Kereskedelmi és Hitelbank Zrt.

CONSOLIDATED SEMI-ANNUAL REPORT

30 June 2012

Budapest, 30 August 2012

CONTENT

Statement of the Issuer

K&H Bank Zrt., as the Issuer (represented by Hendrik Scheerlinck, CEO and Attila Gombás, CFO hereby declare that K&H Bank Zrt.'s consolidated 2012 Semi-annual Report has been prepared in compliance with the applicable accounting laws and regulations, to the best of the Issuer's knowledge, and that the financial details contained therein reflect a true and reliable status of the assets, liabilities, financial position and profit of K&H Bank Zrt. and of the companies involved in the consolidation, and that the consolidated management report shows a true and fair picture of the position, development and performance of K&H Bank Zrt. and the companies involved in the consolidation, also including the major risks and uncertainties pertaining to the remaining six months of the financial year.

Furthermore, the Issuer hereby declares that the Semi-annual Report has not been verified by an independent auditor, thus the financial details contained therein are not audited figures.

Budapest, 30 August 2012

Hendrik Scheerlinck	**Attila Gombás**
Chief Executive Officer	Chief Financial Officer

Consolidated Statement of Financial Position, Consolidated Income Statement and Consolidated Statement of Comprehensive Income according to International Financial Reporting Standards

in million HUF	Not audited	Audited
CONSOLIDATED STATEMENT OF FINANCIAL POSITION	**30 June 2012**	**31 December 2011**
ASSETS		
Cash and cash balances with central banks	47 192	161 398
Financial assets	2 296 176	2 592 582
Held for trading	153 831	212 819
Designated at fair value through profit or loss	3 317	3 297
Available for sale	328 138	389 146
Loans and receivables	1 354 380	1 565 868
Held to maturity	456 510	421 452
Tax assets	10 490	9 720
Current tax assets	9 555	7 283
Deferred tax assets	935	2 437
Investments in associated companies	1 967	2 106
Investment property	226	55
Property and equipment	47 163	48 344
Intangible assets	9 766	9 908
Other assets	40 888	46 630
Total assets	**2 453 868**	**2 870 743**

in million HUF	Not audited	Audited
CONSOLIDATED STATEMENT OF FINANCIAL POSITION	**30 June 2012**	**31 December 2011**
LIABILITIES AND SHAREHOLDERS' EQUITY		
Financial liabilities	2 170 051	2 593 569
Held for trading	32 151	153 876
Designated at fair value through profit or loss	236 554	196 461
Measured at amortised cost	1 820 573	2 242 688
Hedging derivatives	80 773	545
Tax liabilities	321	556
Current tax liabilities	90	111
Deferred tax liabilies	231	445
Provisions for risks and charges	34 898	35 120
Other liabilities	47 113	46 821
Total liabilities	**2 252 383**	**2 676 067**

in million HUF **CONSOLIDATED STATEMENT OF FINANCIAL POSITION**	**Not audited** **30 June 2012**	**Audited** **31 December 2011**
Share capital	140 978	140 978
Share premium	48 775	48 775
Statutory risk reserve	15 873	15 873
Available for sale reserve	-4 690	-10 286
Cash flow hedge reserve	-3 084	-409
Retained earnings	3 633	-255
Total equity	**201 485**	**194 676**
Total liabilities and equity	**2 453 868**	**2 870 743**

