K&H Bank Zrt.

CONSOLIDATED SEMI-ANNUAL REPORT

1H 2009

Budapest, 27 August 2009

Content

Statement of the Issuer

K&H Bank Zrt. as the Issuer (represented by: Marko Voljč, CEO and Attila Gombás, Head of the Finance and Risk Management Division) hereby declare that the Year 2009 Semi-annual Report and the Year 2009 Consolidated Semi-annual Report of K&H Bank Zrt. have been prepared, to the best of the Issuer's knowledge, in compliance with the applicable accounting laws and regulations, and the financial details contained therein reflect a true and reliable status of the assets, liabilities, financial position and profitability of K&H Bank Zrt. and the enterprises involved in the consolidation, and the Business Report shows a faithful picture of the situation, development and performance of K&H Bank Zrt. and the enterprises involved in the consolidation, including the major risks and uncertainty factors.

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

Budapest, 27 August 2009

Marko Voljč
Chief Executive Officer

Attila Gombás
Head of the Finance and Risk Management Division

Consolidated Balance Sheets and Income Statements according to International Financial Reporting Standards

in million HUF **CONSOLIDATED BALANCE SHEET**	**Not audited** **30 June 2009**	**Audited** **31 December 2008**
ASSETS		
Cash and cash balances with central banks	98 050	124 624
Financial assets	3 026 748	2 977 829
Held for trading	153 373	228 267
Designated at fair value through profit or loss	9 046	9 411
Available for sale	1 107 449	884 326
Loans and receivables	1 756 305	1 854 786
Hedging derivatives	575	1 039
Tax assets	8 856	3 402
Current tax assets	8 578	3 166
Deferred tax assets	278	236
Investments in associated companies	1 947	2 212
Property and equipment	30 312	30 385
Goodwill and other intangible assets	4 955	4 437
Other assets	34 877	39 602
Total assets	**3 205 745**	**3 182 491**
in million HUF **CONSOLIDATED BALANCE SHEET**	**Not audited** **30 June 2009**	**Audited** **31 December 2008**
LIABILITIES AND SHAREHOLDERS' EQUITY		
Financial liabilities	2 892 868	2 890 365
Held for trading	71 615	92 995
Designated at fair value through profit or loss	155 667	133 563
Measured at amortised cost	2 663 757	2 660 790
Hedging derivatives	1 829	3 017
Tax liabilities	3 061	3 947
Current tax liabilities	138	188
Deferred tax liabilies	2 923	3 759
Provisions for risks and charges	47 521	47 644
Other liabilities	59 491	47 039
Total liabilities	**3 002 941**	**2 988 995**

in million HUF **CONSOLIDATED BALANCE SHEET**	**Not audited** **30 June 2009**	**Audited** **31 December 2008**
Share capital	73 709	66 307
Share premium	48 775	48 775
Statutory risk reserve	10 704	10 704
Available for sale reserve	-8 900	-9 241
Cash flow hedge reserve	-616	-862
Accumulated profit	79 132	77 813
Total shareholders' equity	**202 804**	**193 496**
Total liabilities and shareholders' equity	**3 205 745**	**3 182 491**

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in million HUF **CONSOLIDATED INCOME STATEMENT**	**Not audited** **1st half of year 2009**	**Reclassified, not audited** **1st half of year 2008**
Interest income	127 084	83 739
Interest expense	-80 835	-52 686
Net interest income	**46 249**	**31 053**
Fee and commission income	21 088	21 525
Fee and commission expense (reclassified)	-8 372	-8 468
Net fee and commission income	**12 716**	**13 057**
Net gains from financial instruments at fair value	10 183	15 280
Net realised gains from available-for-sale	219	-54
Dividend income	1	1
Other income	1 299	3 082
Gross income	**70 667**	**62 419**
Operating expenses	-38 395	-35 079
Staff expenses	-15 852	-17 014
General administrative expenses (reclassified)	-18 342	-16 609
Depreciation and amortisation of fixed assets	-3 889	-3 992
Provisions for risks and charges	-312	2 536
Impairment:	-19 043	240
on loans and commitments	-19 030	288
on available-for-sale	0	1
on other	-13	-49
Share of the profit of associates	276	331
Profit before tax	**13 505**	**27 911**
Income tax expense	-4 784	-8 862
Net profit for the year	**8 721**	**19 049**

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Consolidated Business Report

On 30 June 2009 the consolidated total assets of the Bank Group amounted to HUF 3,206 billion. As a financial institution offering both banking and insurance products in its 238 branches located country-wide, it provides the full range of financial services to its customers.

