the balance sheet date are translated into HUF at the year-end rates of exchange. The resulting foreign currency exchange gains and losses are recognised in the statement of income.

**Consolidation**

*Entities involved to consolidation*

The consolidated financial statements comprise the financial statements of Concorde Securities Ltd. Group and two of its controlled subsidiaries as of December 31, 2009. Control is presumed to exist where the Group holds, directly or indirectly, more than 50% of the registered capital. The effects of all material intragroup balances and transactions are eliminated.
Details of consolidated subsidiary undertakings are provided below. All consolidated companies are incorporated in Hungary.

| Group | Group Ownership | Brief description of activities |
|---|---|---|
| Concorde Corporate Finance Ltd. | 80.00% | Corporate finance |
| Concorde Asset Management Ltd. | 75.00% | Fund management |

*Entities not involved to consolidation*

As of December 31, 2009 three subsidiaries in which the Group holds, directly or indirectly, more than 50% of the registered capital have not been consolidated as the impact on the consolidated financial statements would not be material as the companies had no significant activity during 2009. SMÁK Project Management Ltd. was incorporated on 27 November, 2007.

| Group | Group Ownership | Brief description of activities |
|---|---|---|
| Concorde Financial Consulting Ltd. | 75.00% | facility management |
| Eclipse Investment Ltd. | 100.00% | property management |
| SMÁK Project Management Ltd. | 50.00% | project management |

**Goodwill**

Goodwill arising on the acquisition of a subsidiary represents the excess of the cost of acquisition over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities of the subsidiary or jointly controlled entity recognised at the date of acquisition. Goodwill is initially recognised as an asset at cost and is subsequently measured at cost less any accumulated impairment losses.

For the purpose of impairment testing, goodwill is allocated to each of the Group's cash-generating units expected to benefit from the synergies of the combination. Cash-generating units to which goodwill has been allocated are tested for impairment annually, or more frequently when there is an indication that the unit may be impaired. If the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro-rata on the basis of the carrying amount of each asset in the unit. Impairment losses recognised for goodwill are not reversed in a subsequent period.

**Tangible and intangible fixed assets**

Fixed assets are stated at cost, less accumulated depreciation and amortisation. Depreciation and amortisation is provided using the straight-line method in order to write off the cost of the asset over its expected economic useful life, as follows:

| | |
|---|---|
| Property rights | 6 years |
| Acquired clients | 15 years |
| Leasehold improvements | 33 years |
| Software | 3 years |
| Machinery and equipment | 3-7 years |
| Vehicles | 5 years |

### Impairment

The carrying amounts of assets are reviewed at each balance sheet date to determine whether there is any indication of impairment. If any such indication exists, the recoverable amount is estimated as the higher of net selling price and value in use. For intangible assets that are not yet available for use, the recoverable amount is estimated at least at each balance sheet date.

In assessing value in use, the expected future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. An impairment loss is recognised whenever the carrying amount exceeds the recoverable amount.

For an asset that does not generate cash inflows largely independent of those from other assets the recoverable amount is determined for the cash-generating unit to which the asset belongs. An impairment loss is recognised whenever the carrying amount of the cash-generating unit exceeds its recoverable amount.

A previously recognised impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount, however not to an amount higher than the carrying amount that would have been determined (net of depreciation) had no impairment loss been recognised in prior years. For goodwill a recognised impairment loss is not reversed, unless the impairment loss was caused by a specific external event of an exceptional nature that is not expected to recur and the increase relates clearly to the reversal of the effect of that specific event.

### Cash and cash equivalents

Cash and cash equivalents consist of cash on hand, current accounts with original maturities of 90 days or less and cash in transit. Included within cash and current accounts of client funds for which a corresponding liability is shown in “Settlement with brokers, dealers and customers”.

### Equity investments

Investments include nonmaterial unconsolidated subsidiaries and associated Group. Investments are recorded at cost less any provision for impairment.

### Leased Assets

Assets held under leasing arrangements that transfer substantially all the risks and rewards of ownership to the Group are capitalised. The present value of the related lease obligations is included in long and short-term liabilities as appropriate. The interest element of the lease obligations is charged to the income statement so as to produce a constant periodic rate of charge.

Assets held under capital leases are carried at the lower of the present value of the lease obligation and a fair value of the leased property and are depreciated over their expected useful lives on the same basis as owned assets, or over the periods of the leases where these are shorter.

### Trading securities

The Group classifies its securities into the following categories: held for trading, held-to-maturity and available-for-sale. Securities that are acquired principally for the purpose of generating profit from short-term fluctuations in price are classified as held for trading investments and included in current assets. Investments with fixed maturity that the management has the intent and ability to hold to maturity are classified as held-to-maturity and are included in non-current assets. Investments intended to be held for an indefinite period of time, which may be sold in response to needs for liquidity or changes in interest rates, are classified as available-for-sale.

Trading securities consist of debt securities and other securities. Debt securities include Hungarian Government Bonds, Treasury Bills and Corporate Bonds. Other securities include shares of companies traded on the Budapest Stock Exchange or on the Hungarian OTC market.

The securities traded on the Budapest Stock Exchange (shares, government bonds, treasury bills and corporate bonds) are stated at market value at the balance sheet date. Government securities are stated at their estimated fair value, which include the accumulated interest at year-end. Any gain or loss resulting from revaluation is recognised in the income statement. The fair value at the balance sheet date is determined on the basis of the average price on the last trading day of the year.

OTC shares are measured at fair value. If the OTC shares do not have a quoted market price in an active market and the fair value cannot be reliably measured, those assets are measured at purchase cost, less an allowance for impairment, if appropriate.

