Kereskedelmi és Hitelbank Zártkörűen Működő Részvénytársaság

Annual Report

31 December 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 the Year 2012 Annual Report and the Year 2012 Consolidated 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 companies involved in the consolidation, and the Management Report and Consolidated Management Report show a true and fair picture of the position, development and performance of K&H Bank Zrt. and the companies involved in the consolidation, including the major risks and uncertainties factors.

Budapest, April 29 2013

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

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Cg. 01-09-267553

This is a translation of the Hungarian Report

Independent Auditors' Report

To the Shareholder of Kereskedelmi és Hitelbank Zártkörűen Működő Részvénytársaság

Report on financial statements

1.) We have audited the accompanying 2012 annual financial statements of Kereskedelmi és Hitelbank Zártkörűen Működő Részvénytársaság ("the Company"), which comprise the balance sheet as at 31 December 2012 - showing a balance sheet total of HUF 2,470,087 million and a profit for the year of HUF 0 (nil) -, the related profit and loss account for the year then ended and a summary of significant accounting policies and other explanatory information.

Management's responsibility for the financial statements

2.) Management is responsible for the preparation and presentation of financial statements that give a true and fair view in accordance with the Hungarian Accounting Law, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' responsibility

3.) Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Hungarian National Auditing Standards and with applicable laws and regulations in Hungary. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinion

6.) In our opinion the annual financial statements give a true and fair view of the equity and financial position of Kereskedelmi és Hitelbank Zártkörűen Működő Részvénytársaság as at 31 December 2012 and of the results of its operations for the year then ended in accordance with the Hungarian Accounting Law.

Emphasis of matter

7.) We draw attention to note IV/10. in the supplementary notes. In 2003 a significant fraud was discovered at K&H Equities Zártkörűen Működő Részvénytársaság, an investment of the Bank. The Bank has recorded an impairment of HUF 2.8 billion on its investment for the expected losses. The ultimate outcome of this matter cannot presently be determined and due to the fundamental uncertainty involved the actual loss might be significantly different from the impairment recorded by the Bank. Our opinion is not modified in respect of this matter.

Other matters

8.) This independent auditor's report has been issued for consideration by the forthcoming shareholders' meeting for decision making purposes and, as such, does not reflect the impact, if any, of the resolutions to be adopted at that meeting.

Other reporting requirement – Report on the business report

9.) We have reviewed the business report of Kereskedelmi és Hitelbank Zártkörűen Működő Részvénytársaság for 2012. Management is responsible for the preparation of the business report in accordance with the Hungarian Accounting Law. Our responsibility is to assess whether the business report is consistent with the financial statements for the same financial year. Our work regarding the business report has been restricted to assessing whether the business report is consistent with the financial statements and did not include reviewing other information originated from non-audited financial records. In our opinion, the business report of Kereskedelmi és Hitelbank Zártkörűen Működő Részvénytársaság for 2012 corresponds to the disclosures in the 2012 financial statements of Kereskedelmi és Hitelbank Zártkörűen Működő Részvénytársaság.

Budapest, 9 April 2013

(The original Hungarian language version has been signed.)

Szabó Gergely
Ernst & Young Kft.
Registration No.: 001165

Sulyok Krisztina
Registered auditor
Chamber membership No.: 006660

10195664-6419-114-01
statistical number

Kereskedelmi és Hitelbank Zártkörűen Működő Részvénytársaság
Balance Sheet (Credit Institutions) – Assets

HUF millions

No.	Description	Previous year 31.12.2011.	Reporting year 31.12.2012.
a	b	c	d
01.	**1. CASH AND EQUIVALENTS**	**161 144**	**78 627**
02.	**2. GOVERNMENT SECURITIES**	**939 202**	**871 035**
03.	a) held for trading	469 767	497 121
04.	b) held for investment	469 435	373 914
05.	**2/A. VALUATION DIFFERENCE OF GOVERNMENT SECURITIES**	**- 412**	**367**
06.	**3. AMOUNTS DUE FROM CREDIT INSTITUTIONS**	**74 743**	**71 068**
07.	a) on demand	27 291	38 915
08.	b) other receivables from financial services	47 452	32 153
09.	ba) short-term	32 047	19 144
10.	of which: - from affiliated undertakings		
11.	- from other associated undertakings		
12.	- from the NBH		
13.	- from the clearing house		
14.	bb) long-term	15 405	13 009
15.	of which: - from affiliated undertakings		
16.	- from other associated undertakings		
17.	- from the NBH		
18.	- from the clearing house		
19.	c) from investment services		
20.	of which: - from affiliated undertakings		
21.	- from other associated undertakings		
22.	- from the clearing house		
23.	**3/A. VALUATION DIFFERENCE OF AMOUNTS DUE FROM CREDIT INSTITUTIONS**		
24.	**4. AMOUNTS DUE FROM CLIENTS**	**1 458 167**	**1 205 826**
25.	a) from financial services	1 455 774	1 201 057
26.	aa) short-term	453 630	427 257
27.	of which: - from affiliated undertakings	12 466	8 826
28.	- from other associated undertakings		
29.	ab) long-term	1 002 144	773 800
30.	of which: - from affiliated undertakings	60 814	31 421
31.	- from other associated undertakings		
32.	b) from investment services	2 393	4 769
33.	of which: - from affiliated undertakings		
34.	- from other associated undertakings		
35.	ba) receivables from stock exchange investment services		1
36.	bb) receivables from over-the-counter investment services		
37.	bc) amounts due from clients, arising from investment services	2 388	4 763
38.	bd) amounts due from the clearing house	5	5
39.	be) other receivables from investment services		
40.	**4/A. VALUATION DIFFERENCE OF AMOUNTS DUE FROM CLIENTS**		
41.	**5. DEBT SECURITIES, INCLUDING THOSE WITH A FIXED INTEREST RATE**	**103 358**	**67 783**
42.	a) securities issued by local municipalities and other administrative institutions (excluding government securities)	69 951	62 076
43.	aa) held for trading		
44.	ab) held for investment	69 951	62 076
45.	b) securities issued by third-party issuers	33 407	5 707
46.	ba) held for trading	33 360	5 707
47.	of which: - issued by affiliated undertakings		
48.	- issued by other associated undertakings		
49.	- Treasury stock	1 659	2 485
50.	bb) held for investment	47	
51.	of which: - issued by affiliated undertakings		
52.	- issued by other associated undertakings		
53.	**5/A. VALUATION DIFFERENCE OF DEBT SECURITIES**	**- 25 412**	**320**

