KERESKEDELMI ÉS HITELBANK RT.

CONSOLIDATED ANNUAL FINANCIAL STATEMENTS PREPARED IN ACCORDANCE WITH INTERNATIONAL FINANCIAL REPORTING STANDARDS

FOR THE YEAR ENDED 31 DECEMBER 2003

WITH THE REPORT OF INDEPENDENT AUDITORS

BALANCE SHEET

	Notes	31 December 2003 MHUF	31 December 2002 MHUF
ASSETS			
Cash and balances with the National Bank of Hungary	3)	68 149	109 760
Balances due from other banks		68 947	78 118
Loans to customers	4)	957 391	754 407
Trading and investment securities	5)	244 126	193 505
Derivative financial instruments	6)	24 253	24 883
Accrued interest receivable		14 532	12 305
Bank premises and equipment	7)	34 539	37 875
Intangible assets	8)	494	611
Other assets	9)	23 059	20 312
Total assets		1 435 490	1 231 776
LIABILITIES AND SHAREHOLDERS' EQUITY			
Deposits and certificates of deposits	10)	848 610	896 753
Balances due to banks	11)	216 389	21 759
Refinancing credits	12)	148 966	95 837
Derivative financial instruments	6)	34 416	29 187
Accrued interest payable		11 703	7 086
Other liabilities	13)	39 966	73 606
Total liabilities		1 300 050	1 124 228
Subordinated debt	14)	15 203	16 614
Share capital	15)	52 507	42 507
Share premium		48 775	36 074
Statutory risk reserve	17)	924	642
Available for sale reserve		(1 467)	26
Accumulated profit		19 498	11 685
Total shareholders' equity		120 237	90 934
Total liabilities and shareholders' equity		1 435 490	1 231 776
MEMORANDUM ITEMS			
Credit commitments and credit contingent liabilities	33)	416 853	375 191

John Hollows
Chief Executive Officer

Dr. Ágnes Bába
Chief Financial Officer

The accompanying notes on pages 6 to 45 are an integral part of these financial statements.

STATEMENT OF OPERATIONS

	Notes	31 December 2003	31 December 2002
		MHUF	MHUF
Interest income		96 766	93 213
Interest expense		(44 930)	(47 659)
Net interest income	19)	51 836	45 554
Net commission and fee income	20)	17 124	17 783
Gain less losses on trading securities		(196)	(307)
Gain less losses on foreign exchange		14 528	12 166
Dividend income		35	169
Other operating income/(losses)		(102)	2 300
Operating income		83 225	77 665
Operating expenses	21)	(60 782)	(60 443)
Operating profit before provisions and exceptional items		22 443	17 222
Provision for possible loan and commitment losses	22)	(4 803)	(2 867)
Exceptional provision for expected losses	22)	(8 600)	-
Gain/(loss) on investments	23)	113	(1 445)
Gain on property, plant and equipment		580	822
Profit before income taxes		9 733	13 732
Income taxes	24)	(1 638)	(2 468)
Net profit for the year		8 095	11 264
Earnings per share (HUF)	25)	0.19	0.27

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STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

	Share capital	Share premium	Statutory risk reserve	Available for sale reserve	Accumu-lated profit	Total
	MHUF	MHUF	MHUF	MHUF	MHUF	MHUF
Balance at 31 December 2001	42 507	36 074	634	-	429	79 644
Transfer from statutory risk reserve to retained earnings	-	-	8	-	(8)	-
Change in accounting policy	-	-	-	126	-	126
Transfer from AFS reserve to profit	-	-	-	(100)	-	(100)
Net profit for the year	-	-	-	-	11 264	11 264
Balance at 31 December 2002	42 507	36 074	642	26	11 685	90 934
Contribution by shareholder	10 000	12 701	-	-	-	22 701
	-	-		-		-
Transfer from accumulated profit to statutory risk reserve	-	-	282	-	(282)	-
Revaluation reserve on AFS investments	-	-	-	(1 493)	-	(1 493)
Net profit for the year	-	-	-	-	8 095	8 095
Balance at 31 December 2003	52 507	48 775	924	(1 467)	19 498	120 237

The accompanying notes on pages 6 to 45 are an integral part of these financial statements.

STATEMENT OF CASH FLOWS

	Notes	Year ended 31 December 2003	Year ended 31 December 2002
		MHUF	MHUF
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before income taxes		9 733	13 732
Adjustments for:			
Net transfer from available for sale reserve		-	26
Depreciation and amortisation	21)	9 322	11 974
Provision for credit losses	22)	4 803	2 867
Exceptional provision for expected losses	22)	8 600	-
Provision for other liabilities		(538)	(835)
Unrealised revaluations		5 908	(4 415)
Loss/(gain) on investments	23)	(113)	1 445
Loss/(gain) on property, plant and equipment		(580)	(822)
(Increase)/decrease in operating assets:			
Loans to customers		(207 833)	(130 403)
Balances due from NBH and other banks		(2 583)	9 408
Trading securities		(2 589)	17 410
Other assets		(2 747)	(2 729)
Accrued interest receivable		(2 227)	2 804
Increase/(decrease) in operating liabilities:			
Deposits and certificates of deposits		(48 143)	49 928
Balances due to other banks		194 630	(7 400)
Refinancing credits		53 129	22 659
Other liabilities and minority interest		(41 211)	1 555
Accrued interest payable		4 617	(3 873)
Taxes paid	24)	(2 132)	(1 076)
Net cash used in operating activities		(19 954)	(17 745)
CASH FLOWS FROM INVESTING ACTIVITIES			
Decrease/ (increase) in investment securities		(43 594)	3 679
Purchase of property, plant and equipment		(8 922)	(14 733)
Disposal of property, plant and equipment		3 633	7 559
Net cash used in investing activities		(48 883)	(3 495)
CASH FLOWS FROM FINANCING ACTIVITIES			
Decrease in subordinated debt		(1 411)	(4 032)
Shareholders' contribution to the equity		22 701	-
Net cash (used in) / provided by financing activities		21 290	(4 032)
Net decrease in cash and cash equivalents		(47 547)	(25 272)
Cash and cash equivalents at beginning of year	3)	162 597	187 869
Cash and cash equivalents at end of year	3)	115 050	162 597

The cash flow does not disclose interest and dividends received and interest paid since these items are classified as operating activities in a financial institution.
The accompanying notes on pages 6 to 45 are an integral part of these statements.

NOTE 1 – GENERAL

The consolidated financial statements of Kereskedelmi és Hitelbank Bank Rt and its subsidiaries for the year ended 31 December 2003 were authorised by Management on 22 March 2004.

Kereskedelmi és Hitelbank Bank Rt (K&H Bank) is a limited liability company incorporated in the Republic of Hungary. K&H Bank and its subsidiaries ("the Group") provide a full range of banking services through a nation-wide network of 155 branches. K&H Bank's registered office is at Vigadó tér 1, Budapest.

NOTE 2 – ACCOUNTING POLICIES

The significant accounting policies adopted in the preparation of these financial statements are summarised below.

Basis of presentation

The financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") and Interpretations of the Standing Interpretations Committee.

The financial statements are prepared under the historical cost convention modified to include the measurement at fair value of certain financial assets and liabilities.

The Group maintains its accounting records and prepares its statutory accounts in accordance with commercial, banking and fiscal regulations prevailing in Hungary. The Group's functional currency is the Hungarian Forint ("HUF"). All balances are presented in millions of Hungarian Forints ("MHUF") unless otherwise stated.

Certain accounting principles prescribed for statutory purposes are different from those generally recognised in international financial markets. In order to present the financial position and results of operations of the Group in accordance with International Financial Reporting Standards("IFRS"), certain adjustments have been made to the Group's Hungarian consolidated statutory accounts. Details on these adjustments are presented in note 36).

Revenue recognition

Interest income is recognised on a time proportionate basis, taking account of the principal outstanding and the rate applicable. Interest is recognised on impaired loans and advances and other financial assets when received. Other fees receivable or payable are recognised when earned. Dividend income is recognised when the right to receive payment is established.

Foreign currency translation

Assets and liabilities denominated in foreign currencies are translated into HUF at exchange rates quoted by the National Bank of Hungary as at the date of the balance sheet. Income and expenses arising in foreign currencies are converted at the rate of exchange on the transaction date. Resulting foreign exchange gains or losses are recorded in the statement of operations.

Principles of consolidation

The consolidated financial statements comprise the financial statements of the Bank and all significant entities it controlled as at 31 December 2003. The Bank and the entities which it controls are referred to collectively as "the Group". Control is presumed to exist where the Bank holds, directly or indirectly, more than 50% of the registered capital or where the Bank can exercise more than 50% of the voting rights or where the Bank can appoint or dismiss a majority of the members of the Board of Directors. The effects of all material intercompany balances and transactions are eliminated.