Gains and losses on the sale of trading securities are calculated on a FIFO basis.
Interest income from interest bearing securities and dividends from shares is shown in net revenue on securities traded on proprietary account.

**Receivables from settlement with brokers, dealers and customers**

Receivables from services provided represent fees charged for investment services and other customer related activities performed on commission.

The amount of receivables arising from own-account (non-commission) spot or closed futures transactions carried out on the exchange and existing at balance sheet date are recorded as receivables from the settlement of Budapest Stock Exchange transactions.

The amount of receivables arising from own-account (non-commission) over-the-counter spot or futures transactions existing at the balance sheet date is recorded as receivables from the settlement of over-the-counter transactions.

Receivables from clearing-house represent cash amounts transferred to clearing-houses and are recorded as receivables from clearing-houses within exchange cash account receivables.

**Payables from settlement with brokers, dealers and customers**

Payables to customers include funds due to customers on the basis of investment service activities performed on commission and liabilities arising from other business activities, including amounts due to the funds arising from asset management conducted for pension funds.

The amount of liabilities arising from own-account (non-commission) transactions carried out on the exchange and existing at the balance sheet accounting date are recorded as liabilities arising from the settlement of Budapest Stock Exchange transactions.

Payables to clearing house include the amount of funds transferred to the exchange cash account of the investment enterprise by clearing houses under the title of price differences related to futures transactions carried out on the exchange.

**Securities sold but not yet purchased**

The Group sells securities that it does not currently own and therefore is obligated to purchase such securities at a future date. These purchase obligations are recorded in the financial statements at the fair value of the related securities at year-end.

### Futures contracts

The Group trades futures contracts on Budapest Stock Exchange. These futures contracts are executed on the Budapest Stock Exchange and cash settlement is made on a daily basis for market value movements. At year-end open futures are recorded at their fair value based on the year-end market rates.

### Treasury shares

Treasury shares are shares which are purchased on the stock exchange and the over-the-counter market by the Group and its subsidiaries and are presented in the Consolidated Statement of Financial Position at acquisition cost as a deduction from Consolidated Shareholders' Equity.

Gains and losses on the sale of treasury shares are credited or charged directly to consolidated Retained earnings and reserves.

### Interest income and interest expense

The interest income and expense are recognized in the Consolidated Statement of Recognized Income on an accrual basis based on the IAS 18 Revenue Standard and IAS 39.

### Fees and Commissions

Fees and commissions are recognized in the Consolidated Statements of Comprehensive Income on an accrual basis based on IAS 18 Standard and IAS 39. Fees and Commissions are recognized using the effective interest method.

### Trade and settlement date accounting

Own securities transactions are recognised on the trade date. Gains and losses arising from own securities transactions are recorded on a trade date basis. Customers' securities transactions are reported on a settlement date basis with related commission income reported on a trade date basis.

### Income taxes

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the consolidated income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred taxation is accounted for using the balance sheet liability method in respect of temporary differences between the tax bases of assets and liabilities and their carrying value for financial reporting purposes, measured at the tax rates that apply to the future period when the asset is expected to be realised or the liability is settled.

**Consolidated Statement of Cash Flows**

For the purposes of reporting Consolidated Statement of Cash Flows, cash and cash equivalents include cash, due from banks and balances with the National Banks. The unrealized gains and losses from the translation of monetary items to the closing foreign exchange rates are presented net in the statement of cash-flows.

**Comparative figure**s

Where necessary, comparative figures have been reclassified to conform to changes in presentation. In current year, there were no significant changes in structure of presentation.

**Critical accounting judgments and key sources of estimation uncertainty**

In the application of the Group's accounting policies, which are described in note 2, the directors are required to make judgments, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

**Impairment of goodwill**

Determining whether goodwill is impaired requires an estimation of the value in use of the cash-generating units to which goodwill has been allocated. The value in use calculation requires the directors to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate present value.

Impairment of loans to customers
The Group regularly assesses its loan to customers portfolio for possible impairment. Management determines the adequacy of the allowances based upon reviews of individual loans and placements, recent loss experience, current economic conditions, the risk characteristics of the various categories of loans and other pertinent factors. Provisioning involves many uncertainties about the outcome of those risks and requires the management of the Group to make many subjective judgements in estimating the loss amounts.

**Segment Reporting**

The equity instruments or debt of Concorde Securities Ltd. are not traded in a public market so – according to IFRS 8 – the Company does not prepare segment reports.

## 3. CASH AND CASH EQUIVALENTS

| | December 31, 2009 | December 31, 2008 |
|---|---|---|
| Petty Cash | 195,503 | 33,811 |
| Bank accounts | 8,545,347 | 6,005,668 |
| | 8,740,850 | 6,039,479 |

Included within cash and current accounts is HUF 7,864,188 thousand (2008: HUF 4,930,130 thousand) of client funds for which a corresponding liability is shown in “Settlement with brokers, dealers and customers”, see Note 9.

## 4. RECEIVABLES FROM BROKERS, DEALERS AND CUSTOMERS

| | December 31, 2009 | December 31, 2008 |
|---|---|---|
| Receivables from services provided | 820,365 | 632,101 |
| Receivables from clearing house | 246,276 | 206,866 |
| Receivables from trading on the Budapest Stock Exchange | 1,033,374 | 487,872 |
| Receivables from loans to customers | 108,901 | 489,638 |
| Receivables from the settlement of over-the-counter | 54,083 | 489,638 |
| | 2,262,998 | 1,816,477 |
| Allowance for doubtful receivables | (47,186) | (48,682) |
| | 2,215,812 | 1,767,795 |

| Allowance for doubtful receivables: | December 31, 2009 | December 31, 2008 |
|---|---|---|
| Opening Balance (January 1) | (48,682) | (41,718) |
| Impairment loss recognized | (2,191) | (8,699) |
| Reversal of impairment loss recognised | 3,687 | 1,735 |
| Closing Balance (December 31) | (47,186) | (48,682) |