HUF millions

No.	Description	Previous year 31.12.2011.	Reporting year 31.12.2012.
a	b	c	d
54.	**6. SHARES AND OTHER VARIABLE YIELD SECURITIES**	**5 928**	**6 112**
55.	a) shares and participations held for trading		
56.	of which: - issued by affiliated undertakings		
57.	- issued by other associated undertakings		
58.	b) variable yield securities	5 928	6 112
59.	ba) held for trading	5 928	6 112
60.	bb) held for investment		
61.	**6/A. VALUATION DIFFERENCE OF SHARES AND OTHER VARIABLE YIELD SECURITIES**	**120**	**272**
62.	**7. SHARES AND PARTICIPATIONS HELD FOR INVESTMENT**	**952**	**926**
63.	a) shares and participations held for investment	952	926
64.	of which: - participations in credit institutions		
65.	b) adjustments to the value of shares and participations held for investment		
66.	of which: - participations in credit institutions		
67.	**7/A. VALUATION DIFFERENCE OF SHARES AND PARTICIPATIONS**		
68.	**8. SHARES AND PARTICIPATIONS IN AFFILIATED UNDERTAKINGS**	**4 708**	**3 967**
69.	a) shares and participations held for investment	4 708	3 967
70.	of which: - participations in credit institutions		
71.	b) adjustments to the value of shares and participations held for investment		
72.	of which: - participations in credit institutions		
73.	**9. INTANGIBLE ASSETS**	**9 429**	**11 729**
74.	a) intangible assets	9 429	11 729
75.	b) adjustments to the value of intangible assets		
76.	**10. TANGIBLE ASSETS**	**45 574**	**42 936**
77.	a) tangible assets used in financial and investment services	45 495	42 866
78.	aa) land and buildings	37 158	35 716
79.	ab) technical equipment, machinery and vehicles	4 651	5 612
80.	ac) capital expenditure	3 686	1 538
81.	ad) advances for capital investments		
82.	b) tangible assets not directly used in financial and investment services	79	70
83.	ba) land and buildings		
84.	bb) technical equipment, machinery and vehicles	79	70
85.	bc) capital expenditure		
86.	bd) advances for capital investments		
87.	c) adjustments to the value of tangible assets		
88.	**11. TREASURY STOCK**		
89.	**12. OTHER ASSETS**	**28 841**	**18 243**
90.	a) inventories	303	903
91.	b) other receivables	28 538	17 340
92.	of which: - amounts due from affiliated undertakings	26	53
93.	- amounts due from other associated undertakings		
94.	**12/A. VALUATION DIFFERENCE OF OTHER RECEIVABLES**		
95.	**12/b. POSITIVE VALUATION DIFFERENCE OF DERIVATIVE TRANSACTIONS**	**37 504**	**30 077**
96.	**13. PREPAYMENTS AND ACCRUED INCOME**	**51 839**	**60 799**
97.	a) accrued income	50 639	58 804
98.	b) prepayments	1 200	1 995
99.	c) deferred expense		
100.	**TOTAL ASSETS**	**2 895 685**	**2 470 087**
101.	**of which: - CURRENT ASSETS [1+2.a)+3.a)+3.ba)+3.c)+4.aa)+4.b)+5.aa)+5.ba)+6.a)+6.ba)+11+12+ the values of Lines 2/A,+3/A,4/A,5/A,6/A,12/A and 12/B related to the items above]**	1 226 201	1 126 931
102.	**- FIXED ASSETS [2.b)+3.bb)+4.ab)+5.ab)+5.bb)+6.bb)+7+8+9+10 + the values of Lines 2/A,3/A,4/A,5/A,6/A,7/A,12/A and 12/B related to the items above]**	1 617 645	1 282 357

Budapest, 8th April 2013

Hendrik Scheerlinck
Chief Executive Officer

Attila Gombás
Chief Financial Officer

10195664-6419-114-01
statistical number

Kereskedelmi és Hitelbank Zártkörűen Működő Részvénytársaság
Balance Sheet (Credit Institutions) – Liabilities & Equity

HUF millions

No.	Description	Previous year 31.12.2011.	Reporting year 31.12.2012.
a	b	c	d
103.	**1. AMOUNTS DUE TO CREDIT INSTITUTIONS**	**702 709**	**339 539**
104.	a) on demand	50 588	18 263
105.	b) fixed-term liabilities from financial services	652 121	321 276
106.	ba) short-term	509 227	204 688
107.	of which: - from affiliated undertakings		
108.	- from other associated undertakings		
109.	- from the NBH		
110.	- from the clearing house		
111.	bb) long-term	142 894	116 588
112.	of which: - from affiliated undertakings		
113.	- from other associated undertakings		
114.	- from the NBH		
115.	- from the clearing house		
116.	c) from investment services		
117.	of which: - from affiliated undertakings		
118.	- from other associated undertakings		
119.	- from the clearing house		
120.	**1/A. VALUATION DIFFERENCE OF AMOUNTS DUE TO CREDIT INSTITUTIONS**		
121.	**2. AMOUNTS DUE TO CLIENTS**	**1 727 902**	**1 688 896**
122.	a) savings deposits		
123.	aa) on demand		
124.	ab) short-term		
125.	ac) long-term		
126.	b) other liabilities from financial services	1 722 684	1 680 702
127.	ba) on demand	665 394	617 237
128.	of which: - from affiliated undertakings	10 939	14 994
129.	- from other associated undertakings		
130.	bb) short-term	841 999	899 266
131.	of which: - from affiliated undertakings	450	2 650
132.	- from other associated undertakings		
133.	bc) long-term	215 291	164 199
134.	of which: - from affiliated undertakings	31 717	23 925
135.	- from other associated undertakings		
136.	c) from investment services	5 218	8 194
137.	of which: - from affiliated undertakings		
138.	- from other associated undertakings		
139.	ca) liabilities from stock exchange investment services		
140.	cb) liabilities from over-the-counter investment services		
141.	cc) amounts due to clients from investment services	5 218	8 194
142.	cd) amounts due to the organization performing clearing house activities		
143.	ce) other liabilities from investment services		
144.	**2/A. VALUATION DIFFERENCE OF AMOUNTS DUE TO CLIENTS**		
145.	**3. LIABILITIES FROM SECURITIES ISSUED**	**20 962**	**13 409**
146.	a) bonds issued	20 700	13 149
147.	aa) short-term	8 630	9 862
148.	of which: - from affiliated undertakings		
149.	- from other associated undertakings		
150.	ab) long-term	12 070	3 287
151.	of which: - from affiliated undertakings		
152.	- from other associated undertakings		

HUF millions

No.	Description	Previous year 31.12.2011.	Reporting year 31.12.2012.
a	b	c	d
153.	b) other debt securities issued		
154.	ba) short-term		
155.	of which: - from affiliated undertakings		
156.	- from other associated undertakings		
157.	bb) long-term		
158.	of which: - from affiliated undertakings		
159.	- from other associated undertakings		
160.	c) debt instruments treated as securities for accounting purposes but not deemed securities under the Securities Act	262	260
161.	ca) short-term	262	260
162.	of which: - from affiliated undertakings		
163.	- from other associated undertakings		
164.	cb) long-term		
165.	of which: - from affiliated undertakings		
166.	- from other associated undertakings		
167.	**4. OTHER LIABILITIES**	**150 709**	**126 844**
168.	a) short-term	150 709	126 844
169.	of which: - from affiliated undertakings	453	15
170.	- from other associated undertakings		
171.	- other financial contributions made by members of co-operative credit institutions		
172.	b) long-term		
173.	of which: - from affiliated undertakings		
174.	- from other associated undertakings		
175.	**4/A. NEGATIVE VALUATION DIFFERENCE OF DERIVATIVE TRANSACTIONS**	**30 167**	**25 101**
176.	**5. ACCRUALS AND DEFERRED INCOME**	**39 931**	**55 037**
177.	a) accrued income	2	102
178.	b) accrued cost and expense	39 695	54 689
179.	c) deferred income	234	246
180.	**6. PROVISIONS**	**19 153**	**16 395**
181.	a) provisions for retirement benefits and severance pay		195
182.	b) risk provisions for contingent and future liabilities	2 987	3 212
183.	c) general risk provisions	11 922	10 034
184.	d) other provisions	4 244	2 954
185.	**7. SUBORDINATED LIABILITIES**	**23 382**	**22 192**
186.	a) subordinated debt	23 382	22 192
187.	of which: - from affiliated undertakings		
188.	- from other associated undertakings		
189.	b) other financial contributions made by members of co-operative credit institutions		
190.	c) other subordinated liabilities		
191.	of which: - from affiliated undertakings		
192.	- from other associated undertakings		
193.	**8. SUBSCRIBED CAPITAL**	**140 978**	**140 978**
194.	- repurchased ownership interest at par value		
195.	**9. SUBSCRIBED CAPITAL UNPAID (-)**		
196.	**10. CAPITAL RESERVE**	**23 919**	**23 179**
197.	a) differences between the par value and offering price of shares and participations (premium)	14 393	14 393
198.	b) other	9 526	8 786
199.	**11. GENERAL RESERVE**	**15 873**	**18 517**
200.	**12. PROFIT RESERVE (+/-)**		
201.	**13. EARMARKED RESERVE**		
202.	**14. VALUATION RESERVE**		
203.	a) valuation reserve for value adjustments		
204.	b) valuation reserve for fair market valuation		
205.	**15. RETAINED EARNINGS (+/-)**	**-**	**-**
206.	**TOTAL LIABILITIES & EQUITY**	**2 895 685**	**2 470 087**
207.	**of which: - SHORT-TERM LIABILITIES [1.a)+1.ba)+1.c)+1/A+2.aa)+2.ab)+2.ba)+2.bb)+2.c)+2/A+3.aa)+3.ba)+3.ca)+4.a)+4/A]**	2 262 194	1 909 715
208.	**- LONG-TERM LIABILITIES [1.bb)+2.ac)+2.bc)+3.ab)+3.bb)+3.cb)+4.b)+7]**	393 637	306 266
209.	**- EQUITY (8-9+10+11+12+13+14+15)**	180 770	182 674