Budapest, 30 August 2012

Hendrik Scheerlinck	**Attila Gombás**
Chief Executive Officer	Chief Financial Officer

in million HUF **CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME**	**Not audited** **1st half of year 2012**	**Reclassified Not audited** **1st half of year 2011**
Interest income	83 418	100 136
Interest expense	-45 303	-47 052
Net interest income	**38 115**	**53 084**
Fee and commission income	21 097	21 715
Fee and commission expense	-7 027	-7 289
Net fee and commission income	**14 070**	**14 426**
Net gains / (losses) from financial instruments at fair value through profit or loss and foreign exchange	10 188	3 391
Net realised gains / (losses) from available-for-sale assets	0	192
Dividend income	4	1
Other net income (after reclassification)	99	928
Total income	**62 476**	**72 022**
Operating expenses	-42 548	-42 023
staff expenses	-15 294	-15 537
general administrative expenses (after reclassification)	-15 710	-15 286
depreciation and amortisation of fixed assets	-3 623	-3 261
bank tax	-7 921	-7 939
Impairment:	-9 130	-12 480
loans and receivables	-9 111	-12 442
other	-19	-38
Share in results of associated companies	207	185
Profit before tax	**11 005**	**17 704**
Income tax expense	-3 122	-5 226
Profit after tax	**7 883**	**12 478**

in million HUF **CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME**	**Not audited** **1st half of year 2012**	**Reclassified** **Not audited** **1st half of year 2011**
Other comprehensive income		
Net change in revaluation reserve for available-for-sale equity instruments	568	0
Fair value adjustments before tax	716	0
Deferred tax on fair value changes	-148	0
Net change in revaluation reserve for available-for-sale debt instruments (after reclassification)	5 028	5 723
Fair value adjustments before tax (after reclassification)	6 341	7 183
Deferred tax on fair value changes (after reclassification)	-1 307	-928
Transfer from available for sale reserve to net profit (after reclassification)	-6	-532
(Losses)/ gains on disposal	0	-192
Amortisation of reclassified assets (after reclassification)	-8	-458
Deferred income tax (after reclassification)	2	118
Net change in cash flow hedge reserve	-2 675	165
Fair value adjustments before tax (after reclassification)	-5 023	-700
Deferred tax on fair value changes (after reclassification)	1 036	144
Transfer from cash flow hedge reserve to net profit (after reclassification)	1 312	721
Ineffective part (after reclassification)	0	378
Gross amount	1 653	530
Deferred income tax (after reclassification)	-341	-187
Total other comprehensive income	**2 921**	**5 888**
Total comprehensive income	**10 804**	**18 366**

Budapest, 30 August 2012

Hendrik Scheerlinck
Chief Executive Officer

Attila Gombás
Chief Financial Officer

Consolidated Management Report

On June 30, 2012, the Group's consolidated balance sheet total stood at 2 454 billion HUF. As a financial institution that offers banking and insurance products alike and has a nation-wide branch network of 231 branches, K&H offers the full range of financial services to its clients.

1. Economic environment

In the first half of the year, deterioration of the general macroeconomic environment and long-lasting European debt crisis resulted in further slowdown of world economy growth.
Following its 1.7% GDP growth in 2011 the Hungarian economy is foreseen to decrease around 1.2% in 2012. Based on the actual figures of the first half of the year, the contribution of export sector to the economy growth seems to be more limited than in previous periods due to the adverse external factors. The macroeconomic environment led to a further deleveraging by households and corporations, also in view of an uncertain investment climate.
The external balance of Hungarian economy is expected to further improve in 2012.

	2011 actual	2012 forecast
GDP growth	1,7%	-1,2%
CPI (avg)	3,9%	5,4%
Investments	-5,4%	-2,5%
Unemployment rate	11,2%	11,5%
State budget (ESA)	+4,2%	-3,6%
Balance of payments (in a % of GDP)	1,4%	2,8%

Source: MNB, KSH, K&H

The recent newsflow about the Hungarian economy (meetings with the international organisations, fiscal measures) was relatively well received by the investors and together with the positive market sentiment it resulted in decreasing risk premiums in the first half of the year (realised in significant appreciation of local ccy and also considerable decrease in long term yields on government papers).
The national bank's base rate has remained unchanged (7.0%) during the period.