## 5. FINANCIAL ASSETS MEASURED AT FAIR VALUE THROUGH PROFIT OR LOSS

| | December 31, 2009 | December 31, 2008 |
|---|---|---|
| Government bonds | 646,982 | 517,158 |
| Treasury Bills | 1,767,379 | 1,502,900 |
| Mortgage bonds | 143,208 | 51,208 |
| Listed shares | 23,608 | 51,959 |
| OTC shares | 33.000 | 249,213 |
| Corporate bonds (unlisted) | - | 5,136 |
| | 2,614,177 | 2,377,574 |
| Held for trading derivatives that are not designated in hedge accounting relationships | 195,644 | 179,197 |
| | 2,809,821 | 2,556,771 |

*Interest rates and maturity date on government securities as of December 31, 2009 are as follows:*

| | 2009 | Maturity | Coupon rate | |
|---|---|---|---|---|
| Discounted Treasury Bills | 1,716,122 | to July, 2010 | - | - |
| | | to December, | - | - |
| Discounted Treasury Bills | 51,257 | 2010 | - | - |
| Hungarian Government Bonds | 207,216 | 2010 | fixed | 6.25 - 9.50% |
| Hungarian Government Bonds | 379,877 | 2011-2013 | fixed | 6.00 - 7.50% |
| T Hungarian Government Bonds | 59,889 | 2014- | fixed | 5.50 - 8.00% |
| | 2,414,360 | | | |

## 6. OTHER RECEIVABLES AND ACCRUALS

| | December 31, 2009 | December 31, 2008 |
|---|---|---|
| Loans advanced to other unconsolidated subsidiaries | 886 | 2,472 |
| Loans to employees | 104,901 | 71,321 |
| Corporate tax receivable | 30,680 | 92,466 |
| Other tax receivables | 35,605 | 30,067 |
| Accrued interest on bank deposit | 24,032 | 32,641 |
| Other prepayments | 178.770 | 41,689 |
| Debtors | 220,545 | 36,895 |
| Cash in transit | 1,348,783 | - |
| Other | 135,006 | 88,005 |
| | 2,079,208 | 395,556 |

## 7. EQUITY INVESTMENTS

| | December 31, 2009 | | December 31, 2008 | |
|---|---|---|---|---|
| | book value | ownership % | book value | ownership % |
| Membership in Budapest Stock Exchange | 40,424 | 4.52% | 40,424 | 5.08% |
| Concorde Financial Consulting Ltd. | 2,250 | 75.00% | 2,250 | 75.00% |
| Eclipse Investment Ltd. | 232,943 | 100.00% | 232,943 | 100.00% |
| Other long term investments | 301 | - | 657 | - |
| | 275,918 | | 276,274 | |

Other long term investments include investments in Hungarian Government Bonds and domestic and foreign equities, which were bought for investment purposes.

The Group's unconsolidated subsidiaries at December 31, 2009 are Concorde Financial Consulting Ltd., Eclipse Investment Ltd. and SMÁK Project Management Ltd. (See Note 2). Certain financial information as of and for the year ended December 31, 2009 is set out below. The following condensed information is based on statutory financial accounting and does not include adjustments to present them in accordance with IFRS.

| Concorde Financial Consulting Ltd. | 2009 (unaudited) | 2008 (unaudited) |
|---|---|---|
| Total assets | 83,601 | 53,897 |
| Shareholders' equity | 14,883 | 47,585 |
| Net income | - | 10,836 |

| Eclipse Investment Ltd. | 2009 (unaudited) | 2008 (unaudited) |
|---|---|---|
| Total assets | 280,723 | 263,893 |
| Shareholders ' equity | 280,722 | 263,098 |
| Net income | 17,624 | 18,270 |

| SMÁK Project Management Ltd. | 2009 (unaudited) | 2008 (unaudited) |
|---|---|---|
| Total assets | 1,261 | 1,139 |
| Shareholders ' equity(*) | (1,575) | (543) |
| Net income | (394) | 791 |

(*The total equity was less than zero as of December 31, 2009 and December 31, 2008, also. However, due to the fact that investment was not considered as significant by the Company (HUF 300 thousand) impairment loss is not recorded.)

| Total of Equity Investments | 2009 (unaudited) | 2008 (unaudited) |
|---|---|---|
| Total assets | 365,585 | 318,929 |
| Owners' equity | 294,030 | 310,140 |
| Net income | 17,230 | 29,897 |

## 8. TANGIBLE AND INTANGIBLE FIXED ASSETS

| | Intangible assets | Furniture, fixtures and equipment | Leasehold improvements | Total |
|---|---|---|---|---|
| Cost: | | | | |
| January 1, 2008 | 818,954 | 932,181 | 103,698 | 1,854,833 |
| Additions | 68,050 | 55,194 | 8,272 | 131,516 |
| Disposals | - | (38,761) | - | (38,761) |
| January 1, 2009 | 887,004 | 948,614 | 111,970 | 1,947,588 |
| Additions | 57,217 | 69,514 | 5,650 | 132,381 |
| Disposals | - | (23,010) | - | (23,010) |
| December 31, 2009 | 944,221 | 995,118 | 117,620 | 2,056,959 |
| Depreciation and amortisation: | | | | |
| January 1, 2008 | 538,821 | 631,988 | 8,463 | 1,179,272 |
| Charge for the year | 103,416 | 100,525 | 3,335 | 207,276 |
| Disposals | - | (28,184) | - | (28,184) |
| December 31, 2008 | 642,237 | 704,329 | 11,798 | 1,358,364 |
| Charge for the year | 100,918 | 86,512 | 3,381 | 190,811 |
| Disposals | - | (11,419) | - | (11,419) |
| December 31, 2009 | 743,155 | 779,422 | 15,179 | 1,537,756 |
| Net book value: | | | | |
| December 31, 2008 | 244,767 | 244,285 | 100,172 | 589,224 |
| December 31, 2009 | 201,066 | 215,696 | 102,441 | 519,203 |