An investment in an associate is one in which the Bank holds, directly or indirectly, 20% to 50% of the voting rights and over which the Group exercises significant influence but which it does not control. Associates are accounted for under the equity method of accounting, and the pro-rata share of their income (loss) is included in the income statement. The Group's interest in an associate is carried in the balance sheet at an amount that reflects its share of the net assets of the associate.

Joint ventures are companies where the Bank and another party exercise joint control. Joint ventures are accounted for using the proportionate consolidation method.

Certain subsidiaries in which K&H Bank holds a controlling interest have not been consolidated because it is intended that the shares shall be disposed of in the near future.

NOTE 2 –ACCOUNTING POLICIES (continued)

A list of subsidiary and associated companies is provided in Note 34).

Acquisitions

Upon acquisition, subsidiaries are accounted for using the fair value method of accounting for acquisitions. Goodwill and negative goodwill, which represents the residual cost of the acquisition after recognising the acquirer's interest in the fair value of the identifiable assets and liabilities acquired, is held as an intangible asset or liability and amortised to the consolidated statement of operations on a straight-line basis over a period not exceeding five years or until the date of disposal of the acquired company, whichever is shorter. The value of any goodwill held in the consolidated balance sheet is reassessed on an annual basis, determined on the basis of specific identification of the investment. If it is no longer probable that the goodwill will be recovered from future economic benefits, it is recognised immediately as an expense.

Trading securities

Trading securities consist of discounted and interest bearing Treasury bills, Hungarian Government and commercial companies bonds and shares in commercial companies and investment funds.

These are carried at fair value with any gain or loss arising from a change in fair value being included in the consolidated statement of operations in the period in which it arises. Interest earned on trading securities is recognized in the statement of operations as interest income.

Investment securities

These are classified as follows:

- Available for sale
- Held to maturity
- Originated by the bank

All investments are initially recognised at cost, being the fair value of the consideration given including acquisition charges associated with the investment.

Premiums and discounts on debt instrument principal amounts are amortised on a time proportionate basis and taken to interest income.

Available for sale

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

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

Held to maturity

Investments which have fixed or determinable payments and which are intended to be held to maturity, are subsequently measured at amortised cost, less provision for impairment in value. Amortised cost is calculated by taking into account any discount or premium on acquisition.

Originated by the Bank

Investments in debt securities which are funded directly to the issuer are stated at cost less provision for impairment. An adjustment is made to such investments where effective fair value hedges have been made to adjust the value of the investment for the fair value being hedged with the resultant gains or losses being recognised in the statement of operations.

NOTE 2 –ACCOUNTING POLICIES (continued)

Repurchase and resale agreements

Assets sold with a simultaneous commitment to repurchase at a specified future date (repos) continue to be recognised in the balance sheet and are measured in accordance with accounting policies for trading securities or investment securities if the repurchase price is not fair value at the time of reacquisition. The counterparty liability for amounts received under these agreements is included in due to banks and other financial institutions or customers' deposits, as appropriate. The difference between sale and repurchase price is treated as interest expense and accrued over the life of the repo agreement. Assets purchased with a corresponding commitment to resell at a specified future date (reverse repos) are not recognised in the balance sheet, as the bank does not obtain control over the assets. Amounts paid under these agreements are included in deposits with banks and other financial institutions or loans and advances to customers, as appropriate. The difference between purchase and resale price is treated as interest income and accrued over the life of the reverse repo agreement.

Deposits with banks and other financial institutions and other money market placements

Deposits with banks and other financial institutions and other money market placements are stated at cost less any amounts written off and provision for impairment. The carrying values of such assets which are being effectively hedged for changes in fair value are adjusted to the extent of the changes in fair value being hedged. Resultant gains or losses are recognised in the statement of operations.

Loans, placements with banks

Loans and placements with banks are stated at principal amounts outstanding, net of allowance for possible loan or placement losses, respectively. Interest is accrued and credited to the statement of operations based on the principal amounts outstanding.

When a borrower is unable to meet payments as they fall due or, in the opinion of the management, there is an indication that a borrower may be unable to meet payments as they come due, all unpaid interest is reversed and interest is recognised only when received.

Impairment and uncollectability of financial assets

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

In addition to allowances for specific impaired loans and advances, a general allowance is made for incurred but unidentified impairment against portfolios of loans and advances.

Deposits

All money market and customer deposits are initially recognised at cost. After initial recognition, all interest bearing deposits, other than liabilities held for trading, are subsequently measured at amortised cost, less amounts repaid. Amortised cost is calculated by taking into account any discount or premium on settlement. Premiums and discounts are amortised on a systematic basis to maturity using the effective interest method and taken to interest income. For liabilities carried at amortised cost (which are not part of a hedging relationship), any gain or loss is recognised in the statement of operations when liability is derecognised or impaired.

NOTE 2 –ACCOUNTING POLICIES (continued)

Premises and equipment

All items of premises and equipment are initially recorded at cost. Depreciation is provided on a straight-line basis over the estimated useful lives of all premises and equipment, other than freehold land which is deemed to have an indefinite life. Depreciation is calculated using the following rates.

Buildings	1 - 3%
Leasehold improvements	6%
Furniture, fixtures and equipment	7 - 33%
Software	20%

Replacements and improvements, which prolong the useful life or significantly improve the condition of the asset, are capitalised. Repairs and maintenance are charged to the statement of operations as incurred. Where the carrying value of bank premises and equipment is greater than the estimated recoverable amount, it is written down immediately to the estimated recoverable amount.

Intangible assets

Intangible assets are stated at cost less accumulated amortisation. Amortisation is computed using the straight-line method over the estimated useful lives of the assets based on the following rates:

Goodwill	20 – 100%
Leasehold rights	2%

Leasehold rights represent the right to lease certain buildings indefinitely. The carrying value of each intangible asset is reviewed annually and adjusted for permanent impairment to its carrying value, where it is considered necessary.

Commitments, contingent liabilities

In the ordinary course of its business, the Group enters into off-balance sheet commitments such as guarantees, commitments to extend credit, letters of credit, warranties and transactions with financial instruments. These commitments are recorded in the financial statements if and when they become payable.

An allowance for losses on commitments and contingent liabilities is maintained at a level estimated by management to be adequate to absorb probable future losses. Management determines the adequacy of the allowance based upon reviews of individual items, recent loss experience, current economic conditions, the risk characteristics of the various categories of transactions and other pertinent factors.

Taxation

Taxation is provided for in accordance with the fiscal regulations of the Republic of Hungary.

Deferred taxation is provided using the liability method on all temporary differences at the reporting date. It is calculated at the tax rates that are expected to apply to the period when it is anticipated the liabilities will be settled, and it is based on tax rates (and laws) that have been enacted or substantively enacted at the balance sheet date.

Provisions

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

NOTE 2 – ACCOUNTING POLICIES (continued)

Derivatives

The Group enters into derivative instruments including FRA's, forwards, swaps and options in the foreign exchange and capital markets. Derivatives are stated at fair value. The fair value of a derivative is the equivalent of the unrealised gain or loss from marking to market the derivative using prevailing market rates or internal pricing models. Derivatives with positive market values (unrealised gains) are included in assets and derivatives with negative market values (unrealised losses) are included in liabilities in the balance sheet. Gains and losses are recognised in the statement of operations.

For the purposes of hedge accounting, hedges are classified into two categories: (a) fair value hedges which hedge the exposure to changes in the fair value of a recognised asset or liability; and (b) cash flow hedges which hedge exposure to variability in cash flows that is either attributable to a particular risk associated with a recognised asset or liability or a forecasted transaction.

In relation to fair value hedges which meet the conditions for hedge accounting, any gain or loss from remeasuring the hedging instrument to fair value is recognised immediately in the statement of operations. The hedged item is adjusted for fair value changes relating to the risk being hedged and the difference is recognised in the statement of operations.

In relation to cash flow hedges which meet the conditions for hedge accounting, the portion of the gain or loss on the hedging instrument that is determined to be an effective hedge is recognised initially in equity and the ineffective portion is recognised in the statement of operations. The gains or losses on effective cash flow hedges recognised initially in equity are either transferred to the statement of operations in the period in which the hedged transaction impacts the statement of operations or included in the initial measurement of the cost of the related asset or liability.

For hedges which do not qualify for hedge accounting, any gains or losses arising from changes in the fair value of the hedging instrument are taken directly to the statement of operations for the period.

Hedge accounting is discontinued when the hedging instrument expires or is sold, terminated or exercised, or no longer qualifies for hedge accounting. At that point in time, any cumulative gain or loss on the hedging instrument recognised in equity remains in equity until the forecasted transaction occurs. Where the hedged transaction is no longer expected to occur, the net cumulative gain or loss recognised in equity is transferred to the statement of operations for the period.

Cash flows from hedging activities are classified in the same line in the statement of cash flows as the item being hedged.

Fiduciary assets

Assets held in trust or in a fiduciary capacity are not assets of the bank and accordingly are not included in these financial statements.

Leases

Where a Group company is the lessee

Finance leases, which effectively transfer to the Group substantially all the risks and benefits incidental to ownership of the leased item, are capitalized at the present value of the minimum lease payments at the inception of the lease term. Lease payments are apportioned between the finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly against income in the statement of operations.