2. The Strategic Objectives of the Bank

K&H Bank Group is a universal bancassurer, providing banking, leasing, asset management and insurance services for individuals and corporate (focusing on SME and Mid-cap) customers.
In order to fulfil our mandate by our shareholder and our clients:

- we combine the best international practice with sound local knowledge;
- we provide our clients with a distinctively modern banking and insurance service which begins with their needs and concludes with the delivery of excellent solutions at competitive prices.

Customer strategy:
Retail: customers are served based on the different segments' special needs.
Corporate clients: focus on cross-sales, intensify new client acquisition in selected areas.

Product strategy:

Retail:

- Innovative saving products and add-on services to keep up our market leader status.
- Growth in lending, based on a good understanding of credit risk.
- Strong focus on transactional banking.

SME:

- Reliable transactional banking services.
- More standard products fitting client needs with easy and quicker processes.
- Re-design of credit process.

Corporate:

- Full service provider, emphasis is advisory to provide tailored solutions to clients.

Strategy on distribution channels:
Branch-centric multi-channel distribution approach: although the diversity of channels and the role of tied agent, 3rd party and remote channels are significant, the most important channel will remain our extensive branch network.
Key differentiators of the Bank Group:

- Being close to our clients: easy access both physically (see our large branch network) and virtually (see remote channels).
- Speaking our clients' language (investment to 'client-conform' communication).
- Clients' individual needs and profiles are permanently in focus (offered services always fit their real needs)
- K&H Group acts as 'one-stop-shop' for our clients (universal financial institution)

3. Characteristics of the Group's consolidated activities

The Bank Group's balance sheet total decreased almost by 15% compared to 31 December 2011:

Billion HUF	31 Dec 2011	30 Jun 2012	variance
Balance sheet total	2 870.7	2 453.9	-14.5%
Loans and receivables	1 565.9	1 354.4	-13.5%
Deposits from customers	1 738.4	1 580.0	-9.1%
Equity	194.7	201.5	+3.5%

The most important elements of the evolution of the consolidated balance sheet are as follows:

- In the course of the year the amount of *loans and receivables* decreased by 14%. In the case of retail loans the decrease is primarily related to the repayment scheme for FX mortgage loan (188 bln), while – similarly to the previous year – only moderate demand was experienced by the corporate sector as well.
- The decrease in *Deposits from customers* is mainly driven by corporate business (due to some large volatile deposits). Retail deposits remained basically unchanged and the Bank has further strengthened its market position in retail savings.
- *Shareholders' equity* increased by 6.8 bln by the end of H1 2012, primarily as a net balance of the following factors: dividend payment after financial year 2011 (-4.0 bln); current year profit (+7.9 bln); increase in cash flow hedge reserves and AFS revaluation reserves (+2.9 bln).

The bank's group profit decreased by about 37% compared to first half of the previous year (2012: 7,9 bln, 2011: 12,5 bln)

The evolution of the main P&L items:

- The 28% decrease in *net interest and interest-type income* (2012: 38.1 bln, 2011: 53.1 bln) is primarily due to the following items: lower income due to FX mortgage repayment and structural change in EUR funding from KBC[1].
- There was 2% decrease in *net fee and commission income* compared to the first half of the previous year (2012: 14.1 bln, 2011: 14.4 bln) due to decline in fee income related to investment services (by 11%).
- The increase in *net gains from financial instruments at fair value* (2012: 10.2 bln, 2011: 3.4 bln) is mostly driven by the aforementioned structural change in EUR funding (thus partly offsetting the related decline in net interest income)

In the first half of 2012, the Bank Group's *operating costs* came to 42.5 bln, of which 7.9 bln represents the bank tax.
Without the bank tax, the amount of operating costs is 0.5 bln higher than in the same period of the previous year (H1 2012: 34.6 bln, H1 2011: 34.1 bln). Within this:

- staff expenses are 0.2 bln lower (1.6%)
- there is 0.3 bln growth in depreciation
- other costs are by 0.4 bln (2.8%) higher than in the same period of the previous year, mainly driven by IT expenses (primarily due to the migration of our data processing to the new Central European Data Center of our parent /KBC/ established in Hungary)

Impairments amounted to 9.1 bln HUF in H1 2012 (H1 2011: 12.4 bln HUF). The portfolio quality and the related credit cost ratio in corporate and sme business are still favourable, while the positive impact of the government's and the Bank's own payment easement programs on the evolution of portfolio quality in Retail business was already perceptible in June of 2012.