PRESENTATION OF THE STRATEGIC SUBSIDIARIES

Leasing Group

The Leasing Group at present comprises 10 legal entities. As a result of the company integration and developing an optimal scope of activities, as of April 2002 already the following companies have been playing active role in expanding the Leasing Group's portfolio:

Name	Core activity	Business line
K&H Pannonlízing Zrt	Lending	Cars and trucks
K&H Autófinanszírozó Zrt.	Financial leasing	Cars and trucks
K&H Autópark Kft.	Operative leasing, Fleet management (leasing)	Cars and trucks
K&H Eszközfinanszírozó Zrt.	Financial leasing	Other assets
K&H Eszközlízing Kft.	Operative leasing, (lease)	Other assets
K&H Ingatlanlízing Zrt.	Financial leasing	Real estate

The following companies play a passive role in the operation of the Leasing Group: K&H Lízing Zrt., K&H Lízingház Zrt., K&H Lízingadminisztrációs Zrt. These companies do not conclude new contracts any longer; their existing portfolio will either phase out over the coming years, or these Companies will be merged with an active company, or – as they are companies without an outstanding portfolio – they will be liquidated.

Insurance mediation is performed by K&H Alkusz Kft. The largest group member is K&H Pannonlízing Zrt, with a 63% weight in the portfolio.
At the end of the first half of 2009 **K&H Leasing Group's** portfolio amounted to about HUF 143 billion, which is a 16% decrease compared to the end of the previous year. The termination of retail motor vehicle financing at the end of 2008 resulted in the gradual decrease of the retail car and dealer financing portfolio. According to the preliminary figures concerning the first half-year's leasing placements, the Leasing Group's share in the entire leasing market was 2.7%, and in its active business lines 5.4%, with new placements totalling HUF 6.6 billion.
As of 2009 the company focuses on corporate and sme clients and offers corporate financing products in its Asset Financing and Fleet Financing business lines. It has developed and enhanced its systems and procedures accordingly in the first half of 2009.

K&H Befektetési Alapkezelő Zrt (K&H Investment Fund Management Co)

The Company still has to perform successfully under difficult market conditions. Even though the money market and capital market situation has hardly improved, the assets managed in the investment funds have basically remained at the same level, while the total volume of managed funds even slightly increased and the operating profit of the company was close to the plans. The innovation strategy – launched in previous years – is continued, and the preparatory works for the launch of several new product types are in progress not only in the closed-end funds market, but also among the open-end funds.

During the first half-year the Fund Manager issued 4 new public and 2 private closed-end funds. Thanks partially to the sales campaigns related to the funds expiring in the first half-year, the larger part of the released savings remained in the investment funds.

In the case of the discretionarily managed portfolios, cooperation with the existing partners further strengthened, despite the fact that the shrinkage of the share markets had a substantial impact on the managed portfolios as well. In June 2009 the Company managed assets of worth HUF 642 billion (at the start of the year HUF 624 billion), of which the investment funds represented HUF 506 billion (HUF 509 billion at the beginning of the year), thereby still ranking second in the investment funds' market with a market share of 22.9%. The Company preserved its market leader position in the segment of guaranteed investment funds.

K&H Csoportszolgáltató Kft (K&H Shared Service Centre Kft; KHCSK)

In 2005, K&H Group – headed by K&H Bank, which is the 100% owner of a K&H Csoportszolgáltató Kft (KHCSK) – decided to establish a shared service centre, the purpose of which was to centralise and organise efficiently certain service and auxiliary service activities closely related to the intra-group core activities[1].

The Company concludes service level agreements and contracts with the individual group members concerning each type of service. As of 2007 the services provided by KHCSK are also available for K&H Insurance and K&H Leasing Group. At present KHCSK is the service centre for 10 Companies, including the Bank as well. As of 1 May 2008 KHCSK also performs the financial and accounting tasks, and operations services for the Hungarian branch office of KBC Global Services N.V. (KBC GSC) using KBC's SAP system. The Tendering Directorate was established on 1 January 2008, the task of which is to provide consultancy and support in connection with EU tenders.

Apart from rendering services to the Group, the Company also performs business administration tasks (in addition to the Supershop program, it also performs the operational and administrative duties related to K&H Voluntary Pension Fund).

KEY CONSOLIDATED FIGURES OF THE BANK GROUP

In the first half of 2009 the Bank Group's total assets increased by less than 1% (closing balance: HUF 3,206 billion). The consolidated assets of the subsidiaries decreased by 17% compared to previous year. Subsidiaries with significant volume of total assets include: Pannonlízing Zrt (HUF 100 billion), K&H Autófinanszírozó Zrt (HUF 38 billion).

billion HUF	31 Dec 2008	30 June 2009	change
Total assets	3,182.5	3,205.7	0.7%
Loans and receivables	1,854.8	1,756.3	-5.3%
of this: retail loans	705.6	717.3	1.6%
Client deposits and deposit certificates	2,014.0	1,975.3	-1.9%
of this: retail deposits	543.8	610.8	12.3%
Equity	193.5	202.8	4.8%

The operations, risk management practice, balance sheet and profit and loss statement of Kereskedelmi és Hitelbank Zrt are presented in detail in the Business Report for 2009.