## 9. LIABILITIES WITH BROKERS, DEALERS AND CUSTOMERS AND SHORT TERM BORROWINGS

| | December 31, 2009 | December 31, 2008 |
|---|---|---|
| Payables to clients | 9,212,971 | 4,930,130 |
| Payables from trading on the Budapest Stock Exchange | 867,222 | 515,329 |
| | 10,080,193 | 5,445,459 |

| | December 31, 2009 | December 31, 2008 |
|---|---|---|
| - Overdrafts in HUF | 316,743 | 352,148 |
| - Overdrafts in USD | 205 | 152,500 |
| - Overdrafts in EUR | 2,296 | 22,643 |
| - Overdrafts in GBP | - | 27,317 |
| - Overdrafts in SEK | 60,620 | - |
| - Overdrafts in other currency | - | 37,878 |
| | 379,864 | 592,486 |

The balances of short term borrowings are composed by overdrafts due to banks.

## 10. OTHER CURRENT LIABILITIES AND ACCRUALS

| | December 31, 2009 | December 31, 2008 |
|---|---|---|
| Payables | 125,088 | 93,373 |
| Personal income tax and social contribution | 143,911 | 166,548 |
| Taxes payable | 116,673 | 20,429 |
| Derivatives | 196,884 | 179,197 |
| Short position | 69,356 | - |
| Other | 31,123 | 41,918 |
| | 683,035 | 501,465 |

## 11. SHARE CAPITAL AND RESERVES

*The table below sets for the presentation of structure of the ownership:*

| | December 31, 2009 | | December 31, 2008 | |
|---|---|---|---|---|
| | Issued capital | Ownership rate | Issued capital | Ownership rate |
| Blackburn International Ltd. | 297,000 | 29.70% | 396,000 | 39.60 % |
| Eurotipp Ltd. | 105,600 | 10.56% | 105,600 | 10.56 % |
| Móricz Gábor | 149,600 | 14.96% | 149,600 | 14.96 % |
| TC Ltd. | 300,000 | 30.00% | 300,000 | 30.00 % |
| Plaza Park Kft | 99,020 | 9.90% | 0 | 0 % |
| Other | 41,280 | 4.13% | 46,300 | 4.63 % |
| Treasury shares | 7,500 | 0.75% | 2,500 | 0.25 % |
| Total shareholders' equity | 1,000,000 | 100.00% | 1,000,000 | 100.00 % |

The number of shares issued is 1,000,000 each with a face value of HUF 1 thousand per share.

*Reconciliation of the number of shares outstanding at the beginning and end of the year:*

| | Common shares | | Dividend preferred shares | |
|---|---|---|---|---|
| | Outstanding | Treasury | Outstanding | Treasury |
| January 1, 2009 | 667,500 | 2,500 | 330,000 | - |
| December 31, 2009 | 667,500 | 2,500 | 330,000 | - |

Concorde Securities Ltd's distributable reserves under Hungarian regulations were HUF 3,278,198 thousand and HUF 2,396,708 thousand as of December 31, 2009 and 2009, respectively. Dividends for the year ended December 31, 2009 were declared at the Group's Annual General Meeting on March 30, 2010.

The balance of statutory reserve of HUF 791,870 thousand was reclassified to retained earnings and reserves, according to the regulations and accounting policy to the financial statements in accordance with Hungarian Accounting Standards. (The statutory reserve was formerly accounted for based on requirements of Act CXX of 2001 on Capital Market. However, this requirement has been fallen into abeyance and therefore the statutory reserves unused until January 1, 2009 shall be reversed during 2009 to retained earnings.)

## 12. TREASURY SHARES

| | December 31, 2009 | December 31, 2008 |
|---|---|---|
| Nominal value (Common Shares) | 7,500 | 2,500 |
| Carrying value at acquisition cost | 27,988 | 8,212 |

## 13. NET REVENUE ON SECURITIES TRADED ON PROPRIETARY ACCOUNT

| | 2009 | 2008 |
|---|---|---|
| Gains on securities traded on proprietary account | 1,701,080 | 1,937,619 |
| Losses on securities traded on proprietary account | (772,378) | (1,702,873) |
| Net revenue on securities traded on proprietary account | 928,702 | 234,746 |
| Government and corporate bonds | 629,459 | 185,256 |
| Treasury Bills | 230,749 | 162,785 |
| Shares | 50,823 | (104,338) |
| Futures | (10,586) | 2,022 |
| Other | 28,257 | (10,979) |
| | 928,702 | 234,746 |

## 14. WAGES AND SALARIES

| | 2009 | 2008 |
|---|---|---|
| Salaries | 1,067,049 | 1,108,049 |
| Social insurance contribution | 304,203 | 331,026 |
| Other employee related contribution | 79,945 | 100,471 |
| Other employee related expenses | 97,418 | 79,158 |
| | 1,548,614 | 1,618,704 |

The number of full time equivalent staff employed at year-end was 128 (2008: 143 full time equivalent staff was employed).