Budapest, 8th April 2013

Hendrik Scheerlinck
Chief Executive Officer

Attila Gombás
Chief Financial Officer

10195664-6419-114-01
statistical number

Kereskedelmi és Hitelbank Zártkörűen Működő Részvénytársaság
Profit & Loss Account (Credit Institutions)

HUF millions

No.	Description	Previous year 31.12.2011.	Reporting year 31.12.2012.
a	b	c	d
01.	**1. Interest received and similar income**	**180 082**	**163 199**
02.	a) interest received (receivable) on fixed-interest debt securities	74 095	61 115
03.	of which: - from affiliated undertakings		
04.	- from other associated undertakings		
05.	b) other interest received and similar income	105 987	102 084
06.	of which: - from affiliated undertakings	643	3 394
07.	- from other associated undertakings		
08.	**2. Interest paid and similar expense**	**92 799**	**94 416**
09.	of which: - from affiliated undertakings	944	3 407
10.	- from other associated undertakings		
11.	**NET INTEREST INCOME (1-2)**	**87 283**	**68 783**
12.	**3. Income from securities**	**2 300**	**2 765**
13.	a) income from shares and participations held for trading (dividend, minority interest)		
14.	b) income from participations in affiliated undertakings (dividend, minority interest)	2 300	2 765
15.	c) income from other participations (dividend, minority interest)		
16.	**4. Fees and commissions received (receivable)**	**41 054**	**39 094**
17.	a) income from other financial services	34 211	33 409
18.	of which: - from affiliated undertakings	128	56
19.	- from other associated undertakings		
20.	b) income from investment services (excluding income from trading operations)	6 843	5 685
21.	of which: - from affiliated undertakings	56	32
22.	- from other associated undertakings		
23.	**5. Fees and commissions paid (payable)**	**14 319**	**14 287**
24.	a) expense on other financial services	13 714	13 789
25.	of which: - from affiliated undertakings		
26.	- from other associated undertakings		
27.	b) expense on investment services (excluding expense on trading operations)	605	498
28.	of which: - from affiliated undertakings	201	169
29.	- from other associated undertakings		
30.	**6. Profit/loss on financial transactions [6.a)-6.b)+6.c)-6.d)]**	**27 534**	**28 417**
31.	a) income from other financial services	13 749	15 809
32.	of which: - from affiliated undertakings		
33.	- from other associated undertakings		
34.	- valuation difference		
35.	b) expense on other financial services	1 775	975
36.	of which: - from affiliated undertakings		
37.	- from other associated undertakings		
38.	- valuation difference		
39.	c) income from investment services (income from trading operations)	76 717	76 124
40.	of which: - from affiliated undertakings		
41.	- from other associated undertakings		
42.	- reversal of impairment on securities held for trading		
43.	- valuation difference		
44.	d) expense on investment services (expense on trading operations)	61 157	62 541
45.	of which: - to affiliated undertakings		
46.	- to other associated undertakings		
47.	- impairment on securities held for trading		
48.	- valuation difference		

HUF millions

No.	Description	Previous year 31.12.2011.	Reporting year 31.12.2012.
a	b	c	d
49.	**7. Other income from business activities**	**6 901**	**13 227**
50.	a) income from non-financial and investment services	2 500	6 679
51.	of which: - from affiliated undertakings	678	491
52.	- from other associated undertakings		
53.	b) other income	4 401	6 548
54.	of which: - from affiliated undertakings	15	1 045
55.	- from other associated undertakings		
56.	- reversal of impairment on inventories		
57.	**8. General and administrative expenses**	**55 153**	**56 348**
58.	a) personnel expense	27 207	29 683
59.	aa) salaries and wages	18 738	20 644
60.	ab) other personnel expense	2 741	2 548
61.	of which: - social security expense	432	375
62.	- retirement expense	239	224
63.	ac) contributions payable on salaries and wages	5 728	6 491
64.	of which: - social security expense	710	358
65.	- retirement expense	4 578	
66.	b) other administrative expenses (material-type expenses)	27 946	26 665
67.	**9. Depreciation**	**5 939**	**7 131**
68.	**10. Other expenses on business activities**	**46 074**	**55 501**
69.	a) expense on non-financial and investment services	580	4 279
70.	of which: - to affiliated undertakings		
71.	- to other associated undertakings		
72.	b) other expense	45 494	51 222
73.	of which: - to affiliated undertakings	6	10
74.	- to other associated undertakings		
75.	- impairment on inventories		
76.	**11. Impairment on receivables and risk provisioning for contingent and future liabilities**	**77 507**	**51 693**
77.	a) impairment on receivables	76 346	49 733
78.	b) risk provisioning for contingent and future liabilities	1 161	1 960
79.	**12. Reversal of impairment on receivables and risk provisions used for contingent and future liabilities**	**39 621**	**73 041**
80.	a) reversal of impairment on receivables	37 893	71 336
81.	b) risk provisions used for contingent and future liabilities	1 728	1 705
82.	**12/A. Difference between general risk provisions made and used**	**1 221**	**1 888**
83.	**13. Impairment on debt securities held for investment and shares and participations in affiliated and other associated undertakings**	**2 860**	**821**
84.	**14. Reversal of impairment on debt securities held for investment and shares and participations in affiliated and other associated undertakings**	**1 196**	**52**
85.	**15. Profit/loss on ordinary activities**	**5 258**	**41 486**
86.	**of which: - profit/loss on financial and investment services [1-2+3+4-5±6+7.b)-8-9-10.b)-11+12-13+14]**	3 338	39 086
87.	**- profit/loss on non-financial and investment services [7.a)-10.a)]**	1 920	2 400
88.	**16. Extraordinary income**	**4 631**	**59**
89.	**17. Extraordinary expense**	**5 459**	**492**
90.	**18. Extraordinary profit/loss (16-17)**	**- 828**	**- 433**
91.	**19. Pretax profit/loss (±15±18)**	**4 430**	**41 053**
92.	**20. Taxation**	**- 9**	**14 612**
93.	**21. Net profit/loss (±19-20)**	**4 439**	**26 441**
94.	**22. General provisions made/used (±)**	**- 444**	**- 2 644**
95.	**23. Profit reserve used for dividend and minority interest**		
96.	**24. Dividend and minority interest approved**	**3 995**	**23 797**
97.	of which: - to affiliated undertakings		
98.	- to other associated undertakings		
99.	**25. Retained earnings (±21-/+22+23-24)**	**-**	**-**

Budapest, 8th April 2013

Hendrik Scheerlinck
Chief Executive Officer

Attila Gombás
Chief Financial Officer

Kereskedelmi és Hitelbank Zártkörűen Működő Részvénytársaság

Notes to the Financial Statements

31 December 2012

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I. OVERVIEW

I/1. Kereskedelmi és Hitelbank Zártkörűen Működő Részvénytársaság – key facts

type of company: company limited by shares

method of operation: private

date of establishment: 20 February 1987

shareholders:

Shareholder	31 December 2011		31 December 2012	
	Subscribed capital (HUF m)	Stake (%)	Subscribed capital (HUF m)	Stake (%)
KBC Bank N.V. Havenlaan 2, 1080 Brussels, Belgium	140 978	100	140 978	100
Total subscribed capital	**140 978**	**100**	**140 978**	**100**

Activities:

Financial leasing

Other monetary intermediation — Principal activity

Insurance agent and broker activities

Financial mediation n.e.c.