[1] Main services available for the whole banking group: facility management, business administration (bookkeeping services: accounts receivable, accounts payable, fixed assets etc; tax; payroll services). Supplementary services: providing full IT infrastructure for Supershop Royalty Program and sale of loyalty programs, cooperation in bankcard issuance related to loyalty programs of the bank's clients, administration and sales activities for the health and pension funds.

Key items in the consolidated balance sheet:

- During the first half year *Loans and receivables* decreased by 5%; within that the retail loan portfolio further increased during the half-year (+2%, still due to the retail foreign currency loans), while the corporate credit portfolio decreased by 4% compared to December.
- While in the first half of 2009 the bank further increased its retail and corporate deposit portfolio (thereby further strengthening its market position in the area of savings), the total *deposit portfolio* decreased by almost 2%, primarily in connection with the fixed deposits of the funds managed by KBC Asset Management, an institution belonging to the interest of the owner KBC Bank.
- The increase of *equity* (2008: 193 billion, June 2009: 203 billion) is the balance of the following items: accounting for the dividends paid to the owner concerning 2008 and a capital increase in the amount corresponding to the first (- HUF 7.4 billion in accumulated profits, + HUF 7.4 in subscribed capital), current year's profit (+ HUF 8.7 billion), increase in cash flow hedge reserve and the revaluation reserve related to marketable financial instrument (HUF 0.6 billion).

In the first half of 2009 the Bank Group's operating profit amounted to HUF 32.3 billion (1st half of 2008: HUF 27.3 billion). Development of the main P&L components:

- The *net interest income* rose by almost 49% compared to the first half of 2008. Although, compared to the previous period the increasing portfolios were accompanied by favourable credit margins as well, the increase is partially of technical nature (and connected to the changing financing structure of the bank as a result of the crisis): the Bank acquires a significant part of the funds required for the foreign currency lending from EUR interbank deposits and EUR/CHF FX swaps instead of the previously typical HUF/CHF FX swaps. As a result of this the interest-type income connected to swaps decreased (in the books it is stated under the heading of "*net gains from financial instruments at fair value")*, which at the same time is offset by the interest income related to the securities portfolio – increased due to the surplus liquidity – under the interest profit & loss heading.
- Compared to the same period of previous year *commission income* decreased by 3% (1st half of 2009: HUF 12.7 billion; 1st half of 2008: HUF 13.1 billion) primarily due to the lower credit and guarantee fees and commission incomes related to investment services compared to former periods as a result of the less favourable business environment.
- The significant decrease of *the net gains from financial instruments at fair value* (1st half of 2009: HUF 10.2 billion, 1st half of 2008: HUF 15.2 billion) is attributable to the already mentioned technical type decrease of interest rate swaps (which at the same time is offset by the increase of *"net interest and interest-type income"*, see above). The impact of the decreasing swap portfolio (on this P&L line) is mitigated by the rise of Treasury income compared to the reference period.

In the first half of 2009 the operating expenses of the Bank Group were by HUF 3.3 billion higher than those in the same period of previous year (1st half of 2009: HUF 38.4 billion, 1st half of 2008: HUF 35.1 billion). Within this:

- Personnel costs decreased by HUF 1.2 billion or 6.8%.
- Change in deprecation is - HUF 0.1 billion.
- Other costs rose by HUF 1.7 billion, primarily due the development of costs related to office allocation, real property lease (expanding branch network) and IT.
- Provisions increased by HUF 2.9 billion.

The outsourcing of the IT organisation to a new company (KBC GSH) as of 1 May 2008 induced a change in the cost structure, as a result of personnel cost having been reclassified as IT costs due to the fee charged by the new company for IT services.

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

	1st half of 2008	1st half of 2009	change
Costs*/ income	60.3%	53.9%	-6.4%
Non-interest type income/ total income	37.0%	35.7%	-1.3%
Commission income / total income	20.9%	18.0%	-2.9%
Operating income / average headcount	31.7	38.1	+20.2%
Operating costs* / average headcount	19.1	20.5	+7.3%
Operating P&L* / average headcount	12.6	17.6	+39.7%
Loan / deposit	101.3%	92.3%	-9.0%
Capital**/total liabilities	6.7%	7.0%	+0.3%
Solvency ratio (Basel II)***	9.87%	10.72%	+0.9%
ROE (calculated with the opening balance of equity)	18.4%	9.0%	-9.4%
ROA (calculated with average balance sheet total)	1.6%	0.5%	-1.1%

* costs: without provisions for risks and charges
** in addition to equity it also includes subordinated debt capital
*** according to the rules prescribed by the Hungarian supervisory authority

K&H Bank's performance further improved in respect of most financial ratios (at the same time the significant increase of impairments connected to lending – compared to the previous period – all in all resulted in a decreasing profit). It can be still stated that the Bank preserved its favourable position in the bank sector both in terms of liquidity and solvency (and during the last half-year its ratios further improved in these areas as well).

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