## 15. GENERAL AND ADMINISTRATION EXPENSES

| | 2009 | 2008 |
|---|---|---|
| Depreciation and amortisation | 190,811 | 207,276 |
| Bank charges | 138,034 | 94,303 |
| Rental | 129,678 | 130,552 |
| Professional fees | 128,051 | 120,227 |
| Local tax | 121,489 | 130,507 |
| Other | 93,948 | 81,814 |
| Office supplies | 77,111 | 83,684 |
| Travel | 39,344 | 41,551 |
| Marketing | 35,433 | 40,912 |
| Training | 17,834 | 14,258 |
| Membership fees | 7,857 | 11,037 |
| Insurance fees | 7,038 | 8,247 |
| | 986,628 | 964,368 |

## 16. OTHER EXPENSES

| | 2009 | 2008 |
|---|---|---|
| Film and charity sponsorship | 178,585 | 100,753 |
| Security borrowing | - | 51,870 |
| Foreign exchange loss | 77,181 | 88,006 |
| Innovation fee | 14,035 | 16,088 |
| Expense on corporate finance activity | - | 37,510 |
| Expense on asset management activity | - | 17,583 |
| Expense on fixed asset selling | 11,590 | 8,406 |
| Other expense | 21,561 | 25,154 |
| | 302,952 | 345,370 |

## 17. INCOME TAXES

Hungarian Group taxation is calculated at 16% of net profit, adjusted for taxation purposes. The “solidarity tax” to improve the balance of public finances was introduced in Hungary from 1 September 2007. It amounts to 4%. The solidarity tax was canceled from January 1, 2010. However, the measure of income tax will be 19%.

The effective income tax rate varied from the statutory income tax rate due to the following items:

| | 2009 | 2008 |
|---|---|---|
| Income before tax | 1,740,119 | 1,163,095 |
| Tax at statutory rate of 16% | 278,419 | 186,095 |
| Solidarity tax rate of 4% | 69,605 | 46,524 |
| Permanent differences, net | (154,156) | (123,749) |
| Income tax expense | 193,868 | 108,870 |

*The most significant part of the permanent differences is from the local tax expenses:*

| | December 31, 2009 | December 31, 2008 |
|---|---|---|
| Local income taxes | (121,457) | (130,507) |
| Others | (32,699) | 6,758 |
| | (154,156) | (123,749) |

*Reconciliation of the deferred tax assets and liabilities at the beginning and end of the year:*

| | December 31, 2009 | December 31, 2008 |
|---|---|---|
| Deferred tax assets at the beginning of the year | 8,385 | 8,385 |
| Current year charges | - | - |
| Deferred tax assets | 8,385 | 8,385 |

| | December 31, 2009 | December 31, 2008 |
|---|---|---|
| Deferred tax asset | | |
| Tax effect of difference in carrying value of goodwill | 8,385 | 8,385 |
| Net deferred tax asset | 8,385 | 8,385 |

There is no procedure for final agreement of tax assessments in Hungary. The tax authorities may examine the accounting records and revise assessments for up to five years after the period to which they relate until examinations are finalised. Consequently, the Group and its subsidiaries may be subject to further assessments in the event of an audit by the tax authorities. Management anticipates that no significant tax reassessments will arise from these reviews.

## 18. OFF BALANCE SHEET ITEMS, COMMITMENTS AND CONTINGENCIES

The balance of client's securities is HUF 75,768 million at face value as of December 31, 2009 (2008: HUF 83,807 million).
At face value HUF 73,989 million from these securities are deposited in custody at the Central Clearing House and Depository Ltd. (KELER Ltd.) (2008: HUF 83,169 million).

**Derivatives (nominal amount, unless otherwise stated)**

| | December 31, 2009 | December 31, 2008 |
|---|---|---|
| Foreign currency contracts | | |
| Off-balance sheet assets | 10,500,360 | 5,151,139 |
| Off-balance sheet liabilities | 10,402,525 | 5,168,299 |
| Net | 97,836 | (17,160) |
| Fair values of off-balance sheet assets | 195,644 | 86,137 |
| Fair values of off-balance sheet liabilities | 196,884 | 87,924 |
| Net fair values | (1,240) | 1,787) |

**Foreign currency contracts**

Foreign currency contracts are agreements to exchange specific amounts of currencies at a specified rate of exchange, at a spot date (settlement occurs two days after the trade date) or at a forward date (settlement occurs more than two days after the trade date). The notional amount of these contracts does not represent the actual market or credit risk associated with these contracts.

Foreign currency contracts are used by the Group for risk management, trading and liquidity purposes. The risk management foreign currency contracts of the Group were used to hedge against credit institutions foreign currency contracts which are denominated in foreign currency.

## 19. RELATED PARTY TRANSACTIONS

The consolidated statements for the year ended and as of December 31, 2009 contain the following amounts from the related party transaction.
Statements of financial positions as of December 31, 2009:

- Trade receivables of the Company due from Concorde Corporate Finance Ltd. in amount of HUF 1.919 thousand (2008: HUF 5.618 thousand);
- Trade receivables of the Company due from Concorde Asset Management Ltd. in amount of HUF 1.772 thousand (2008: HUF 2.697 thousand);

Statements of comprehensive income for the year ended as of December 31, 2009.

- Intra-group revenue from rental fee re-invoiced by the Company to Concorde Corporate Finance Ltd. in amount of HUF 17.160 thousand (2008: HUF 21.645 thousand);
- Intra-group revenue from rental fee re-invoiced by the Company to Concorde Asset Management Ltd. in amount of HUF 9.260 thousand (2008: HUF 8.667 thousand);
- Intra-group revenue from fund management fee invoiced by Concorde Asset Management Ltd. to the Company in amount of HUF 4.442 thousand (2008: HUF 0 thousand).

The amounts from related party transaction were eliminated in the consolidated financial statements.