Stock and commodities market agent activities

Other auxiliary financial activities

I/2. Kereskedelmi és Hitelbank Zártkörűen Működő Részvénytársaság – Accounting Policy

The Bank has compiled its Accounting Policy in accordance with the provisions of Act C of 2000 on Accounting, Act CXII of 1996 on Credit Institutions and Financial Enterprises and Government Decree No. 250/2000 (XII.24.) on the special bookkeeping and annual reporting obligations of credit institutions and financial enterprises (hereinafter: "accounting legislation").

The Bank keeps its business records in compliance with applicable accounting regulations. These business records (general ledger and subledger ["analytical"] systems) support the Bank's internal and external reporting obligations, including reporting to the Hungarian Financial Supervisory Authority (PSZÁF) and the National Bank of Hungary.

The Bank's Accounting Policy and related internal regulations set out the valuation methods, principles and processes used by management in preparing reports and other financial statements. Furthermore, the Accounting Policy also sets forth requirements concerning disclosures, announcements and auditing.

The Bank observes statutory accounting principles in its Accounting Policy in order to ensure that its books and annual reports give a fair and reliable view of its state of affairs.

The Bank's – analytical and general ledger – records continuously capture any and all economic events arising in the course of its business activities that can have an impact on the Bank's net worth, financial position and income. The books are closed at the end of each business year. The Bank uses double-entry bookkeeping, and its books are in Hungarian.

Accounting operations at the Bank's head office and branch network units are supported primarily by product-focused IT systems, which are generally integrated systems. Automatic posting by these systems is occasionally complemented by manual bookkeeping, these being the two general ledger inputs of the branch network and the Bank as a whole.

The Bank's chart of accounts is a listing of all general ledger accounts to be used for accounting and record-keeping purposes as well as the numbers of such accounts, broken down by account class.

The detailed system of accounts defines the content, nature and function of each general ledger account. The chart of accounts and the system of accounts are set out in the monthly closing directive. The account movements related to the various economic events are described on the so-called posting sheets attached to the Bank's product regulations.

Pursuant to applicable law and its own business decision, the Bank maintains contingent accounts in account class "0" linked to specific asset, liability and profit & loss items.

A statement presenting the balance of and activity on general ledger accounts is prepared on a monthly basis. In order to ensure the completeness of accounting records, the Bank performs the necessary additions, corrections, reconciliations and consolidations monthly, quarterly and annually. The Bank issues monthly account closing directives to regulate the closing process.

All economic events and transactions that change the balance of the Bank's assets and liabilities or the balance or composition of its off-balance sheet items are posted on the basis of accounting vouchers; the Bank's accounting records contain the data of all accounting vouchers that reflect the process of economic events.

An accounting voucher is an external or internal document having predefined features of form and content that truthfully registers all the data of the given economic event required for entry in the books.

The Bank uses the Hungarian language in its accounting vouchers.

The Bank registers the vouchers as soon as the economic event occurs, at the time of the funds movement in case of cash transactions.

The Bank employs a closed system to provide the possibility for reconciliation and checks of general ledger accounts, sub-ledger records and vouchers.

The Bank's (annual consolidated) report – supported by accounting records – reflects the Bank's operations, net worth, financial position and income and is prepared in Hungarian upon the closing of the Bank's books for the business year.

Business year refers to the period covered by the Bank's annual report and business report. The business year is identical to the calendar year.

The balance sheet date is 31 December of the reporting year.

The date of preparing the balance sheet is the third workday of the year following the reporting year.

The annual report consists of the following parts:

- Balance Sheet,
- Profit & Loss Account,
- Notes to the Financial Statements, which include the Cash Flow Statement.

The vertically arranged Profit & Loss Account, prepared using the so-called turnover cost accounting method, calculates the Bank's retained earnings through various profit/loss categories.

The Bank's annual report shows figures in million forints (HUF).

The structure and content of the annual report and the consolidated annual report are governed by the Accounting Act, as amended, the Act on Credit Institutions and Financial Enterprises and the government decree on the special bookkeeping and annual reporting obligations of credit institutions and financial enterprises – in accordance with the accounting standards of the European Community.

If an audit or self-audit finds significant error(s) in the reports for prior business year(s), then the Bank reports the adjustments arising from such findings, known as of the date of preparing the balance sheet, alongside the prior-year figures under every item in the balance sheet and the profit & loss account; these figures shall not be understood as relating to the reporting year in the profit & loss account. In such cases the balance sheet and the profit & loss account contain separate columns for prior-year data, adjustments to closed year(s) and reporting-year data. Significant error impacts are reviewed once a year in their absolute sums, cumulatively.

An error is defined as being of significant sum if the cumulative total (absolute value) of errors or error consequences increasing/reducing profits or equity in the relevant business year (for each year separately) and identified by any kind of checks or audits during the year exceed HUF 500 million.

It follows from the above that if the findings are not significant, i.e. the errors remain below the above stated threshold of HUF 500 million, then the Bank includes these in its figures for the reporting year.

Errors are defined as significantly distorting fair and reliable reporting if the cumulative total of such significant errors and error consequences modify the equity figure to a significant extent and thereby cause the published asset, financial and/or revenue figures to be misleading. The Bank shall consider an error as significantly distorting fair and reliable reporting if the error findings result in an adjustment (increase or decrease) of at least 20 percent to the equity reported in the balance sheet for the business year preceding the year when the error is found.

In the event of errors significantly distorting fair and reliable reporting, the published annual report of the business year preceding the given business year have to be republished.

VALUATION PROCEDURES EMPLOYED IN THE REPORT

The valuation of assets and liabilities is regulated in detail by the Accounting Act and the government decree on the special bookkeeping and reporting obligations of credit institutions and financial enterprises.

Regulations applicable to the valuation of assets and liabilities are set forth in a separate internal policy, as part of the Bank's Accounting Policy, pursuant to the legislation mentioned above.

The key principles of valuation procedures:

I. Fair market valuation

In its accounting operations the Bank uses fair market valuation in respect of financial instruments. It made a transition to this method as of 1 January 2008.

In accordance with the provisions of the Accounting Act and Government Decree No. 250/2000 the financial instruments subject to fair market valuation are shown in the report at their fair market value or at their original cost in line with the general rules.

The Bank classifies financial instruments in the following categories.

- Financial assets
    - Financial assets held for trading: financial assets obtained in order to profit from short-term price and rate fluctuations. They are shown at fair market value in the report.
    - Available-for-sale financial assets: financial assets not classified under financial assets held for trading, financial assets held until maturity or loans and other receivables originating from the business entity. Pursuant to the Bank's decision, they are reported at original cost in accordance with general valuation requirements (original contract cost less repayments and impairment).
    - Financial assets held until maturity: financial assets that the Bank intends and is able to keep until they mature. They are reported at original cost in accordance with general valuation requirements.
    - Loans granted by and other receivables of the business entity: financial assets created or stated by, or involving definable payments arising from, the Bank's provision of financial assets, goods or services – delivered directly to the debtor –, except if created by the Bank for short-term sales purposes. They are reported at original cost in accordance with general valuation requirements.

- Financial obligations
    - Trading liabilities: liabilities due to borrowing of securities. They are reported at fair market value.
    - Other financial obligations: all financial obligations that fall outside the scope of trading liabilities. They are reported at original cost in accordance with general valuation requirements.