Capitalised leased assets are depreciated over the shorter of the estimated useful life of the asset.

Leases where the lessor effectively retains substantially all the risks and benefits of ownership of the leased term, are classified as operating leases. Operating lease payments are recognized as an expense or income in the statement of operations on a straight-line basis over the lease term.

Where a Group company is the lessor

When assets held are subject to a finance lease, the present value of the lease payments is recognised as a receivable. The difference between the gross receivable and the present value of the receivable is recognised as unearned finance income.

NOTE 2 –ACCOUNTING POLICIES (continued)

Lease income is recognised over the term of the lease so as to achieve a constant rate of interest on the remaining balance of the receivable.

Assets subject to operating leases (investment properties) are included in property, plant and equipment in the balance sheet and lease payments received are presented as income in the statement of operations.

Offsetting

Financial assets and financial liabilities are only offset and the net amount reported in the balance sheet when there is a legally enforceable right to set off the recognised amounts and the bank intends to either settle on a net basis, or to realise the asset and settle the liability simultaneously.

Cash and cash equivalents

For the purposes of reporting cash flows, cash and cash equivalents comprise balances with less than 90 days maturity, including cash, due from banks and balances with the National Bank of Hungary (including obligatory reserves), balances with other banks and trading securities.

Segmental reporting

Condensed financial statements of segments of business, other than banking, are not presented due to their immateriality to the financial statements as a whole.

Trade and settlement date accounting

All "regular way" purchases and sales of financial assets are recognised on the settlement date, i.e. the date the asset is delivered to the counterparty. Regular way purchases or sales are purchases are those that require delivery of assets within the time frame generally established by regulation or convention in the market place.

Collateral pending sale

The Group occasionally acquires real estate in settlement of certain loans and advances. Real estate is stated at the lower of the net realisable value of the loans and advances and the current fair value of such assets. Gains or losses on disposal, and unrealised losses on revaluation, are recognised in the statement of operations.

Reclassification

Certain comparative information has been reclassified in these accounts for presentation purposes.

NOTE 3 - CASH AND BALANCES WITH THE NATIONAL BANK OF HUNGARY

	31 December 2003 MHUF	31 December 2002 MHUF
Cash in hand	14 771	11 823
Balances with the National Bank of Hungary		
- less than 90 days	48 504	89 051
- equal or greater than 90 days	4 874	8 886
	68 149	109 760

Balances with the National Bank of Hungary include the Bank's obligatory reserves. In Hungary obligatory reserve requirements are based on average monthly balances and as a result daily balances may fluctuate. The required average monthly balance for the month of December 2003 was HUF 49 637 million (HUF 43 074 million for December 2002).

Cash and cash equivalents

For the purpose of the cash flow statement, cash and cash equivalents comprise the following balances with less than 90 days maturity:

	31 December 2003 MHUF	31 December 2002 MHUF
Cash and balances with the National Bank of Hungary	63 275	100 874
Balances less than 90 days maturity with other banks	45 727	61 493
Trading securities (see note 5)	6 048	230
Cash and cash equivalents	115 050	162 597

NOTE 4 – LOANS TO CUSTOMERS

	31 December 2003 MHUF	31 December 2002 MHUF
Industry sector		
Service industry	202 799	231 988
Agriculture	79 937	59 542
Manufacturing and building	144 410	95 096
Food processing	60 611	45 916
Wholesale and retail	127 299	162 078
Power industry	51 121	27 534
Other	69 402	44 902
Individuals	243 610	105 843
Gross loans	979 189	772 899
General allowance for possible loan losses	(4 229)	(3 690)
Specific allowance for possible loan losses	(17 569)	(14 802)
Allowance for possible loan losses (see Note 22)	(21 798)	(18 492)
Loans to customers	957 391	754 407

Analysis of loans by type

	31 December 2003 MHUF	31 December 2002 MHUF
Corporate loans		
Current account advances	56 105	52 926
Term loans to 1 year	177 493	183 360
Term loans over 1 year	446 244	331 311
Corporate loans	679 842	567 597
Retail loans		
Current account advances	3 908	3 141
Term loans to 1 year	2 248	3 227
Term loans over 1 year	145 679	99 474
Retail loans	151 835	105 842
Lease receivables	44 710	31 981
Loans originated by lease companies	98 046	58 424
Other loans (factoring, trade bills & acceptances, etc.)	4 756	9 055
Gross loans	979 189	772 899

As at 31 December 2003 a total of HUF 11 970 million of loans are held on a non accrual basis (as at 31 December 2002 HUF 7 235 million)

NOTE 5 – TRADING AND INVESTMENT SECURITIES

	31 December 2003 MHUF	31 December 2002 MHUF
Trading securities	14 799	6 279
Investment securities – available for sale	177 824	116 783
Investment securities – held to maturity	47 809	68 114
Investment in associates	3 694	2 329
	244 126	193 505

	31 December 2003 MHUF	31 December 2002 MHUF
Trading securities		
Treasury bills		
- maturing in less than 90 days	6 048	230
- maturing in 90 days or more	3 715	3 848
Government bonds	4 855	1 439
Other unlisted bonds	6	2
Listed shares	175	760
	14 799	6 279

	31 December 2003 MHUF	31 December 2002 MHUF
Investment securities – available for sale		
Treasury bills	8 037	-
Consolidation bonds issued in HUF (see (b) below)	110 654	114 537
Other government bonds issued in HUF	56 219	-
Other bonds – listed issued in HUF	595	-
Other bonds – unlisted issued in HUF	-	599
Listed shares	227	73
Unlisted shares (see (c) below)	2 073	1 558
Other	19	16
Available for sale investment securities	177 824	116 783

NOTE 5 – TRADING AND INVESTMENT SECURITIES (continued)

	31 December 2003 MHUF	31 December 2002 MHUF
Investment securities – held to maturity		
Treasury bills	618	-
Government bonds		
- issued in HUF	23 515	32 160
- issued in foreign currencies (see (d) below)	23 676	32 487
Total of government bonds	47 191	64 647
Other bonds – unlisted issued in foreign currencies	-	3 467
Held to maturity investment securities	47 809	68 114

(a) Government bonds and treasury bills as at 31 December 2003 include securities with a book value of HUF 15 235 million (HUF 29 446 million at 31 December 2002) that the Bank has sold and agreed to repurchase.

(b) Consolidation bonds were acquired as part of the 1992-1994 consolidation programs. These bonds expire in 2013 and 2014, bear a market rate of interest equivalent to the State of Hungary's treasury bill rates and reprice annually or semi-annually. As there is not yet a liquid market for these instruments in Hungary they are carried at amortised historical cost. As they reprice regularly management believe that amortised historical cost is the most appropriate estimation of their fair value.

(c) Unlisted shares include 25% of the shares of HAGE Rt., a company incorporated in Hungary. This investment (HUF 542 million at 31 December 2003 and 2002) is not classified as an associate because it is held for resale. This investment and other investments in unlisted shares are accounted for on a cost basis as it is not possible to reliably estimate their fair value.

(d) Government bonds issued in foreign currencies are hedged with variable interest rate cross currency swaps and are recorded at their fair value.

NOTE 6 – DERIVATIVE FINANCIAL INSTRUMENTS

	Year ended 31 December 2003			Year ended 31 December 2002		
	Notional amount	Positive fair value Assets	Negative fair value Liabilities	Notional amount	Positive fair value Assets	Negative fair value Liabilities
	MHUF	MHUF	MHUF	MHUF	MHUF	MHUF
Derivatives held for trading						
Foreign exchange derivatives						
Currency forwards	137 693	2 990	(1 980)	83 005	2 101	(2 804)
Currency swaps	693 174	20 494	(24 972)	530 683	22 225	(18 892)
Currency options bought and sold	47 951	588	(588)	34 609	273	(273)
Total foreign exchange derivatives	878 818	24 072	(27 540)	648 297	24 599	(21 969)
Interest rate derivatives						
Interest rate swaps	14 435	181	(536)	570	8	(7)
Forward rate agreements	-	-	-	23 100	23	(9)
Credit default swaps	-	-	-	9 006	44	-
Total interest rate derivatives	14 435	181	(536)	32 676	75	(16)
Total derivatives held for trading	893 253	24 253	(28 076)	680 973	24 674	(21 985)
Derivatives held for hedging						
Derivatives designated as fair value hedges						
Interest rate swaps	6 410	-	(389)	6 473	-	(418)
Cross currency interest rate swaps	20 753	-	(5 951)	30 933	209	(6 784)
Total derivatives held for hedging	27 163	-	(6 340)	37 406	209	(7 202)
Total derivative financial instruments	920 416	24 253	(34 416)	718 379	24 883	(29 187)

Derivatives designated as fair value hedges

Interest rate swaps

In 2000 the Group entered into interest rate swaps that mature between 2005 and 2010 to cover the interest rate risk of two long term fixed rate loans originated by the Group to corporate customers. The fixed EURO interest rates in a range of 5.17%-7.38% were swapped for the term of the loan to 3-month EURIBOR with a margin. Swap counterparties belong to major international banking groups.