## 20. FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.
Financial instruments may result in certain risks to the Group. The most significant risks the Group faces include:

### Credit risk

Financial assets, which potentially subject the Group to concentrations of credit risks consist principally of cash, short-term investments and accounts receivable. The Group's cash is primarily held with major international banks. Short-term investments are carried at market value and accounts receivable are presented net of an allowance for doubtful receivables. Credit risk with respect to trade receivables is limited due to dispersion across customers. Accordingly, the company has no significant concentrations of credit risk.

### Market risk

The Group takes on exposure to market risks. Market risks arise from open positions in interest rate, currency and equity products, all of which are exposed to general and specific market movements. The Group applies a 'value at risk' methodology to estimate the market risk of positions held and the maximum losses expected, based upon a number of assumptions for various changes in market conditions. The Management Board sets limits on the value of risk that may be accepted, which is monitored on a daily basis.

The Company laid down its risk management policy, in which counterparty limits, the own portfolio ratio and loss limits have been set. Management continuously monitors the limits. The Company introduced a daily VaR based risk monitoring system in 2001.

### Market risk sensitivity analysis

The VaR risk measure estimates the potential loss in pre-taxation profit over a given holding period for a specified confidence level. The VaR methodology is a statistically defined, probability-based approach that takes into account market volatilities as well as risk diversification by recognising offsetting positions and correlations between products and markets. Risks can be measured consistently across all markets and products, and risk measures can be aggregated to arrive at a single risk number. The one-day 99% VaR number used by the Group reflects the 99% probability that the daily loss will not exceed the reported VaR.

*The VaR of the trading portfolio can be summarized as follows:*

| Historical VaR | Average (HUF million) | |
|---|---|---|
| (99%, one-day) by risk type | 2009 | 2008 |
| Foreign exchange | 22.61 | 16.71 |
| Interest rate | 8.56 | 10.33 |
| Equity instruments | 6.64 | 37.99 |
| Diversification | (20.25) | (27.60) |
| Total VaR exposure | 17.56 | 37.43 |

While VaR captures the Company's daily exposure to foreign currency and interest rate risk, sensitivity analysis evaluates the impact of a reasonably possible change in interest or foreign currency rates over a year. The longer time frame of sensitivity analysis complements VaR and helps the Group to assess its market risk exposures.

### Foreign currency sensitivity analysis

The Group is performing foreign currency sensitivity analysis just for its own foreign currency positions. The data in following table show the relative (expressed in percentage) and absolute decrease of HUF value of own foreign currency positions in the case of weakening of EUR and USD prices compared to HUF (ceteris paribus).

| | | December 31, 2009 | December 31, 2008 |
|---|---|---|---|
| 5% Weakening of EUR | Loss on portfolio (%) | 0.50 | 0.33 |
| | Loss on portfolio (HUF million) | 18.33 | 15.45 |
| 5% Weakening of USD | Loss on portfolio (%) | 0.24 | 0.10 |
| | Loss on portfolio (HUF million) | 8.89 | 4.68 |
| Total | Loss on portfolio (%) | 0.74 | 0.43 |
| | Loss on portfolio (HUF million) | 27.22 | 20.13 |

### Interest rate sensitivity analysis

In order to minimise interest risks, a limit has been set to the proportion of long term government securities in the company's own portfolio. In order to reduce interest rate losses, factors affecting security interest rates (liquidity, volatility, duration) were also considered when the limits were set up, and the Company's portfolio diversification and loss limits per security were set accordingly. Due to this policy the Company's interest risk is considered low.

The sensitivity analyses below have been determined based on the exposure to interest rates for both derivatives and non-derivative instruments at the balance sheet date. The analysis is prepared assuming the amount of assets and liabilities outstanding at the balance sheet date were outstanding for the whole year. The analyses were prepared by assuming only the adversing interest rate changes. The main assumptions were as follows:
Floating-rate assets and liabilities were repriced to the modeled benchmark yields at the repricing dates assuming the unchanged marge compared to the last repricing.
Fixed-rate assets and liabilities were repriced at the contractual maturity date.

Group measures interest rate sensitivity of asset side on a daily basis. The interest rate sensitivity of assets (so the potential loss in the case of 1% shrinkage of average yields on a one-year period) was HUF 16.87 million and HUF 21.27 million as at December 31, 2009 and December 31, 2008, respectively.

### Equity price sensitivity analysis

The Company has no significant equity instruments held in 2009 and 2008 therefore not exposed to significant equity price risk.

### Counterparty risk

Counterparty limits are determined by the management and are continuously monitored. Private individual customers can initiate securities transactions only when collateral is presented. Limits of institutional investors are determined based on the risk bearing capacity and the reputation of the customer. As a result, counterparty risk is considered low.

### Leveraged transactions

According to the Company's Rules on the Conduct of Business Concorde shall permit its clients with Framework Contracts to make leveraged transactions. The Company shall carry out one single risk management for the client up to the primary and secondary collateral amount of the funds and financial instruments kept on the client's client account.

## Capital management

The primary objective of the capital management of the Group is to ensure the prudent operation, the entire compliance with the prescriptions of the regulator for a persistent business operation and maximising the shareholder value, accompanied by an optimal financing structure.

The capital management of the Group members includes the management and evaluation of the shareholders` equity and all material risks to be covered by the capital. The Group members maintain the capital adequacy required by the regulatory bodies and the planned risk taking mainly by means of ensuring and developing their profitability.

## Capital adequacy

The Group is not subject to the regulations in connection with capital adequacy in accordance with Hungarian laws and regulations. However, the Company shall consider the capital adequacy rules defined by the Act CXXXVIII of 2007 on investment firms and commodity dealers, and on the regulations governing their activities. The capital adequacy of the Company is supervised based on the financial statements data prepared in accordance with Hungarian Accounting Standards ("HAS").

The Company has complied with the regulatory capital requirements in 2009 and in 2008.