- Derivative transactions: commodities- or financial assets-based transactions for trading or hedging purposes, options or swaps, or their derivatives.
    - Derivative transactions for trading: derivative transactions not for hedging purposes.
    - Market value (fair value) hedging transactions: transactions serving the purpose of covering the risk of changes to the market value of the whole or certain part of an asset or liability in the balance sheet arising from a hedged transaction or transactions, or changes to the expected future profit or loss from (market value of) a derivative transaction. The hedged risk is a specific risk impacting the profit or loss reported.
    - Cash-flow hedging transaction: transaction to hedge the risk connected to potential changes in future cash-flows related to assets or liabilities in the balance sheet originating from a hedged transaction (including the related interest payments as well), or related to swaps, options or (delivery) forward transactions executed upon the delivery of goods or financial assets. The hedged risk is a risk in a specific cash-flow, impacting the profit or loss reported.

    - Net hedging transaction of net investment in foreign business entity: a transaction concluded to hedge the risks arising from changes in exchange rate related to investments representing ownership and held not for trading purposes (shares, participations, other interest) in foreign currency and in a foreign business entity classifying as an associated enterprise, and the long-term receivables from and liabilities to such a business entity.
- Regardless of their above categorization, all derivative transactions are reported at fair market value.

In the case of the financial assets and obligations reported at fair market value, the fair market value is the amount for which the asset can be exchanged or an obligation can be settled between properly informed partners expressing their intention to transact and to do so in the form of a transaction complying with standard market conditions.

The Bank relies on calculations in its Treasury system to determine the fair market value of its transactions reported at fair market value. This is essentially equivalent to the available market prices or the present value of the future cash-flows on the transactions.
Defining the yield curves used in present value calculation:

- The yield curve for government securities is defined on the basis of the yields on benchmark government securities published by the Government Debt Management Agency (ÁKK).
- The valuation of the derivatives is based on the yield curves including the market liquidity spread

Fair market value is determined for the individual product groups as follows

- Trading debt securities
    - Government securities: determined on the basis of the average of the best buy and sell rate published by the ÁKK for the given date and the benchmark yields published by the ÁKK.
    - Debt securities: present value calculated on the basis of benchmark yields adjusted with risk premium.
    - Closed-end investment units: the net asset value per investment unit, as published officially by the fund manager.
- Investments representing an ownership interest held for trading
    - Shares: stock market price
    - Open-end investment units: the net asset value per investment unit, as published officially by the fund manager
- Derivative transactions
    - Forward transactions: the difference between the spot market price of the transaction and the discounted value of the deal price (trading price) from the date of maturity to the date of valuation.
    - Swap transactions: the Bank values the forward part in accordance with the requirements governing forward transactions and the spot part is accounted for in accordance with the general rules.
    - In valuing swap transactions concluded for interest arbitrage purposes, and composite transactions created by combining spot and forward FX transactions (equivalent in nature to swaps), the Bank employs, in addition to fair market valuation, the provisions in Article 22 (4), (7), (8) and (11) of Government Decree No. 250/2000. Accordingly,
        - the Bank reports the pro-rata difference between the spot and the forward prices of the transaction as an interest profit or loss against accruals
        - until closing the transaction, the Bank tracks under accruals the price difference of the spot part of swaps and composite transactions.
    - Options: the valuation model matching the type of option is used (e.g. Black Scholes model for simple European and European barrier options, Cox Rubinstein for simple American options)
    - Interest rate swaps: the difference between the present values, discounted to the valuation date, of interest cash-flows estimated based on market information for the remainder of the transaction term.
    - Other derivative transactions: the present value of the future cash-flows estimated on the basis of available market information.

The amount of the fair value which is calculated on transaction level is adjusted (MVA - Market Value Adjustment) by the Bank taking into account the elements listed below. The adjustment according to the following elements is calculated by instrument / transaction types or on customer level:

- close-out cost of the transactions,
- illiquidity of the markets,
- counterparty risk.

The Bank tracks the valuation differences arising from fair market valuation linked to the given financial instrument in its sub-ledger and general ledger accounts.

As regards the sale or reclassification of financial assets held until maturity, the Bank classifies as significant any sums exceeding 5 percent of the book value of the given asset.

It is with a monthly frequency that the Bank carries out a valuation to fair market value of all the financial assets and derivative transactions subject to fair market valuation.

II. Valuation of assets

Valuation of foreign currency and foreign exchange inventories, and receivables and liabilities denominated in a foreign currency

The Bank's foreign currency and foreign exchange inventories and its receivables and debts denominated in a foreign currency are stated at the daily foreign exchange rate of the National Bank of Hungary (NBH). Foreign exchange and foreign currency inventories and receivables and liabilities denominated in currencies not quoted by the NBH are stated at the middle rate published for the last day of the month or the last day of the year, respectively, in the exchange rates section of a national newspaper, or, in the absence thereof, at the average middle rate used by the credit institution in the last month preceding the valuation.

Valuation of debt securities held for investment or trading

Interest-bearing securities held for investment (debt securities with a maturity of over one year) are posted to the Bank's books at original cost less purchased interest; the Bank uses the FIFO (first in, first out) method in respect of such securities. In the case of interest-bearing securities held for investment, the difference between par value and purchase price is recognized *pro rata temporis* during the term of the securities.

Securities held for negotiation that are not classified under financial assets held for trading for the purposes of fair market valuation are posted to the Bank's books at original cost; the Bank uses the FIFO method in respect of such securities.

The Bank rates the securities not classified under financial assets held for trading for purposes of fair market valuation and, if necessary, it recognizes impairment or reversal of impairment on them.

The Bank does not recognize impairment on government securities.

Valuation of participations

As far as impairment is concerned, the Bank will regard a difference as permanent and significant if it is identified as such during the investment rating procedure conducted pursuant to the Long Term Capital Investment Policy.

Under the Accounting Act, if the market value of an asset that is held for investment and represents an ownership interest significantly exceeds the book value (original cost) of such asset following a reversal of impairment, the difference may be stated as a value adjustment and added to the valuation reserve. The Bank, however, does not use this possibility.

Valuation of amounts due from credit institutions and clients

The original cost of receivables arising from contracts concluded by the Bank equals the amount of principal not yet repaid; in the case of receivables purchased, the original cost equals the part of the purchase price not yet paid.

The Bank regularly rates its receivables.

It classifies its receivables into <u>asset rating categories</u> for individual rating or <u>valuation groups</u> for group rating.

The Bank established the <u>asset rating categories</u> in such a way that allows for classifying all items ranging from those not affected by impairment or provisioning to those 100% covered by impairment and provisions.

It assigns a weight band to each asset rating category by breaking down the total of 100% and it establishes the impairment to be charged in each weight band .

Any impairment on foreign currency receivables, and any reversal thereof, will be recognized and stated in foreign currency.

Valuation of intangible and tangible assets

The original (purchase and production) cost of assets is taken into consideration pursuant to Section 47 of the Accounting Act.

The Bank calculates ordinary depreciation on assets acquired before 1 January 2001 on the basis of original cost, using the straight-line depreciation method and the rates defined in the Corporation Tax Act.

In relation to assets purchased after 1 January 2001, ordinary depreciation is calculated on the basis of original cost less residual value, using the straight-line depreciation method.

For the purposes of extraordinary depreciation, the Bank treats as permanent any difference between book value and market value that exists for more than one year.

A significant difference between book value and market value is any amount that exceeds 15 percent of the original cost of the given asset.

With the exception of specific asset groups, tangible assets, rights, trademarks and patents purchased individually at an original cost of less than HUF 100,000 are depreciated in one sum at the time they are put into use.

Under the Accounting Act, if the market value of a right, trademark, patent or tangible asset – except for capital investments and advances for capital investments – significantly exceeds its book value (original cost) following a reversal of impairment, the difference may be stated as a value adjustment and added to the valuation reserve. The Bank, however, does not make such adjustments to value.

III. Valuation of liabilities & equity

The Bank states **equity**, **provisions** and **liabilities** in the Balance Sheet at book value.

“General risk provisions” refer to provisions made by the Bank pursuant to the Credit Institutions Act for possible exposure-related losses that cannot be seen or determined in advance. General risk provisions cannot exceed 1.25 percent of the adjusted balance sheet without retail segment and leasing business.