Non-performing loans	30 June 2011	31 Dec 2011	30 June 2012
Retail	9.7%	13.4%	**19.4%**
Corporate	8.3%	8.0%	**8.4%**
Leasing	14.6%	9.2%	**13.3%**
Total	**9.4%**	**10.3%**	**13.3%**

[1] In the new financing structure KBC ensures the majority of EUR financing via HUF/EUR swap instead of interbank sources from 2011. The structural changes in the balance sheet (lower interbank financing was accompanied by a similar decrease in the HUF securities portfolio on the asset side, while the volume of EUR/HUF swaps increased among off-balance sheet items) also modified the composition of the profit and loss account (lower interest income resulting from the net balance of the decreased HUF securities portfolio and EUR interbank financing costs, which was partially compensated by the increased interest-type incomes from FX swaps among "net gains from financial instruments at fair value").

The business performance of the Bank Group is illustrated by the following figures:

million HUF	2011 H1	2012 H1	variance
Cost / income	58.3%	68.1%	9.8%
Non-interest type income/ total income	26.3%	39.0%	12.7%
Commission income / total income	20.0%	22.5%	2.5%
Operating income / average headcount	41.1	35.6	-13.4%
Operating costs* / average headcount	19.5	19.7	1.4%
Operating profit* / average headcount	21.7	15.9	-26.7%
Credit cost ratio	1.38%	0.93%	-0.45%
Non-performing loans	9.4%	13.3%	+3.9%
Loan / deposit	86.7%	77.7%	-9.0%
Capital**/total liabilities	8.0%	9.1%	1.1%
Solvency ratio (Basel II)***	10.83%	12.76%	1.9%
ROE (based on average balance of equity)	11.4%	8.0%	-3.4%
ROA (based on average balance sheet total)	0.8%	0.6%	-0.2%

* excluding bank tax
** in addition to equity it also includes subordinated debt capital
*** according to the rules prescribed by the Hungarian supervisory authority

The main profitability indicators are below the values of the previous year, while the evolution of the credit cost ratio is favourable. Considering liquidity and capital adequacy ratios K&H Bank preserved its position as one of the banks with the most favourable liquidity situation in the Banking Sector.

4. Introduction of strategically important subsidiaries

Leasing Group

On the 30th of June 2012 K&H Leasing Group incorporates 8 legal entities[2] and a portfolio which has been merged into K&H Bank.

Name	Core activity	Notes
K&H Autófinanszírozó Zrt.	Financial leasing	planned to be merged into the K&H Bank Zrt. by the end of September
K&H Autópark Kft.	Operating lease, fleet management (leasing)	
K&H Eszközfinanszírozó Zrt.	Financial leasing	planned to be merged into the K&H Bank Zrt. by the end of September
K&H Eszközlízing Kft.	Operating lease (leasing)	
K&H Ingatlanlízing Zrt.	Financial leasing	
K&H Alkusz Kft.	Insurance mediation	
K&H Lízing Zrt.	not active	
K&H Lízingház Zrt.	not active	
K&H Pannonlízing Zrt	Lending	merged to K&H Bank Zrt. in 2011

The total portfolio of K&H Leasing group on the 30th of June 2012 is 113 billion, which shows 2,7% decrease since the end of the previous year. Out of the 113 billion HUF portfolio, 24 billion represents the investment in the new office building of the K&H Group, which was leased by K&H Bank Zrt. from K&H Ingatlanlízing Zrt. The retail car financing activity was stopped at the end of 2008 which has led to the continuous decrease of the car retail portfolio since then (in the first half of 2012 the decrease was 12.5 billion).