Cross currency interest rate swaps

In 1997 and 1998, the Group purchased long term fixed rate bonds denominated in JPY that mature between 2004 and 2015. Cross currency interest rate swaps with exchanges of principal were entered into for the term of the bond whereby the Group pays semi- annually or annually the coupon of the bonds and receives USD 1 to 3-month LIBOR plus a margin to cover the Group's interest rate and foreign currency risk. At the maturity of the swaps, which coincides with the repayment of the bonds, notional capital amounts are exchanged. Swap counterparties belong to major international banking groups.

NOTE 7 - BANK PREMISES AND EQUIPMENT

	Land and Buildings MHUF	Leasehold improvements MHUF	Furniture, fixtures and equipment MHUF	Software MHUF	Construction in progress MHUF	Total MHUF
At 31 December 2002						
Cost	17 249	5 555	21 573	27 282	2 582	74 241
Accumulated depreciation	(7 525)	(1 137)	(10 583)	(17 121)	-	(36 366)
Net book value	9 724	4 418	10 990	10 161	2 582	37 875
Movements in 2003						
Additions	-	-	215	45	8 662	8 922
Disposals - net	(1 803)	(339)	(794)	-	(115)	(3 051)
Transfers	292	528	4 488	3 420	(8 755)	(27)
Impairment charge	(31)	-	-	(14)	-	(45)
Depreciation charge	(323)	(360)	(5 124)	(3 328)	-	(9 135)
Closing net book value	7 859	4 247	9 775	10 284	2 374	34 539
At 31 December 2003						
Cost	14 676	5 487	22 616	29 866	2 374	75 019
Accumulated depreciation	(6 817)	(1 240)	(12 841)	(19 582)	-	(40 480)
Net book value	7 859	4 247	9 775	10 284	2 374	34 539

NOTES TO THE FINANCIAL STATEMENTS

NOTE 8 - INTANGIBLE ASSETS

	Goodwill	Leasehold rights	Total
	MHUF	MHUF	MHUF
At 31 December 2002			
Cost	191	1 826	2 017
Accumulated amortisation	(176)	(1 230)	(1 406)
Net book value	15	596	611
Movements in 2003			
Additions	-	-	-
Disposals - net	-	-	-
Transfers	-	27	27
Amortisation charge	(15)	(129)	(144)
Closing net book value	-	494	494
At 31 December 2003			
Cost	191	1 475	1 666
Accumulated amortisation	(191)	(981)	(1 172)
Net book value	-	494	494

NOTE 9 - OTHER ASSETS

	31 December 2003	31 December 2002
	MHUF	MHUF
Receivables from investment services	327	403
Prepayments and taxes receivable	3 925	1 909
Trade receivables	931	2 005
Loans to employees	100	890
Receivables from bankcard service	1 535	2 228
Items in transit due to payment services	6 589	6 722
Items in transit due to trading in securities	240	60
Other accruals	7 781	4 750
Other inventories	820	455
Other receivables	811	890
	23 059	20 312

NOTE 10 - DEPOSITS AND CERTIFICATES OF DEPOSITS

	31 December 2003 MHUF	31 December 2002 MHUF
Individuals		
- current accounts	53 140	56 179
- term deposits, savings accounts	418 097	400 777
Corporations		
- current accounts	186 792	164 959
- term deposit	162 793	177 681
- liabilities to repurchase securities sold	1 063	29 446
Other entities		
- current accounts	9 255	10 218
- term deposits	16 842	54 406
	847 982	893 666
Certificates of deposits	628	3 087
	848 610	896 753

NOTE 11 – BALANCES DUE TO BANKS

	31 December 2003 MHUF	31 December 2002 MHUF
Current/settlements accounts	2 733	3 343
Term deposits	199 072	18 416
Liabilities to repurchase securities sold	14 584	-
	216 389	21 759

NOTE 12 – REFINANCING CREDITS

	31 December 2003 MHUF	31 December 2002 MHUF
Refinancing credits from National Bank of Hungary	5 227	11 514
Other refinancing credits	139 495	77 469
Swap facility with the National Bank of Hungary	4 244	6 854
	148 966	95 837

NOTE 12 – REFINANCING CREDITS (continued)

K&H Bank has entered into several refinancing credit facilities with the National Bank of Hungary (NBH) and other financial institutions (such as the EBRD and World Bank, FHB – Mortgage Bank) for the purpose of funding portions of the Bank's activities. There are several covenants governing the determination of qualified recipients, the on-going monitoring process of the ultimate recipients and the repayment process. In all cases the Bank assumes all credit risk related to the ultimate borrower and must check compliance with all covenants. At 31 December 2003, management believes that the Bank is in compliance with all significant covenants.

For refinancing credits or other sources denominated in foreign currency, the Bank uses the foreign currency - HUF deposit swap facility provided by the NBH to place foreign currency deposits with the NBH (included in cash and balances with NBH) and receive HUF deposits from the NBH. The HUF source is then lent to the customer resulting in a matched currency position for the Bank.

NOTE 13 - OTHER LIABILITIES

Other liabilities include the following:

	31 December 2003 MHUF	31 December 2002 MHUF
Allowance for commitments and guarantees issued	739	738
Allowance for possible losses from legal cases	465	463
Exceptional provision for expected losses	8 600	-
Other provisions	1 910	2 448
Trade creditors	2 943	2 709
Lease liabilities	897	1 619
Items in transit due to payment services	14 817	27 082
Vostro accounts	1 256	6 367
Items in transit due to lending activity	804	641
Items in transit due to trading in securities	610	20 670
Receivables from bankcard service	954	1 577
Liabilities from brokerage services	2 520	1 498
Deferred tax liability	448	1 227
Other liabilities	3 003	6 567
	39 966	73 606

Other provisions include provisions for merger related restructuring costs totalling HUF 483 million (HUF 1 040 million as at 31 December 2002) and for the cancellation of lease contracts totalling HUF 1 191 million (HUF 1 333 million as at 31 December 2002). The release of these provisions in this financial year relates to expenditure incurred.

The Group has created a provision of 8 600 million HUF to cover the potential liability to clients resulting from the fraud at K&H Equities Rt., a joint venture of the Bank. There has been an extensive reconciliation of all client accounts involved in the case. Some clients have been offered a settlement and accepted. For the majority of claims, criminal investigations have been launched which will likely be litigated in Court. The timing and the final decisions of the Courts are uncertain. As a result of this the amount of the provision may be subject to changes in the years ahead. However after careful consideration, based on comprehensive investigation and substantiated legal opinions the company believes that the amount of provision raised is the best possible estimate and is at this moment adequate to cover actual losses. This provision does not include legal and ancillary costs of settling claims as the Group is not in a position that allows it to reliably estimate them.

On 17 December 2003 the Bank signed a purchase agreement for the shareholding of ABN AMRO N.V. the other shareholder of K&H Equities Rt., that took effect following competition and regulatory approvals in 2004. On 18 December the two shareholders of the Bank KBC N.V. and ABN AMRO N.V. issued a letter of commitment that they will maintain the legally required level of equity in K&H Bank Rt. On the same day the Bank also issued a letter of commitment that it will maintain the legally required level of equity at K&H Equities. In addition, the Bank decided on a capital increase for the amount of HUF 8 600 000 at the company. The amount of the capital increase was credited to the bank account of K&H Equities Rt. on February 2, 2004. Registration with the Court of registry was completed on March 12, 2004.

NOTE 14 - SUBORDINATED DEBT

	31 December 2003 MHUF	31 December 2002 MHUF
Subordinated loan from KBC Group	10 489	9 436
Subordinated loan from Hungarian corporate	-	2 464
Bonds issued to the State	4 714	4 714
	15 203	16 614

In September 1999 the Group borrowed EUR 40 million of subordinated debt from Irish Intercontinental Bank, a member of the KBC Group. The loan matures on 31 July 2006 and bears a variable interest rate of 3 month-EURIBOR plus 1.625 percent per annum.

In 1995 ABN Amro Bank received subordinated fixed rate loans of NLG 50 million from a Hungarian corporate. The loan matured in 2003.

K&H Bank also issued subordinated debt in the form of bonds to the State in December 1994 and bought long-term state bonds from the proceeds. Interest on the bonds issued is the same as on the state bonds acquired. Both securities mature in 2014.

NOTE 15 - SHARE CAPITAL

	31 December 2003 MHUF	31 December 2002 MHUF
Ordinary shares issued and outstanding	52 507	42 507

The nominal value of the ordinary shares issued and outstanding at 31 December 2003 is HUF 1 per share (2002: HUF 1).