II. NOTES TO THE BALANCE SHEET

II/1. HUF equivalent of foreign currency assets in each asset class

HUF millions

Description	Balance Sheet	31 December 2011			31 December 2012		
		HUF	Foreign currency	Total	HUF	Foreign currency	Total
Cash and equivalents	Line 1	157 752	3 392	161 144	75 686	2 941	78 627
Government securities	Line 2	933 655	5 547	939 202	867 500	3 535	871 035
Valuation difference of government securities	Line 5	-465	53	-412	367	0	367
Amounts due from credit institutions	Line 6	24 392	50 351	74 743	16 662	54 406	71 068
Valuation difference of amounts due from credit institutions	Line 23	0	0	0	0	0	0
Amounts due from clients	Line 24	406 895	1 051 272	1 458 167	417 098	788 728	1 205 826
Valuation difference of amounts due from clients	Line 40	0	0	0	0	0	0
Debt securities, including those with a fixed interest rate	Line 41	19 166	84 192	103 358	5 220	62 563	67 783
- of which foreign securities		11 767	14 133	25 900	0	0	0
Valuation difference of debt securities	Line 53	-11 327	-14 085	-25 412	320	0	320
- of which foreign securities		-11 767	-14 086	-25 853	0	0	0
Shares and other variable yield securities	Line 54	3 992	1 936	5 928	4 388	1 724	6 112
- of which foreign securities		0	0	0	0	0	0
Valuation difference of shares and other variable yield securities	Line 61	108	12	120	213	59	272
Shares and participations held for investment	Line 62	640	312	952	640	286	926
- of which foreign securities		0	312	312	0	286	286
Valuation difference of shares and participations	Line 67	0	0	0	0	0	0
Shares and participations in affiliated undertakings	Line 68	4 708	0	4 708	3 967	0	3 967
Intangible assets	Line 73	9 429	0	9 429	11 729	0	11 729
Tangible assets	Line 76	45 574	0	45 574	42 936	0	42 936
Treasury stock	Line 88	0	0	0	0	0	0
Other assets	Line 89	27 799	1 042	28 841	17 291	952	18 243
Valuation difference on other assets	Line 94	0	0	0	0	0	0
Positive valuation difference of derivative transactions	Line 95	37 504	0	37 504	30 077	0	30 077
Prepayments and accrued income	Line 96	46 965	4 874	51 839	56 200	4 599	60 799
Total assets		**1 706 787**	**1 188 898**	**2 895 685**	**1 550 294**	**919 793**	**2 470 087**

II/2. HUF equivalent of foreign currency liabilities & equity by category

HUF millions

Description	Balance Sheet	31 December 2011			31 December 2012		
		HUF	Foreign currency	Total	HUF	Foreign currency	Total
Amounts due to credit institutions	Line 103	161 137	541 572	702 709	93 759	245 780	339 539
Valuation difference of amounts due to credit institutions	Line 120	0	0	0	0	0	0
Amounts due to clients	Line 121	1 382 659	345 243	1 727 902	1 354 340	334 556	1 688 896
Valuation difference of amounts due to clients	Line 144	0	0	0	0	0	0
Liabilities from securities issued	Line 145	18 045	2 917	20 962	11 902	1 507	13 409
Other liabilities	Line 167	143 247	7 462	150 709	111 311	15 533	126 844
Negative valuation difference of derivative transactions	Line 175	30 167	0	30 167	25 101	0	25 101
Accruals and deferred income	Line 176	36 438	3 493	39 931	52 715	2 322	55 037
Provisions	Line 180	17 850	1 303	19 153	15 030	1 365	16 395
Subordinated liabilities	Line 185	4 714	18 668	23 382	4 714	17 478	22 192
Subscribed capital	Line 193	140 978	0	140 978	140 978	0	140 978
Subscribed capital unpaid (-)	Line 195	0	0	0	0	0	0
Capital reserve	Line 196	23 919	0	23 919	23 179	0	23 179
General reserve	Line 199	15 873	0	15 873	18 517	0	18 517
Profit reserve (+/-)	Line 200	0	0	0	0	0	0
Earmarked reserve	Line 201	0	0	0	0	0	0
Valuation reserve	Line 202	0	0	0	0	0	0
Retained earnings	Line 205	0	0	0	0	0	0
Total liabilities & equity		**1 975 027**	**920 658**	**2 895 685**	**1 851 546**	**618 541**	**2 470 087**

II/3. Amounts due from credit institutions and clients, by maturity

31 December 2012

HUF millions

Description	31 December 2011				
	0-3 months	3 months – 1year	1-5 years	5+ years	Total
Amounts due from credit institutions, arising from financial services (Balance Sheet line 08)	28 542	3 505	10 223	5 182	47 452
Amounts due from clients, arising from financial services (Balance Sheet line 25)	209 312	244 318	440 397	561 747	1 455 774
Total	**237 854**	**247 823**	**450 620**	**566 929**	**1 503 226**

HUF millions

Description	31 December 2012				
	0-3 months	3 months – 1year	1-5 years	5+ years	Total
Amounts due from credit institutions, arising from financial services (Balance Sheet line 08)	17 143	2 001	9 898	3 111	32 153
Amounts due from clients, arising from financial services (Balance Sheet line 25)	223 593	203 664	350 923	422 877	1 201 057
Total	**240 736**	**205 665**	**360 821**	**425 988**	**1 233 210**

II/4. Amounts due to credit institutions and clients, by maturity

31 December 2012

HUF millions

Description	31 December 2011				
	0-3 months	**3 months – 1year**	**1-5 years**	**5+ years**	**Total**
Amounts due to credit institutions – fixed-term liabilities from financial services (Balance Sheet line 105)	484 568	24 660	97 114	45 779	652 121
Amounts due to clients – other short-term liabilities from financial services (Balance Sheet line 130)	729 099	112 900	0	0	841 999
Amounts due to clients – other long-term liabilities from financial services (Balance Sheet line 133)	0	0	154 269	61 022	215 291
Subordinated liabilities (Balance Sheet line 185)	0	0	23 382	0	23 382
Total	**1 213 667**	**137 560**	**274 765**	**106 801**	**1 732 793**

HUF millions

Description	31 December 2012				
	0-3 months	**3 months – 1year**	**1-5 years**	**5+ years**	**Total**
Amounts due to credit institutions – fixed-term liabilities from financial services (Balance Sheet line 105)	185 281	19 407	82 781	33 807	321 276
Amounts due to clients – other short-term liabilities from financial services (Balance Sheet line 130)	655 811	243 455	0	0	899 266
Amounts due to clients – other long-term liabilities from financial services (Balance Sheet line 133)	0	0	132 026	32 173	164 199
Subordinated liabilities (Balance Sheet line 185)	0	0	22 192	0	22 192
Total	**841 092**	**262 862**	**236 999**	**65 980**	**1 406 933**

II/5. Gross value of intangible and tangible assets

2012

HUF millions

Description	Balance Sheet	Change in gross value				
		Opening value	Reclassification (+/-)	Increase (+)	Decrease (-)	Closing value
Intangible assets	Line 73	**35 812**	**0**	**5 224**	**-3 843**	**37 193**
- rights		7 483	0	1 898	-114	9 267
- trademarks and patents		28 329	0	3 326	-3 729	27 926
Tangible assets used in financial services	Line 77	**75 712**	**0**	**4 308**	**-5 747**	**74 273**
- land and buildings	Line 78	46 883	52	926	-905	46 956
- technical equipment, machinery	Line 79	25 143	-52	3 382	-2 694	25 779
- capital expenditure	Line 80	3 686	0	0	-2 148	1 538
- advances for capital investments	Line 81	0	0	0	0	0
Tangible assets not directly used in financial services	Line 82	**102**	**0**	**1**	**-11**	**92**
- land and buildings	Line 83	0	0	0	0	0
- technical equipment, machinery and vehicles	Line 84	102	0	1	-11	92
- capital expenditure	Line 85	0	0	0	0	0
- advances for capital investments	Line 86	0	0	0	0	0

The amount stated for technical equipment, machinery and vehicles includes the value of so-called small-value assets.