(unconsolidated data)

| | 2009 | 2008 |
|---|---|---|
| Core capital | 3,461,398 | 3,367,042 |
| Supplementary capital | 0 | 0 |
| Deductions | (199,451) | (241,913) |
| **Regulatory capital** | **3,261,947** | **3,125,129** |
| Credit risk capital requirement | (236,207) | 2(15) |
| Market risk capital requirement | (394,704) | (181,335) |
| Operational risk capital requirement | (609,504) | (645,188) |
| **Total eligible regulatory capital** | **(1,240,415)** | **(826,738)** |
| **Surplus capital** | **2,021,532** | **2,298,391** |
| **Capital adequacy ratio** | **262.97%** | **378.01%** |

## Maturity analysis of assets and liabilities and Liquidity risk

As of December 31, 2009, all monetary assets and liabilities mature within one month of the balance sheet date, with the exception of HUF 7,864,188 thousand client funds included in current accounts for which the corresponding liability is stated as part of Settlement with brokers, dealers and customers.

As of December 31, 2009 the net monetary assets maturing within one month of the balance sheet date were HUF 7,981,502 thousand.

It is presented under the most prudent consideration of maturity dates where options or repayment schedules allow for early repayment possibilities.

The Group enters into derivative transactions for trading purposes, which ordinary require to have margin deposits to the partners, when there is an unrealized loss on the market-to- market valuation. The possible effect of these transactions to the liquidity status is not material as at December 31, 2009 and 2008.

| December 31, 2009 | Within 3 month | Within one year and over 3 month | Within 4 years and over one year | Over 4 years | Without maturity | Total |
|---|---|---|---|---|---|---|
| **Assets** | | | | | | |
| Current Assets: | | | | | | |
| Cash and cash equivalents | 8,740,850 | - | - | - | - | 8,740,850 |
| Settlement with brokers, dealers and customers | 2,215,812 | - | - | - | - | 2,215,812 |
| Financial assets measured at fair value through profit or loss | 1,633,501 | 292,941 | 461,634 | 152,225 | 23,608 | 2,593,909 |
| Other receivable and accruals | 2,295,118 | - | - | - | - | 2,295,118 |
| Total current assets | 14,915,281 | 292,941 | 461,634 | 152,225 | 23,608 | 15,845,690 |
| Non-current Assets: | | | | | | |
| Goodwill on acquisition | - | - | - | - | 70,400 | 70,400 |
| Equity investments | - | - | - | - | 276,274 | 275,915 |
| Loans to employees | - | - | 10,000 | - | - | 10,000 |
| Tangible and intangible fixed assets | - | - | 6,995 | 512,208 | - | 519,203 |
| Deferred tax assets | - | 8,387 | - | - | - | 8,387 |
| Total non-current assets | - | 8,387 | 16,995 | 512,208 | 346,318 | 883,907 |
| **Total assets** | **14,915,281** | **301,328** | **478,629** | **664,433** | **369,926** | **16,729,597** |
| **Liabilities and Shareholders' Equity** | | | | | | |
| Current Liabilities: | | | | | | |
| Settlement with brokers, dealers and customers | 10,080,193 | - | - | - | - | 10,080,193 |
| Short term borrowings | 379,864 | - | - | - | - | 379,864 |
| Other liabilities | 683,034 | - | - | - | - | 683,034 |
| Deferred tax liability | - | - | - | - | - | - |
| Total current liabilities | 11,143,092 | - | - | - | - | 11,143,092 |
| Shareholders' Equity: | | | | | | |
| Share capital | - | - | - | - | 1,000,000 | 1,000,000 |
| Statutory reserves | - | - | - | - | - | - |
| Minority interest | - | - | - | - | 332,684 | 332,684 |
| Retained earnings | - | - | - | - | 4,281,809 | 4,281,809 |
| Treasury shares | - | - | (27,988) | - | - | (27,988) |
| Total shareholders' equity | - | - | (27,988) | - | 5,281,809 | 5,174,474 |
| **Total liabilities and shareholders' equity** | **11,143,091** | **-** | **(27,988)** | **-** | **5,614,493** | **16,729,597** |
| **Liquidity excess/(deficiency)** | **3,772,190** | **301,328** | **506,617** | **664,433** | **(5,244,567)** | **-** |

## 20. FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT [CONTINUED]

| December 31, 2008 | Within 3 month | Within one year and over 3 month | Within 4 years and over one year | Over 4 years | Total |
|---|---|---|---|---|---|
| **Assets** | | | | | |
| Current Assets: | | | | | |
| Cash and cash equivalents | 6,039,479 | - | - | - | 6,039,479 |
| Settlement with brokers, dealers and customers | 1,767,795 | - | - | - | 1,767,795 |
| Financial assets measured at fair value through profit or loss | 433,192 | 1,286,644 | 210,690 | 447,048 | 2,377,574 |
| Other receivable and accruals | 574,753 | - | - | - | 574,753 |
| Total current assets | 8,815,219 | 1,286,644 | 210,690 | 447,048 | 10,759,601 |
| Non-current Assets: | | | | | |
| Goodwill on acquisition | - | - | - | 70,400 | 70,400 |
| Equity investments | - | - | - | 276,274 | 276,274 |
| Loans to employees | - | - | 10,000 | - | 10,000 |
| Tangible and intangible fixed assets | 319,082 | - | 270,142 | - | 589,224 |
| Deferred tax assets | - | - | 8,385 | - | 8,385 |
| Total non-current assets | 319,082 | - | 288,527 | 346,674 | 954,283 |
| **Total assets** | **9,134,301** | **1,286,644** | **499,217** | **793,722** | 11,713,884 |
| **Liabilities and Shareholders' Equity** | | | | | |
| Current Liabilities: | | | | | |
| Settlement with brokers, dealers and customers | 5,445,459 | - | - | - | 5,445,459 |
| Short term borrowings | 592,486 | - | - | - | 592,486 |
| Other liabilities | 501,465 | - | - | - | 501,465 |
| Deferred tax liability | - | - | - | - | - |
| Total current liabilities | 6,539,410 | - | - | - | 6,539,410 |
| Shareholders' Equity: | | | | | |
| Share capital | - | - | - | 1,000,000 | 1,000,000 |
| Statutory reserves | - | - | - | 791,870 | 791,870 |
| Minority interest | - | - | - | 81,599 | 81,599 |
| Retained earnings | - | - | - | 3,309,217 | 3,309217 |
| Treasury shares | - | - | (8,212) | - | (8,212) |
| Total shareholders' equity | - | - | (8,212) | 5,182,686 | 5,174,474 |
| **Total liabilities and shareholders' equity** | **6,539,410** | **-** | **(8,212)** | **5,182,686** | **11,713,884** |
| **Liquidity excess/(deficiency)** | **2,594,891** | **1,286,644** | **491,005** | **(4,388,964)** | **-** |