Based on the first quarter market data, the Leasing Group had with a production of 2.1 billion a market share 2.5% of the Hungarian lease market. One has to realize that the major part of this market is still retail financing in which K&H Leasing Group does not perform an active role. In fleet financing we had 9.2% (1,5 billion), in the truck and machinery financing we had 1,6% (608 million) share of the new production.

Since 2010 we provide a car retail lease product to the prospective clients in the branches of the K&H Bank. The Leasing Group provides real estate lease products since 2011. Since 2011 the main focus of the marketing strategy is distribution of the product through usage of K&H Bank channels.

K&H Investment Fund Zrt.

In the first half of 2012, the part of the portfolio held in mutual funds dropped by 2.8%, while the size of the total assets under management fell by 2.5%. FX mortgage repayment caused a significant outflow from investment funds during the first half of the year.

[2] In the new financing K&H Lízing Zrt. and K&H Lízingház Zrt. play a passive role in the operation of the Leasing Group. These companies do not conclude new contracts and do not have an active portfolio. As part of the integration process the final liquidation of the K&H Lízingház Zrt. is started in 2010 and planned to be finished at the end of 2012. By the 30th of November 2011 K&H Pannonlízing Zrt (which contains 46% of the total portfolio of the Lease Group) was merged with K&H Bank Zrt. K&H Autófinanszírozó Zrt. and K&H Eszközfinanszírozó Zrt. are planned to be merged with K&H Bank Zrt. by the end of September 2012.

During the first half of the year, 7 new capital and yield-protected funds were issued, while capital- and yield-protected periods expired in the case of 7 funds. As a result of sales campaigns for expiring funds, most savings remained in the investment funds. In order to further increase our private banking service portfolio, 2 new closed-end funds were issued in June, while the innovation strategy introduced in previous years continued (issuing products with new themes and structure).

In case of asset-managed institutional portfolios, due to the decline of the pension fund sector, our company suffered a loss of 9 institutional asset management mandates. At the end of H1 2012, the Company managed assets worth 721 billion HUF (as opposed to 740 billion HUF at the beginning of the year), of which the portfolio of investment funds stood at 601 billion HUF (as opposed to 618 billion HUF at the beginning of the year), which makes it the second largest player on the investment funds market, with a market share of 20.3%. The Company keeps its market leader position in the capital protected funds segment.

The company's after-tax profit was 0.9 bln HUF for the first half of 2012.

K&H Csoportszolgáltató Kft. (K&H Shared Service Center Kft.)

In 2005, K&H Group decided to set up a group services centre under the management of K&H Bank, which is the 100% owner of K&H Csoportszolgáltató Kft. (KHCSK). The purpose of this unit was the centralisation and efficient organisation of supplementary service activities closely linked to the core activities of individual group members. Comprehensive service activities performed for the group include the management of the real estate portfolio, logistical and bank security tasks, operative business responsibilities (the booking of trade receivables and payables, fixed assets etc.; tax accounting and payroll management). The company is part of K&H Group's VAT group.
The company takes out service level agreements and contracts with individual group members for each individual service. Since 2007, services offered by KHCSK have also been used by K&H Insurance's and K&H Leasing Group's member companies as well. At present, KHCSK acts as a group services centre for 12 companies, including the Bank. Since May 1, 2008, KHCSK has also been performing the financial and accounting responsibilities and operative services of the Hungarian branch of KBC Global Services N.V. (KBC GSC). On January 1, 2008 the Tendering Directorate was set up, which is responsible for advisory and support services related to EU tenders. In 2009, the scope of the company's activities was extended by financial and accounting services provided to RTI Invest Kft., a company owning the buildings of KBC Group's Central-European regional server centre, and K&H Factoring, a company 100% owned by K&H.
A new Directorate was established on 1 January 2012 for SZÉP Card operation. The SZÉP card is a new cafeteria item and product at K&H group. KHCSK is responsible for the entire operation of the new SZÉP card system and the related transactions.