II/6. Accumulated depreciation of intangible and tangible assets

2012

HUF millions

Description	Balance Sheet	Accumulated depreciation				
		Opening value	Reclassification (+/-)	Increase (+)	Decrease (-)	Closing value
Intangible assets	Line 73	**26 383**	**0**	**2 667**	**-3 586**	**25 464**
- rights		3 498	0	1 299	-77	4 720
- trademarks and patents		22 885	0	1 368	-3 509	20 744
Tangible assets used in financial services	Line 77	**30 217**	**0**	**4 461**	**-3 271**	**31 407**
- land and buildings	Line 78	9 725	6	2 174	-665	11 240
- technical equipment, machinery and vehicles	Line 79	20 492	-6	2 287	-2 606	20 167
Tangible assets not directly used in financial services	Line 82	**23**	**0**	**3**	**-4**	**22**
- land and buildings	Line 83	0	0	0	0	0
- technical equipment, machinery and vehicles	Line 84	23	0	3	-4	22

The amount stated for technical equipment, machinery and vehicles includes the depreciation of so-called small-value assets.

II/7. Net value of intangible and tangible assets

2012

HUF millions

Description	Balance sheet	31.12.2011.	31.12.2012.
		Closing value	**Closing value**
Intangible assets	Line 73	**9 429**	**11 729**
- rights		3 985	4 547
- trademarks and patents		5 444	7 182
Tangible assets used in financial services	Line 77	**45 495**	**42 866**
- land and buildings	Line 78	37 158	35 716
- technical equipment, machinery and vehicles	Line 79	4 651	5 612
- capital expenditure	Line 80	3 686	1 538
- advances for capital investments	Line 81	0	0
Tangible assets not directly used in financial services	Line 82	**79**	**70**
- land and buildings	Line 83	0	0
- technical equipment, machinery and vehicles	Line 84	79	70
- capital expenditure	Line 85	0	0
- advances for capital investments	Line 86	0	0

II/8. Annual depreciation of intangible and tangible assets

2012

HUF millions

Description	Ordinary	Extraordinary	Total
Intangible assets	2 618	0	2 618
Tangible assets used in financial services	4 348	0	4 348
- land and buildings	2 172	0	2 172
- technical equipment, machinery and vehicles	2 176	0	2 176
Tangible assets not directly used in financial services	3	0	3
- land and buildings	0	0	0
- technical equipment, machinery and vehicles	3	0	3
Depreciation of tangible assets with a value of less than HUF 100,000	32	0	32
Adjustment due to self-audit	130	0	130
Total	**7 131**	**0**	**7 131**

Linear method is in use for calculation the depreciation in the Bank. There was not extraordinary depreciation written back.

II/9. Profit impact of the change in the depreciation method used with intangible and tangible assets

In 2012 the Bank did not change the depreciation method used with intangible and tangible assets.

II/10. Contingent-, future liabilities and receivables

a., Liabilities

HUF millions

Description	31.12.2011.	31.12.2012.
Guarantees and warranties issued	112 575	99 105
Loans, guarantees and letters of credit	411 144	301 539
Export letters of credit	968	712
Import letters of credit	3 959	4 761
Liabilities from lawsuits	12 277	10 942
Liabilities from options	301 002	219 437
Other contingent liabilities	1 867	982
Total contingent liabilities	**843 792**	**637 478**

HUF millions

Description	31.12.2011.	31.12.2012.
Swaps (foreign currency and other)	1 304 890	933 904
Foreign currency forwards	111 296	111 287
Liabilities from the sale/purchase of securities	1 044	1 407
Future liabilities on payments	932	1 060
Other future liabilities	5 185	4 783
Interbank deposits	0	0
Total future liabilities	**1 423 347**	**1 052 441**

The Bank had contingent-, future liabilities of HUF 25 635 million to its affiliates.

b., Receivables

HUF millions

Description	31.12.2011.	31.12.2012.
Received guarantees and coverages	1 524 254	1 321 238
Interests, extra interests receivables	25 368	29 440
Receivables from lawsuits	1 888	675
Receivables from options	301 514	219 437
Other contingent receivables	1 284	1 334
Total contingent receivables	**1 854 308**	**1 572 124**

HUF millions

Description	31.12.2011.	31.12.2012.
Swaps (foreign currency and other)	1 202 895	858 996
Foreign currency forwards	112 383	107 503
Liabilities from the sale/purchase of securities	2 858	3 835
Future receivables on payments	937	1 067
Other future receivables	512	536
Total future receivables	**1 319 585**	**971 937**

II/11. Impairment and risk provisioning
2012

HUF millions

Description	Opening balance	Impairment recognized and provisions made in the reporting year (+)	Reversal of impairment recognized, and use/release of provisions made, in the previous year (-)	Other changes	Change due to merge of K&H Autófinanszírozó Zrt. and K&H Eszközfinanszírozó Zrt.	Closing balance
Impairment recognized on receivables (amounts due from credit institutions, clients)	136 784	49 676	73 244	-4 841	120	108 495
Impairment recognized on financial leasing receivables	169	165	671	9	3 650	3 322
Impairment recognized on financial fixed assets	6 220	821	52	-50	-2 550	4 389
Impairment recognized on administrative risks	336	0	336	0	0	0
Impairment recognized on other receivables (operating)	264	251	229	0	0	286
Impairment recognized on received in debt settlement	0	0	0	0	31	31
Total impairment recognized on assets	**143 773**	**50 913**	**74 532**	**-4 882**	**1 251**	**116 523**
Risk provisions for contingent and future liabilities	2 987	1 959	1 700	-41	7	3 212
General risk provisions	11 922	0	1 888	0	0	10 034
Provisions for future expenses	0	0	0	0	0	0
Provisions for anticipated liabilities	3 840	335	1 397	-43	10	2 745
Provisions for administrative risks	404	4	199	0	0	209
Provisions for payment obligations due to early retirement and severance pay	0	195	0	0	0	195
Total provisions	**19 153**	**2 493**	**5 184**	**-84**	**17**	**16 395**

The “Other changes” column shows the change resulting from revaluation in 2012.
Provision was not created for liabilities to affiliates.

II/12. Other notes to the Balance Sheet

a., Listed securities held by the Bank

- Under financial fixed assets:

HUF millions

Description	31 December 2011		31 December 2012	
	Par value	**Book value**	**Par value**	**Book value**
Government bonds	415 665	396 340	422 814	404 471
Total:	**415 665**	**396 340**	**422 814**	**404 471**

- Under current assets:

HUF millions

Description	31 December 2011		31 December 2012	
	Par value	**Book value**	**Par value**	**Book value**
Government bonds	25 585	24 731	22 611	23 076
Discounted Treasury bills	26 833	25 472	44 558	42 654
Investment units	3 688	3 713	1 061	1 085
Total:	**56 106**	**53 916**	**68 230**	**66 815**

b., The total amount of loans, securities, participations and liabilities classified as legal lending limits pursuant to Section 79(1) of the Credit Institutions Act was HUF 691 982 million as at the balance sheet date.

c., As at 31 December 2012 the Bank's liabilities included subordinated debt of HUF 22 192 million (HUF 4 714 million, maturity date 20.12.2014., interest rate: same as the rate of interest on 2014/B government bonds; and EUR 60 million, maturity date 30.06.2016., interest rate: 3-month EURIBOR +0.55%, that is, 0.734%), stated under subordinated liabilities.

d., The Bank's own real estate properties are free of mortgages; in the case of partially owned properties, the Bank's ownership interests are also free of mortgages.

e., The Bank made general risk provisions of HUF 10 034 million by 31 December 2012.