Shareholders of the Bank:

	2003 Shares held (M)	2003 Shareholding %	2002 Shareholding %
KBC Bank N. V.	31 203	59.43%	59.33%
ABN Amro N.V.	21 123	40.23%	40.23%
Other shareholders	181	0.34%	0.44%
	52 507	100.0%	100.0%

On 17 December 2003 the shareholders increased the shareholders equity of the Bank by HUF 22 701 million, of which the share capital was increased by HUF 10 000 million and the share premium by HUF 12 701 million.

NOTE 16 – CAPITAL ADEQUACY

The Group capital adequacy calculation shown below was prepared based on the international guidelines set forth by the Basle Committee on Banking Regulations and Supervisory Practices. The Bank is also subject to separate Hungarian capital adequacy regulations calculated from the statutory accounts. According to these, the Bank's capital adequacy ratio at 31 December 2003 was 10.98% (9.79% at 31 December 2002). The minimum ratio according to Hungarian regulations is 8.00%.

	31 December 2003 MHUF	31 December 2002 MHUF
Cash and balances with the National Bank of Hungary	490	180
Balances with other banks	13 789	15 624
Loans to customers	754 172	631 144
Trading and investment securities	3 658	3 340
Derivative financial instruments	33 491	31 364
Accrued interest receivable	13 417	10 913
Bank premises and equipment	34 539	37 875
Intangible assets	494	611
Other assets	23 041	20 293
Total risk-weighted assets	877 091	751 346
Risk-weighted off-balance sheet items	179 132	76 734
Total risk-weighted assets and off balance sheet items	1 056 223	828 078

	31 December 2003 MHUF	31 December 2002 MHUF
Shareholders' equity	121 704	90 908
less: goodwill	-	(15)
Capital requirement for trading book	(1 737)	(1 336)
Tier 1 capital	119 967	89 557
Available for sale reserve	(1 467)	26
Subordinated debt	11 007	12 756
Tier 2 capital	9 540	12 782
Tier 1+ Tier 2 capital	129 507	102 339
Capital adequacy: Tier 1	11.36%	10.82%
Capital adequacy: Tier 1 + Tier 2	12.26%	12.36%

NOTE 17 – STATUTORY RISK RESERVE

The Bank is required to set aside 10% of its profit calculated in accordance with Hungarian Accounting standards as a non-distributable reserve for use against future losses. The balance of this reserve as at 31 December 2003 was 924 million HUF (642 million HUF as at 31 December 2002).

NOTE 18 – DISTRIBUTABLE RESERVES

According to Hungarian corporate and banking law, only profit for the current period and the retained earnings included in the statutory standalone financial statements and calculated using Hungarian accounting principles may be distributed to shareholders. Additionally, this can occur only after the Group establishes the required minimum level of statutory risk reserve (see note 17).

Accordingly, the Bank had distributable reserves of HUF 20 181 million as at 31 December 2003 (HUF 17 645 million as at 31 December 2002).

NOTE 19 – NET INTEREST INCOME

	Year ended 31 December 2003 MHUF	Year ended 31 December 2002 MHUF
Interest from credit institutions	8 061	7 313
Interest on loans	70 329	66 786
Interest on trading securities	1 531	992
Interest on investment securities	15 721	17 185
Loan origination fees	1 124	937
Interest income	96 766	93 213
Interest on deposits and certificates of deposits	(37 153)	(39 765)
Interest paid to credit institutions	(3 372)	(2 909)
Interest on refinancing credits	(3 663)	(2 437)
Interest on subordinated debt	(963)	(1 372)
Net interest received/(paid) interest rate swaps	221	(1 176)
Interest expense	(44 930)	(47 659)
Net interest income	51 836	45 554

NOTE 20 – NET FEE INCOME

	Year ended 31 December 2003 MHUF	Year ended 31 December 2002 MHUF
Payment transactions	16 076	15 949
Card services	4 976	4 565
Brokerage services	2 680	2 195
Credit and guarantee fee income	4 636	2 685
Other	777	727
Commission and fee income	29 145	26 121
Payment transactions	(3 173)	(2 671)
Card services	(2 512)	(2 349)
Brokerage services	(416)	(137)
Credit and guarantee fee expense	(359)	(232)
Insurance services	(540)	(478)
Commission paid to exchange agents	(4 676)	(1 907)
Other	(345)	(564)
Commission and fee expense	(12 021)	(8 338)
Net fee income	17 124	17 783

Commission paid to exchange agents is matched with an exchange gain recognised in statement of operations in gains less losses on foreign exchange. On a net basis these fees have no impact on the Group profitability.

NOTE 21 – OPERATING EXPENSES

	Year ended 31 December 2003 MHUF	Year ended 31 December 2002 MHUF
Personnel costs	23 654	21 170
Operations	10 131	10 702
Depreciation and amortisation	9 322	11 974
Technology costs	8 601	9 365
Taxes and duties	3 609	3 066
Marketing cost	1 417	1 410
Other expenses	4 048	2 756
	60 782	60 443

The average number of employees in 2003 was 3 787 (3 985 in 2002).

NOTE 22 – ALLOWANCE FOR POSSIBLE LOAN AND COMMITMENT LOSSES

Movements in allowance for possible loan and commitment losses are the following:

	Loans		Commitments and contingent liabilities		
	General allowance	Specific allowance	General allowance	Specific allowance	Total
	MHUF	MHUF	MHUF	MHUF	MHUF
Balance at 31 December 2001	2 563	14 877	185	762	18 387
Provision for possible loan commitment losses	1 127	1 358	304	78	2 867
Write offs	-	(1 433)	-	(128)	(1 561)
Balance at 31 December 2002	3 690	14 802	489	712	19 693
Provision for possible loan and commitment losses	539	4 261	67	(64)	4 803
Expected provision for expected losses				8 600	8 600
Write offs	-	(1 494)	-	-	(1 494)
Balance at 31 December 2003	4 229	17 569	556	9 248	31 602

The allowance for commitments and contingent liabilities totalling HUF 9 804 million at 31 December 2003 (HUF 1 201 million at 31 December 2002) is included under separate headings of Allowance for commitments and guarantees issued, Allowance for possible losses from legal cases, contingencies and Exceptional provision for expected losses (see note 13).

NOTE 23 – GAIN/(LOSS) ON INVESTMENTS

	Year ended 31 December 2003 MHUF	Year ended 31 December 2002 MHUF
Gain/(Loss) on sale of investments	171	(557)
Revaluation of investments	(2 111)	(1 349)
Share in gain of associates	2 053	461
Total	113	(1 445)

Revaluation of investments includes a loss of HUF 2 397 million in 2003 (HUF 1 776 million in 2002) on the mark to market valuation of bonds denominated in foreign currency issued by the National Bank of Hungary. This loss is offset by a gain of HUF 2 042 million in 2003 (HUF 1 620 million in 2003) on bond related foreign exchange swaps included in the gains less losses on foreign exchange in the consolidated statement of operations.

The Group revised the accounting treatment of its investment in GIRO Elszámolásforgalmi Rt. from a historical cost basis to the equity method in 2003 with the resulting gain of HUF 1 469 million included within “share in gain of associates”.

NOTE 24 - INCOME TAXES

	Year ended 31 December 2003 MHUF	Year ended 31 December 2002 MHUF
Statutory income tax expense	2 132	1 076
Deferred taxation (credit)/charge	(494)	1 392
Income tax charge	1 638	2 468

Statutory income tax expense

Corporate income tax is payable at 18% (the rate will change in 2004 to 16%) on taxable statutory profits with an additional 20% tax on dividends, a percentage that foreign shareholders may be able to further reduce under double taxation treaties.

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. Consequently, the K&H Group may be subject to further assessments in the event of an audit by the tax authorities. The corporate tax returns for ABN Amro Magyar Bank Rt have been closed off. The corporate tax returns for K&H have been closed off for the years up to 2001. Management is not aware of any additional significant unaccrued potential tax liability which might arise relating to years not audited by the tax authorities.

Deferred income taxes

	Year ended 31 December 2003 MHUF	Year ended 31 December 2002 MHUF
Deferred tax liability / (asset) at the beginning of the year	1 227	(140)
Deferred tax effect of AFS investments	(285)	(25)
Deferred tax (credit)/charge	(494)	1 392
Deferred tax liability / (asset) at the end of the year	448	1 227

Deferred income taxes are calculated on all temporary differences under the asset and liability method using a principal rate of 16% (2002: 18%). The resulting deferred tax asset is included in other assets (see note 9).

According to the Hungarian Tax Law, any operating losses incurred for income tax purposes by the Bank are not eligible for carry forward against future years' income. Deferred income tax for tax loss carry forwards is calculated only for non-banking subsidiaries to the extent that realisation of the related tax benefit is assessed as probable.