K&H Factoring Zrt.

The activity of K&H Factoring Zrt relates to other credit granting services (purchase of receivables, advance factoring, discounting). The company started its business activities in 2010, since then its business (factoring) turnover continuously increased (2010: 5.9 bln, 2011: 22.3 bln, 2012 H1: 15.4 bln). On the 30th of June the company possessed client receivables in value of 3 bln.

5. Risk Management

Banks are exposed to several types of risks due to their operations. K&H Bank has a system in place for the accurate measurement and appropriate management and limitation of these risks. The system has been adjusted to the risk management system of the shareholder KBC Group both in terms of methodology and work organisation.

5.1 Risk management governance model

The risk management governance model seeks to define the responsibilities and tasks of various bodies and persons within the organisations with a view to ensuring the sound management of value creation and all the associated risks to which the banking and insurance businesses are exposed. The Group's risk governance model is organised in three tiers:

- Overarching company and risk committees are the Board of Directors (BoD), the Audit, Risk and Compliance Committee (ARCC), the Supervisory Board (SB), the Executive Committee (ExCo), the Country Team (CT) and the Capital and Risk Oversight Committee (CROC). These committees concentrate on overarching risk management and on monitoring value creation.
- Specialised risk councils (Credit Risk Council (CRC), Trading Risk Councils (TRC), Operational Risk Councils (ORC)) concentrate on implementing a group-wide framework for one particular type of risk and monitoring the associated risk management process. The risk councils are composed of representatives from line management and Value and Risk Management Division.
- Line management and activity-specific committees have primary responsibility for value and risk management on the operational level. Whereas Value and Risk Management Division measures risks, economic capital and value creation for all relevant business entities and reports its findings directly to line management and the relevant activity-specific committees.
- Within Risk Management Division the Integrated Value and Risk Department is dedicated to overarch the three existing risk centers of competence (Credit Risk, Market and Liquidity Risk and Non-financial Risks), enhance coordination and transfer synthesized message to senior management regarding value creation, risk and capital.

The Board of Directors and the Audit, Risk and Compliance Committee have an important role to play in value creation and risk governance. Regular reporting to the Audit, Risk and Compliance Committee ensures that there is an ample flow of information to the members of the Board over the course of the year. Moreover, through the involvement of the Board in the annual round of approvals of risk-tolerance limits, the Board is able to take informed decisions on the degree of risk it finds acceptable for the Group and on the adequacy of the risk management structure.

5.2 Risk types

- **Credit risk** means the potential loss suffered by the Bank if a customer becomes insolvent or cannot perform their payment obligations in due time. Credit risks are managed by risk mitigating techniques approved by the Management of the Bank. Regulations cover the entirety of the lending process. The Bank constantly monitors the credit portfolio and prepares reports on the findings to the senior management of the Bank.
  In the framework of the Basel II program, in 2010 the Bank was granted the permission of HFSA to use the internal rating model (IRB Foundation) which has been applied for regulatory capital calculation for credit risk since 1 January 2011. During the program, the Bank reviewed all debtor rating models and upgraded them in line with the new uniform group-level methodology.
  In 2011 the bank paid special attention to the enhancement of the applied risk management methodology, with special regard to the analyses of the various stress scenarios affecting the credit portfolio (macro-economic indicators, foreign exchange rate changes and the changes in real estate values). An additional instrumental component of the further development of the risk management methodology was the revision of the management reports to better highlight the

various quantitative risk indicators in order to allow the continuous monitoring of the credit portfolio.
The economic conditions, the FX rates and the expected evolution of unemployment can have a considerably influence on the future quality of the credit portfolio.
The bank also actively offers credit restructuring and payment easement solutions to households experiencing financial stress. This activity resumed at the end of the second quarter of 2012.