### Fair value measurement

At December 31, 2009, the carrying amounts of cash, short-term loans and accounts receivable and accounts payable approximated their fair values due to the short-term maturities of these assets and liabilities. The fair value of trading securities has been determined based on the market rates for quoted securities.

The fair values of financial assets and financial liabilities are determined as follows.

- The fair values of financial assets and financial liabilities with standard terms and con ditions and traded on active liquid markets are determined with reference to quoted market prices (includes listed redeemable notes, bills of exchange, debentures and perpetual notes).

- The fair values of other financial assets and financial liabilities (excluding derivative instruments) are determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices from observable current market transactions and dealer quotes for similar instruments.

- The fair values of derivative instruments are calculated using quoted prices. Where such prices are not available, a discounted cash flow analysis is performed using the applicable yield curve for the duration of the instruments for non-optional derivatives, and option pricing models for optional derivatives. Foreign currency forward contracts are measured using quoted forward exchange rates and yield curves derived from quoted interest rates matching maturities of the contracts. Interest rate swaps are measured at the present value of future cash flows estimated and discounted based on the applicable yield curves derived from quoted interest rates.

**Fair value measurements recognised in the statement of financial position**

Methods and significant assumptions used to determine fair value of the different classes of financial instruments:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities;

- Level 2: inputs other than quoted prices included within Level 1, that are observable for the asset or liability;

- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

## 20. FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT [CONTINUED]

| As at 31 December 2009 | Total | Level1 | Level2 | Level3 |
|---|---|---|---|---|
| Financial assets measured at fair value through profit or loss | 2,593,909 | 2,398,265 | 195,644 | - |
| from this | | | | |
| - Securities held for trading | 2,398,265 | 2,398,265 | - | - |
| - Positive FVA of derivative financial instruments designated as held for trading | 195,644 | - | 195,644 | - |
| Securities available-for-sale | - | - | - | - |
| Positive FVA of derivative financial instruments designated as hedge accounting relationship | - | - | - | - |
| **Financial assets measured at fair value total** | 2,593,909 | 2,398,265 | 195,644 | - |
| Negative FVA of derivative financial instruments designated as held for trading | 196,884 | - | 196,884 | - |
| Negative FVA of derivative financial instruments designated as hedge accounting relationship | - | - | - | - |
| **Financial liabilities measured at fair value total** | 196,884 | - | 196,884 | - |

| As at 31 December 2008 | Total | Level1 | Level2 | Level3 |
|---|---|---|---|---|
| Financial assets measured at fair value through profit or loss | 2,556,771 | 2,377,574 | 179,197 | - |
| from this | | | | |
| - Securities held for trading | 2,377,574 | 2,377,574 | - | - |
| - Positive FVA of derivative financial instruments designated as held for trading | 179,197 | - | 179,197 | - |
| Securities available-for-sale | - | - | - | - |
| Positive FVA of derivative financial instruments designated as hedge accounting relationship | - | - | - | - |
| **Financial assets measured at fair value total** | 2,556,771 | 2,377,574 | 179,197 | - |
| Negative FVA of derivative financial instruments designated as held for trading | 179,197 | - | 179,197 | - |
| Negative FVA of derivative financial instruments designated as hedge accounting relationship | - | - | - | - |
| **Financial liabilities measured at fair value total** | 179,197 | - | 179,197 | - |

**Fair value of financial instruments carried at amortised cost**

The carrying amounts of financial assets and financial liabilities recognised at amortised cost in the financial statements approximate their fair values

## 21. EVENTS AFTER REPORTING PERIOD

No significant events were happened after the reporting period that would require an adjustment to these statements.

## 22. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved by the board of directors and authorised for issue on 1 April 2010.

# MANAGEMENT AND OFFICERS

## CONCORDE SECURITIES LTD.

### Board of directors

György Jaksity, chairman
Gábor Borda
Norbert Streitmann

### CEO

Árpád Pál

### Supervisory Board

Gábor Móricz, chairman
Enikő Borsy
Krisztián Feyér

## CONCORDE ASSET MANAGEMENT LTD.

### Board of directors

László Szabó, chairman
Botond Bilibók
György Jaksity
Norbert Streitmann

## CONCORDE CORPORATE FINANCE LTD.

### Managing Director

Kálmán Nagy

## CONCORDE FINANCIAL CONSULTING LTD.

### Managing Director

András Szombati

## AUDITORS

Deloitte Auditing and Consulting Ltd.
(H-1068 Budapest, Dózsa György út 84/C.)

CONCORDE

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