NOTE 24 - INCOME TAXES (continued)

Deferred income tax assets and liabilities are attributable to the following items:

	Year ended 31 December 2003 MHUF	Year ended 31 December 2002 MHUF
Deferred income tax assets		
Differences between taxation and IFRS book values		
- revaluation of property and leasehold rights	(688)	(850)
- available for sales assets adjustments recognised in equity	(279)	-
- other provisions	(1 585)	(601)
Total deferred income tax assets	(2 552)	(1 451)
Deferred income tax liabilities		
Differences between taxation and IFRS book values		
- general provision for loan losses	1 263	1 101
- fair value evaluation of financing instruments	1 467	1 187
- available for sales assets adjustments recognised in equity	-	6
- other	270	384
Total deferred tax liabilities	3 000	2 678
Net deferred tax liability	448	1 227

Deferred tax income comprises the following temporary differences:

	Year ended 31 December 2003 MHUF	Year ended 31 December 2002 MHUF
General provision for loan losses	163	262
Revaluation of real estates and leasehold rights	162	(46)
Other provisions	(984)	120
Fair value evaluation of financing instruments	280	849
Other	(115)	207
Deferred tax (credit)/charge	(494)	1 392

NOTE 24 - INCOME TAXES (continued)

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

	Year ended 31 December 2003 MHUF	Tax rate	Year ended 31 December 2002 MHUF	Tax rate
Income before income taxes	9 733		13 732	
Tax at statutory rate of 18%	1 752	18%	2 472	18%
Tax effect of permanent differences	(114)	-1%	(4)	0%
Tax charge for the period	1 638	17%	2 468	18%

NOTE 25 - EARNINGS PER SHARE

Earnings per share is the profit attributable to shareholders of the Group divided by the weighted average number of shares outstanding during the period, excluding treasury shares. There were no other potentially dilutive securities in existence at 31 December 2003 and 2002. The following amounts were used in the calculation of earnings per share:

	31 December 2003	31 December 2002
Net profit attributable to shareholders (MHUF)	8 095	11 264
Weighted average shares outstanding (in millions)	42 891	42 507
Earnings per share (HUF)	0.19	0.27

NOTE 26 - RELATED PARTY TRANSACTIONS

For the purposes of these financial statements, related parties include all enterprises that directly or indirectly through one or more intermediaries, control or are controlled by, or are under common control with the reporting enterprise (this includes parents, subsidiaries and fellow subsidiaries) and associated companies.

The banking transactions entered into with related parties in the normal course of business including loans and deposits were carried out on normal commercial terms and conditions and at market rates. All the loans and advances to related parties are performing advances and are free of any provision for possible loan losses.

The year-end balances with members of the KBC or ABN-Amro Groups included in the financial statements are as follows:

	31 December 2003 MHUF	31 December 2002 MHUF
Assets		
Balances due from KBC and ABN Amro entities	13 640	13 815
Liabilities		
Balances due to KBC and ABN Amro entities	171 461	3 034
Subordinated debt	10 489	9 436
Other liabilities (lease liabilities)	862	1 540
	182 812	14 010
Commitments and contingent liabilities	4 079	5 577
Guarantees received*	4 769	2 996
Nominal principal of derivatives	204 894	213 992

*Excluding guarantees received in relation to the Talentum case

The income and expenses in respect of related parties included in the financial statements are as follows:

	31 December 2003 MHUF	31 December 2002 MHUF
Interest income	875	2 741
Interest expense	(1 678)	(1 438)
Net interest income	(803)	1 303

NOTE 27 - CURRENCY EXPOSURE

The Group had the following exposure in the most significant currencies:

	HUF	EURO	USD	JPY	Other	Total
	MHUF	MHUF	MHUF	MHUF	MHUF	MHUF
At 31 December 2003						
Assets						
Cash and balances with MNB	61 245	1 881	4 655	7	361	68 149
Balances with other banks	43 249	13 782	7 234	575	4 107	68 947
Loans to customers	541 718	269 870	29 976	18	115 809	957 391
Trading and investment securities	220 450	-	-	23 676	-	244 126
Derivative financial instruments	24 231	2	20	-	-	24 253
Accrued interest receivable	11 803	1 026	201	642	860	14 532
Bank premises and equipment	34 539	-	-	-	-	34 539
Intangible assets	494	-	-	-	-	494
Other assets	20 881	1 319	307	-	552	23 059
Total assets	958 610	287 880	42 393	24 918	121 689	1 435 490
Liabilities						
Deposits and certificate of deposits	679 751	99 438	59 478	379	9 563	848 609
Balances to other banks	10 181	88 587	18 943	-	98 678	216 389
Refinancing credits	103 346	42 321	3 300	-	-	148 967
Derivative financial instruments	28 069	396	-	5 951	-	34 416
Accrued interest payable	10 792	303	61	507	40	11 703
Subordinated debt	4 714	10 489	-	-	-	15 203
Other liabilities	32 158	3 491	2 983	864	470	39 966
Total liabilities and subordinated debt	869 011	245 025	84 765	7 701	108 751	1 315 253
Net balance sheet position	89 599	42 855	(42 372)	17 217	12 938	120 237
Credit commitments and contingent liabilities	347 770	54 095	8 039	2	6 947	416 853

NOTE 27 - CURRENCY EXPOSURE (continued)

	HUF	EURO	USD	JPY	Other	Total
	MHUF	MHUF	MHUF	MHUF	MHUF	MHUF
At 31 December 2002						
Assets						
Cash and balances with MNB	99 366	3 155	7 080	5	154	109 760
Balances with other banks	40 366	16 426	18 569	607	2 150	78 118
Loans to customers	478 582	190 857	30 516	46	54 406	754 407
Trading and investment securities	157 552	4 054	6 928	24 115	856	193 505
Derivative financial instruments	24 360	42	481	-	-	24 883
Accrued interest receivable	10 501	931	224	626	23	12 305
Bank premises and equipment	611	-	-	-	-	611
Intangible assets	37 875	-	-	-	-	37 875
Other assets	18 014	592	1 706	-	-	20 312
Total assets	867 227	216 057	65 504	25 399	57 589	1 231 776
Liabilities						
Deposits and certificate of deposits	697 285	109 819	76 979	395	12 275	896 753
Balances to other banks	11 269	1 916	8 104	-	470	21 759
Refinancing credits	58 688	29 049	8 100	-	-	95 837
Derivative financial instruments	21 715	447	2 136	4 665	224	29 187
Accrued interest payable	5 602	460	397	611	16	7 086
Subordinated debt	4 714	11 900	-	-	-	16 614
Other liabilities	61 883	951	9 198	720	854	73 606
Total liabilities and subordinated debt	861 156	154 542	104 914	6 391	13 839	1 140 842
Net balance sheet position	6 069	61 515	(39 410)	19 008	43 752	90 934
Credit commitments and contingent liabilities	309 179	51 988	9 275	117	4 631	375 191

NOTE 28 – INTEREST RATE RISK

Interest rate risk arises from the possibility that changes in interest rates will affect the value of the financial instruments. The Group is exposed to interest rate risk as a result of mismatches or gaps in the amounts of assets and liabilities that mature or reprice in a given period. The Group manages this risk by matching the repricing of assets and liabilities through risk management strategies.

The substantial majority of the Group's assets and liabilities reprice within one year. Accordingly there is a limited exposure to interest rate risk.

The tables below detail the Group's interest exposure as amended by interest rate swap derivatives on a total basis.

Interest bearing HUF assets and liabilities at 31 December 2003:

	Below 1 month MHUF	1-3 months MHUF	3-12 months MHUF	Over 1 year MHUF	Total MHUF
Assets	534 692	121 894	126 825	38 284	821 695
Liabilities	(587 651)	(207 952)	(80 030)	(4 087)	(879 720)
	(52 959)	(86 058)	46 795	34 197	(58 025)

Interest bearing FX assets and liabilities at 31 December 2003:

	Below 1 month MHUF	1-3 months MHUF	3-12 months MHUF	Over 1 year MHUF	Total MHUF
Assets	342 330	107 944	85 854	46 225	582 353
Liabilities	(302 224)	(118 230)	(15 998)	(22 629)	(459 081)
	40 106	(10 286)	69 856	23 596	123 272

NOTE 28 – INTEREST RATE RISK (continued)

Interest bearing HUF assets and liabilities at 31 December 2002:

	Below 1 month	1-3 months	3-12 months	Over 1 year	Total
	MHUF	MHUF	MHUF	MHUF	MHUF
Assets	546 343	108 534	183 538	32 748	871 163
Liabilities	(687 293)	(115 400)	(94 958)	(1 195)	(898 846)
	(140 950)	(6 866)	88 580	31 553	(27 683)

Interest bearing FX assets and liabilities at 31 December 2002:

	Below 1 month	1-3 months	3-12 months	Over 1 year	Total
	MHUF	MHUF	MHUF	MHUF	MHUF
Assets	166 692	143 919	51 916	42 735	405 262
Liabilities	(213 643)	(34 538)	(34 886)	(28 117)	(311 184)
	(46 951)	109 381	17 030	14 618	94 078

NOTE 29 – LIQUIDITY RISK

Liquidity risk is the risk that an institution will be unable to meet its net funding requirements. Liquidity risk can be caused by market disruptions or credit downgrades which may cause certain sources of funding to dry up immediately. To guard against this risk, management have diversified funding sources and assets are managed with liquidity in mind, maintaining a healthy balance of cash, cash equivalents, and readily marketable securities.