- **Market risk** means the potential loss suffered by the bank upon a change in the value of foreign currency and interest positions. Both the asset-liability management and market risk management are based on the methodology applied by the shareholder KBC Group. Accordingly, the CROC constantly monitors banking and trading book risks and controls them by setting limits (in compliance with the limit policy of KBC). Interest risks are measured and controlled by the joint application of various methods and limits (gap analysis, interest sensitivity, duration, BPV, NII).

  The limit system has been extended by incorporating spread risk measurement in the limit monitoring. For monitoring market risks in the banking book a group-wide platform was implemented.

  The risk taking has been moderate and constantly within the risk playing field in the trading book, while banking book is characterized by increasing interest rate risk, although it also remains within the comfort zone.

- **Liquidity risk** means the risk of the inability of an institution to comply with net financing requirements. Liquidity risk may be caused by disturbances on the market, credit downgrading, which may result in the constant cessation of certain financing sources. To eliminate this risk, the management seeks to diversify the financing sources and manages assets with due regard to liquidity requirements, maintaining a healthy balance between cash, liquid funds and promptly marketable securities. Short term liquidity risk is measured by the operational liquidity limit which establishes whether there is sufficient coverage for the 30-day cumulative liquidity gap. From 2011 structural liquidity is determined by the application of the coverage ratio, the calculation of the new regulatory and Basel III liquidity rates (LCR, NSFR) as well as by liquidity stress tests conducted in compliance with KBC directives. The Risk Management Directorate prepares regular reports to the K&H Bank CROC on the various liquidity indicators and limits.

- K&H Bank group manages **operational risks** (the potential loss that may arise as a result of inappropriately operating systems, processes or human errors; or external events) based on uniform principles and methodology. The methodology includes various techniques of risk identification, risk analysis such as self-assessments (top-down and bottom-up), analysis of losses incurred and the assessment and implementation of key control principles defined by KBC group. The risk mitigation measures (or risk acceptance) are decided according to the uniform accountability rules (decision-making authority). The identified exposures and handling of the risk is monitored and followed up by the Capital and Risk Oversight Committee and analyzed by the Operational Risk Councils that are established throughout the organization. K&H Bank group applies the standardized method to calculate the Pillar I. capital requirement for operational risk, according to the permission of the Hungarian Financial Supervisory Authority that was granted in December 2007 (from 1 January 2008).

6. Operating Conditions of the Bank

Capital investments in branches:

In the first half of 2012 15 branches were established or refitted partial/entirely, or are under (re)construction according to the following:

- 2 new branches have been completed, whereof 1 branch (Budapest Marriott) already opened, the other branch (Csillaghegy) will open in early September
- 1 branch relocated to a new location
- reconstruction of 10 branches, partial or entirely
- 5 branches closed.

Regarding the branch development and the ATM project 1 set has been build-in at a new location (branch) and 15 sets have been installed at branch -independent locations (mainly department stores). Now the Bank has 427 ATMs throughout the country.

The "physical accessibility clearing" of the network is ongoing along with the constructions and reconstructions, recently 179 of 231 branches are accessible by wheelchairs.

The main IT developments in H1 2012 were the following:

- developments required for intra-day HUF GIRO transactions are finished and implemented in line with the country level project
- in line with the changes in legislation affecting the Central Credit Information System, a fully compliant IT solution was completed
- implementation of a new collection system in Leasing
- the implementation of a new application to support the SME loan application process has begun, the first product-group went live successfully during the first half of 2012
- production of SZÉP card has begun, all necessary developments and adjustments are finished.

Budapest, 30 August 2012

Hendrik Scheerlinck	**Attila Gombás**
Chief Executive Officer	Chief Financial Officer