The table below summarises the maturity profile of the Group's assets and liabilities. The contractual maturities of assets and liabilities have been determined on the basis of the remaining period at the balance sheet date to the contractual maturity date and do not take account of the effective maturities as indicated by the bank's deposit retention history and the availability of liquid funds. The maturity profile is monitored by management to ensure adequate liquidity is maintained. The maturity profile of the assets and liabilities at the year end are based on contractual repayment arrangements.

The following table shows a breakdown of the balance sheet by maturity at 31 December 2003:

	Loans	Other assets	Total Assets	Deposits and certif. of deposits	Other liabilities	Total liabilities	Net coverage
	MHUF	MHUF	MHUF	MHUF	MHUF	MHUF	MHUF
1-7 days	82 614	72 960	155 574	(394 817)	(175 639)	(570 455)	(414 882)
1-2 weeks	6 970	3 163	10 133	(76 737)	(18 782)	(95 519)	(85 386)
2-4 weeks	16 457	82 545	99 002	(131 646)	(77 621)	(209 267)	(110 265)
1-3 months	43 118	35 108	78 226	(202 696)	(77 545)	(280 241)	(202 015)
4-6 months	79 806	9 085	88 891	(13 162)	(7 225)	(20 387)	68 504
7-12 months	147 923	10 191	158 114	(14 326)	(12 371)	(26 697)	131 417
1-2 years	123 083	23 360	146 443	(4 646)	(21 339)	(25 985)	120 458
2-5 years	280 126	54 080	334 206	(8 084)	(23 906)	(31 990)	302 216
Over 5 years	199 092	187 607	386 699	(2 496)	(40 500)	(42 996)	343 703
Subtotal	979 189	478 100	1 457 289	(848 610)	(454 928)	(1 303 538)	153 750
Allowance/Equity	(21 798)	-	(21 798)	-	(131 952)	(131 952)	(153 750)
Total	957 391	478 099	1 435 490	(848 610)	(586 880)	(1 435 490)	-

NOTE 29 – LIQUIDITY RISK (continued)

The following table shows a breakdown of the balance sheet by maturity at 31 December 2002:

	Loans	Other assets	Total Assets	Deposits and certif. of deposits	Other liabilities	Total liabilities	Net coverage
	MHUF	MHUF	MHUF	MHUF	MHUF	MHUF	MHUF
1-7 days	83 535	134 633	218 168	(471 816)	(93 389)	(565 205)	(347 037)
1-2 weeks	2 824	18 986	21 810	(123 673)	(2 918)	(126 591)	(104 781)
2-4 weeks	19 365	20 396	39 761	(182 255)	(17 359)	(199 614)	(159 853)
1-3 months	46 748	60 172	106 920	(85 615)	(8 033)	(93 648)	13 272
4-6 months	65 856	8 493	74 349	(10 095)	(9 830)	(19 925)	54 424
7-12 months	111 538	22 173	133 711	(11 825)	(17 169)	(28 994)	104 717
1-2 years	87 294	12 095	99 389	(10 458)	(14 743)	(25 201)	74 188
2-5 years	170 914	60 928	231 842	(515)	(29 893)	(30 408)	201 434
Over 5 years	184 825	139 493	324 318	(501)	(47 154)	(47 655)	276 663
Subtotal	772 899	477 369	1 250 268	(896 753)	(240 488)	(1 137 241)	113 027
Allowance/Equity	(18 492)	-	(18 492)	-	(94 535)	(94 535)	(113 027)
Total	754 407	477 369	1 231 776	(896 753)	(335 023)	(1 231 776)	-

NOTE 30 – FAIR VALUE

Substantially all the Group's monetary assets and liabilities are carried at their fair values as of December 31, 2003 and 2002.

Underlying the definition of fair value is the presumption that the bank is a going concern without any intention or requirement to curtail materially the scale of its operation or to undertake a transaction on adverse terms.

Balances with other banks

The carrying amount of these balances approximate their fair value, as balances with other banks are short term placements at market interest rates.

Loans to customers

Loans to customers are carried net of specific and general allowances for loan losses. The estimated fair value of loans should be the amount of estimated future cash flows expected to be received, discounted at market rates. As the majority of loans are repriced quarterly, the carrying value approximates the fair value.

NOTE 30 – FAIR VALUE (continued)

Investments

Trading securities and available for sale investments are carried at their market value.

Consolidation bonds classified as available for sale do not have observable market prices. As the interest rate of these securities follows the market rate for treasury bills and they reprice regularly the carrying value approximates their fair value.

Bonds and other investments held to maturity are carried at amortised cost except for bonds denominated in foreign currency issued by the National Bank of Hungary. As the cross currency interest rate swaps relating to the bonds are valued at fair value, these bonds are also carried at fair value.

Deposits and certificates of deposits

The estimated fair value of deposits on demand is the carrying value. Due to the short-term maturity of fixed interest bearing deposits, the carrying value approximates the fair value.

The carrying value of fixed interest bearing deposits approximates fair value as interest rates are usually fixed only for periods up to 3 months.

Balances due to banks

The carrying amounts of these balances approximate their fair value, as balances with banks are short term placements with market interest rates.

Other financial assets and liabilities

The carrying amounts of other financial assets and liabilities (interest receivable, liability to repurchase securities sold, interest payable) approximate their fair values.

Fair value of derivatives

All derivatives are carried at their fair value. Fair values of trading derivative financial instruments, such as forward foreign exchange, currency swaps and options, forward rate agreements and default swaps are marked to market, based on international money and capital market price quotations.

Fair values of derivative financial instruments designated as fair value hedges, such as interest rate swaps and cross currency swaps are determined by discounted cash flow using prevailing market rates.

NOTE 31 - CREDIT RISK

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. The Group attempts to control credit risk by monitoring credit exposures, limiting transactions with specific counterparties, and continually assessing the creditworthiness of counterparties. In addition to monitoring credit limits, the Bank manages the credit exposure relating to its trading activities by entering into master netting agreements and collateral arrangements with counterparties in appropriate circumstances, and limiting the duration of exposure. In certain cases the Group may also close out transactions or assign them to other counterparties to mitigate credit risk.

Concentrations of credit risk arise when a number of counterparties are engaged in similar business activities, or activities in the same geographic region, or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions. Concentrations of credit risk indicate the relative sensitivity of the Bank's performance to developments affecting a particular industry or geographic location.

The Bank seeks to manage its credit risk exposure through diversification of lending activities to avoid undue concentrations of risks with individuals or groups of customers in specific locations or businesses. It also obtains security when appropriate.

Details on the industrial concentration of the Group's loans to customers is provided in Note 4.

The distribution of assets, liabilities, and off-balance sheet items by geographic region was as follows:

	Total assets	Equity and liabilities	Credit commitment and credit contingent liabilities
	MHUF	MHUF	MHUF
As at 31 December 2003			
Hungary	1 387 104	1 141 371	416 802
EMU countries	19 363	245 446	-
East-European countries	2 001	8 402	-
Russia	3 062	2 063	-
Other European countries	15 267	21 606	51
Non – European Countries	8 693	16 602	-
	1 435 490	1 435 490	416 853
As at 31 December 2002			
Hungary	1 172 001	1 115 425	371 749
EMU countries	29 567	55 276	2 020
East-European countries	2 444	8 557	-
Russia	5 242	2 834	-
Other European countries	16 728	32 994	611
Non – European countries	5 794	16 690	811
	1 231 776	1 231 776	375 191

NOTE 32 – FINANCE AND OPERATING LEASES

The Group is in the process of introducing new integrated computer systems. The equipment and software is purchased by KBC Vendor Lease, a member of the KBC Group, and the Group leases the system under a finance lease agreement.

Payment on the lease contract, which is denominated in EURO, commenced in September 1999 with the last payment due in August 2004. The contract interest rate is set at an average interest rate of 6.33% over the term of the lease.

	31 December 2003 MHUF	31 December 2002 MHUF
Net carrying amount of leased assets in the Balance Sheet		
Bank premises and equipment -software	1 746	2 330
Bank premises and equipment -hardware	84	223
	1 830	2 553
Finance lease liabilities-minimum lease payments		
less than one year	880	943
one to five years	757	1 521
more than five years	-	-
	1 637	2 464
The present value of finance lease liabilities may be analysed As follows:		
less than one year	754	763
one to five years	108	777
more than five years	-	-
	862	1 540

The Group has entered into property lease agreements which are accounted for as operating leases. The Group has the following commitments for the remaining term of the contracts:

	31 December 2003 MHUF	31 December 2002 MHUF
Total of future minimum lease payments under non-cancellable Operating leases:		
less than one year	1 461	1 385
one to five years	6 111	5 383
more than five years	3 544	4 407
	11 116	11 175

NOTE 32 – FINANCE AND OPERATING LEASES (continued)

	31 December 2003 MHUF	31 December 2002 MHUF
Lease and sublease payments recognised in income for the period		
minimum lease payments	4 920	5 201
sublease payments	(70)	(48)

The leasing subsidiaries of the Bank operate in the domestic leasing market and provide both finance and operating lease products to customers. The following tables indicate the key amounts of this activity:

Finance leases

	31 December 2003 MHUF	31 December 2002 MHUF
Total of gross investment in the lease:		
less than one year	16 827	15 695
one to five years	34 082	21 102
more than five years	1 346	210
	52 255	37 007
The present value of minimum lease payments receivables:		
less than one year	14 629	13 132
one to five years	29 098	18 642
more than five years	983	207
	44 710	31 981
Unearned finance income	7 545	5 026
Non-guaranteed residual values	-	508
Accumulated allowance on minimum lease payments receivable	1 017	606

The term of the contracts are between 12 and 72 months, and the interest rates are in a range BUBOR, EURIBOR or LIBOR plus a margin of 3%-8.5%.

NOTE 32 – FINANCE AND OPERATING LEASES (continued)

Operating leases

	31 December 2003 MHUF	31 December 2002 MHUF
Gross carrying amount of equipment for operating leases	4 212	2 866
Accumulated depreciation of equipment for operating leases	(1 577)	(1 915)
	2 635	951
Depreciation recognised in income for the period	609	1 388

Machinery, other equipment, passenger and commercial vehicles are subjected to operating leases. The term of the contracts are generally between 6 and 48 months with interest rates in a range of BUBOR, EURIBOR or LIBOR plus a margin of 1.5%-5.5%. All lease contracts are non-cancellable and lease payments do not contain contingent rents.

NOTE 33 – CREDIT COMMITMENTS AND CREDIT CONTINGENT LIABILITIES

In the normal course of business, the Group is a party to credit related financial instruments with off-balance sheet risk. These financial instruments include commitments to extend credit, financial guarantees and commercial letters of credit. These instruments involve elements of credit risk in excess of the amounts recognized in the balance sheet.

Credit risk for off-balance sheet financial instruments is defined as the possibility of sustaining a loss because any other party to a financial instrument fails to perform in accordance with the terms of the contract. The Group uses the same credit policies in making commitments and conditional obligations as it does for on-balance sheet financial instruments through established credit approvals, risk control limits and monitoring procedures.

Commitments are contractual agreements to extend credit which generally have fixed expiration dates or other termination requirements and may require payment of a fee. A significant proportion of the Group's commitments to extend credit are not irrevocable as they are contingent upon the prospective borrower maintaining specific credit standards at the time of loan funding. Since many of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements.

Financial guarantees are conditional commitments issued by the Group to guarantee the performance of a customer to a third party. The credit risk involved in issuing guarantees is essentially the same as that involved in extending facilities to other customers. The Group applies similar principles as those applied in assessing the required allowance for losses under other credit facilities when assessing the likelihood of loss under the guarantee.

NOTE 33 – CREDIT COMMITMENTS AND CREDIT CONTINGENT LIABILITIES (continued)

Trade finance commitments represent a financing transaction by a Group to its customer where the customer is usually the buyer/importer of goods and the beneficiary is typically the seller/exporter. Credit risk is limited as the merchandise shipped serves as collateral for the transaction.

The Bank has the following credit related commitments:

	31 December 2003		31 December 2002	
	Amount	Allowance	Amount	Allowance
	MHUF	MHUF	MHUF	MHUF
Commitments to extend credit	292 775	70	249 670	115
Guarantees	119 012	669	121 487	623
Trade finance commitments	4 074	-	277	-
Other	992	-	3 757	-
Credit commitment and credit contingent liabilities	416 853	739	375 191	738

The K&H Group is party to litigation and claims arising in the normal course of business. An allowance of HUF 463 million at 31 December 2003 (HUF 463 million at 31 December 2002) for possible losses from legal cases has been made relating to these contingencies and included in other liabilities. Management believes that adequate allowance has been made in the financial statements for potential losses from litigation.

A subsidiary of ABN Amro Magyar Bank Rt. acted as distributor in a local public offering by an issuer which subsequently became bankrupt. To cover possible losses as a result of litigation against the subsidiary ABN Amro N.V. issued an irrevocable payment guarantee in the amount of HUF 3 560 million for the potential liability in September 2000. The litigation was completed in 2001 and the Bank is obliged to pay the amounts arising from properly authenticated claims covered by the court order. In December 2002 an additional guarantee of HUF 1 600 million was received from ABN Amro N.V. to cover any losses in excess of the guarantee initially provided.

The settlement process of the claim was mainly finished in 2003. No new guarantees were made. The Talentum company is planed to be voluntary liquidated in 2004. The management believes that the two guarantees are adequate to settle with all bondholders.

NOTES TO THE FINANCIAL STATEMENTS

NOTE 34 - SUBSIDIARIES AND ASSOCIATES

	Effective Shareholding 2003	Effective Shareholding 2002
Fully consolidated subsidiaries	**%**	**%**
K&H Lízing Rt.	100	100
K&H Lízingház Rt.	100	100
K&H Alkusz Kft.	100	100
K&H Kártyaprogramok Kft.	100	100
Pannonlízing Pü-I Szolg. Rt.	100	100
K&H DLH Lizing Kft	100	100
K&H Autófin Pü-I Szolg. Rt.	100	100
K&H Letét Kft.	100	100
K&H Box Bt.	100	100
K&H Autópark Bérleti és Szolg. Kft.	100	100
K&H Eszkölizing Gép- és Tehergépjármu Bérleti Kft.	100	100
K&H Eszközfinanszírozó Kft.	100	100
K&H Lízingadminisztrációs Rt.	100	100
K&H Vagyonkezelési Holding Kft.	100	100
K&H Értékpapir Befeketési Alapkezelö Rt.	100	100
AA Pénztárszolgáltató Kft.	100	100
K&H Ált. Befeketési Alapkezelo Rt.	100	100
K&H Beruházó Kft.	100	100
K&H Gondnok Kft.	100	100
Talentum Rt.	100	100
MHB Work Out Kft.	100	100
Kvantum Követeléskezelo és Befektetési Rt.	100	100
Fordat Kft.	100	100
Proportionally consolidated subsidiaries		
K&H Equities Rt.	50	50
Magyar Factor Rt.	-	50
Associates consolidated using the equity method		
AA International Treasury Szolg. Kft.	49	49
K&H Életbiztosító Rt.	50	50
Giro Bankkártya Rt.	75	75
Giro Elszámolásforgalmi Rt.	21	21
Bankközi Informatika Szolgáltató Rt.	-	28
Budatrend III. Ingatlanhasznosító Rt.	34	28
Subsidiaries in voluntary liquidation		
Optimum Rt.	100	100
K&H Communication Rt.	100	100
K&H Pénztárszolgáltató Kft.	100	100
Risk Kft.	100	100

During 2003 Magyar Factor Rt. was sold. Giro Elszámolásforgalmi Rt. is consolidated using the equity method for the first time in the current year (see note 23). The stake of the Bank in Nemzetközi Bankárképzo Központ Rt. has been transformed into a new company share named Budatrend III. Ingatlanhasznosító Rt.

NOTES TO THE FINANCIAL STATEMENTS

NOTE 35 – SUBSEQUENT EVENTS

Except as detailed in Note 13, there were no material subsequent events.

NOTE 36 - RECONCILIATION OF STATUTORY ACCOUNTS TO IFRS ACCOUNTS

	(Profit) / loss for the year MHUF	Shareholders' equity [1] MHUF	Assets MHUF	Subordinated debt and liabilities MHUF
K&H Bank accounts prepared under Hungarian Accounting Rules	(2 819)	(98 864)	1 404 400	(1 302 717)
Adjustments for IAS accounts				
Capitalization of VAT	22	(199)	177	-
Capitalization of financial leases	114	(1 082)	1 830	(862)
Accrual of sold investment with deferred payment	-	2	(2)	-
General provision for loan losses	(1 780)	(6 113)	(4 229)	12 122
Revaluation of real estates	48	(159)	111	-
Fair valuation of trading portfolio and derivatives	(2 581)	(4 844)	33 005	(25 580)
Deferred tax	(426)	787	-	(361)
Other items	-	-	240	(240)
K&H Bank standalone IAS adjustments	(4 603)	(11 608)	31 132	(14 921)
Subsidiaries accounts prepared under Hungarian Accounting Standards	9 097	(28 672)	181 140	(161 565)
Adjustments for IAS accounts				
Financial leases	145	(818)	310	363
Mark to market evaluation of trading portfolio	(24)	(7)	-	31
Deferred tax	(68)	155	-	(87)
Subsidiaries standalone IAS adjustments	53	(670)	310	307
Adjustments for consolidation	(9 823)	27 672	(181 492)	163 643
Balance per IAS report	(8 095)	(112 142)	1 435 490	(1 315 253)

[1] Excluding the current year (profit) / loss