f., The amount of accrued interest (including transaction interest and late interest), interest-type commission and fees receivable totaled HUF 11 028 million on 31 December 2012, versus HUF 9 471 million on 31 December 2011.

g., The HUF equivalent of receivables and liabilities arising from spot foreign exchange trades totaled HUF 37 312 million and HUF 37 258 million, respectively, at the balance sheet date, 31 December 2012.

h., On 31 December 2012, the balances of currency swap buy and sell trades made in the interbank market stood at HUF 894 955 million and HUF 820 649 million, respectively, while the balances of currency swap buy and sell trades made with clients were HUF 38 572 million and HUF 37 970 million, respectively. The balances of forward sell and buy trades made in the interbank market stood at HUF 18 147 million and

HUF 19 871 million, respectively, while the balances of FX forward sell and buy trades made with clients were HUF 51 699 million and HUF 52 782 million, respectively. The transactions served (exchange rate) hedging as well as trading purposes.

i., Actual sale and repurchase transactions and the underlying assets

HUF millions

Start date	Maturity date	Security	Par value	Transaction value
27DEC2012	02JAN2013	2013/E	1 000	1 028
27DEC2012	02JAN2013	2019/A	2 000	2 128
28DEC2012	04JAN2013	2019/A	350	379
27DEC2012	02JAN2013	2020/A_X	2 000	2 208
27DEC2012	02JAN2013	2022/A	4 000	4 407
27DEC2012	03JAN2013	2023/A	1 000	1 032
27DEC2012	03JAN2013	2028/A	1 500	1 661
Total active special delivery repos			**11 850**	**12 843**

HUF millions

Start date	Maturity date	Security	Par value	Transaction value
27DEC2012	02JAN2013	2019/A	2 000	2 128
27DEC2012	02JAN2013	2020/A_X	2 000	2 208
27DEC2012	02JAN2013	2022/A	4 000	4 407
27DEC2012	02JAN2013	2013/E	1 000	1 028
27DEC2012	04JAN2013	2013/E	1 300	1 336
21DEC2012	03JAN2013	2015/A_X	500	560
27DEC2012	03JAN2013	2016/C	750	785
28DEC2012	03JAN2013	2016/C	230	240
27DEC2012	03JAN2013	2017/A_X	820	858
28DEC2012	03JAN2013	2017/A_X	750	784
28DEC2012	03JAN2013	2017/B	750	820
27DEC2012	04JAN2013	2019/A	1 500	1 589
27DEC2012	03JAN2013	2020/A_X	100	111
27DEC2012	04JAN2013	2023/A	700	693
27DEC2012	03JAN2013	2028/A	130	141
05DEC2012	07JAN2013	2013/D_X	700	739
Total passive special delivery repos			**17 230**	**18 427**

j., K&H Bank Zrt. participates, for a commission, in the distribution of investment units issued by various open-end investment funds. The Bank had no debts to these funds on 31 December 2012.
The par value of investment units posted as off-balance sheet items (held on securities accounts) – expressed in Hungarian forints – totaled HUF 474 470 million at the end of the year.

k., The Bank did not have any earmarked reserves on 31 December 2012.

l., On 31 December 2012 the adjusted balance sheet total was HUF 1 457 418 million.

m., The Bank did not have any retirement benefit payment obligations to its former Board of Directors or Supervisory Board members.

n., The Bank manages securities with a total par value of HUF 1 138 709 million for its clients on custody and securities accounts.
As part of its investment services, the Bank also maintains restricted cash accounts (client accounts) for its clients, the aggregate balance of which – expressed in Hungarian forints – was HUF 3 431 million as at 31 December 2012. Clients had receivables of HUF 8 194 million and payables of HUF 4 763 million on their client accounts at the end of the year.

o., The Bank did not provide any asset management services for pension or health funds in 2012.

p., On 31 December 2012 the Bank had a total amount of HUF 5 330 million due from its parent company; at the same time, the Bank had liabilities of HUF 200 660 million to its parent of which short-term liabilities of HUF 181 754 million.
On 31 December 2012, amounts due from subsidiaries totaled HUF 40 300 million, while short-term liabilities amounted to HUF 17 659 million, and long-term liabilities to HUF 23 925 million. One part of long-term liabilities in amount of HUF 23 924 million comes from open-end financial leasing.
The Bank had no subordinated liabilities to its subsidiaries.

q., K&H Bank Zrt. did not have any significant transactions with associated parties executed under conditions deviating from standard market practice.

II/13. Third-party securities

HUF millions*

Description	Par value		Comments
	31.12.2011.	31.12.2012.	
Dematerialized	**761 626**	**1 095 623**	
In safekeeping at the Bank's depository	40 619	43 086	
Total physical	**40 619**	**43 086**	
Total	**802 245**	**1 138 709**	

* converted into HUF at the NBH exchange rate for 28.12.2012.

II/14. Securities portfolio held by the Bank

- Stated in fixed assets

HUF millions

Description	Par value		Book value	
	31.12.2011.	**31.12.2012.**	**31.12.2011.**	**31.12.2012.**
Dematerialized	**557 526**	**455 234**	**540 482**	**437 731**
In safekeeping at the Bank's depository	2 047	1 305	4 215	2 783
Total physical	**2 047**	**1 305**	**4 215**	**2 783**
Total	**559 573**	**456 539**	**544 697**	**440 514**

- Stated in current assets

HUF millions *

Description	Par value		Book value	
	31.12.2011.	**31.12.2012.**	**31.12.2011.**	**31.12.2012.**
Dematerialized	521 089	511 300	509 055	508 940
Total physical	0	0	0	0
Total	**521 089**	**511 300**	**509 055**	**508 940**

* converted into HUF at the NBH exchange rate for 28.12.2012.

II/15. Accruals

HUF millions

Prepayments and accrued income	31.12.2011.	31.12.2012.
Accrued interest and interest-type commissions	41 107	41 153
IR swaps fair market value interest accrual	7 006	15 607
IR arbitrage transactions interest accrual	1 403	780
Other accrued income	1 123	1 264
Accrued income	**50 639**	**58 804**
Prepaid costs and expenses	**1 200**	**1 995**
Deferred expense	**0**	**0**
Total (Balance Sheet line 96)	**51 839**	**60 799**

HUF millions

Accruals and deferred income	31.12.2011.	31.12.2012.
Accrued income	**2**	**102**
Accrued interest	27 132	35 777
IR swaps fair market value interest accrual	3 330	8 348
IR arbitrage transactions interest accrual	848	404
Other accrued expenses	0	0
Accrued costs	8 385	10 160
Accrued costs and expenses	**39 695**	**54 689**
Deferred income	**234**	**246**
Total (Balance Sheet line 176)	**39 931**	**55 037**

II/16. Changes in equity

HUF millions

Description	Subscribed capital	Capital reserve	Profit reserve	General reserve	Retained earnings for the year	Total
Balance 31.12.2011.	140 978	23 919	0	15 873	0	**180 770**
General reserve				2 644		**2 644**
Settlement capital due to merge of Leasing		50	-790			**-740**
Transfer of capital reserve to eliminate the negative profit reserve		-790	790			**0**
Balance 31.12.2012.	**140 978**	**23 179**	**0**	**18 517**	**0**	**182 674**

II/17. Rights and concessions concerning properties stated in intangible and tangible assets by type

a) Intangible assets by type

HUF millions

Description	31.12.2011.	31.12.2012.
Licenses	3 939	4 515
Other	46	32
Rights	**3 985**	**4 547**
Basic software	115	79
User software	5 327	7 101
Trademarks	2	2
Patents	**5 444**	**7 182**
Total:	**9 429**	**11 729**

b) Rights and concessions concerning properties stated in tangible assets by type

HUF millions

Description	31.12.2011.	31.12.2012.
Lease rights	47	37
Acquired rights from payment contribution of public utility	35	38
Total:	**82**	**75**

II/18. Inventories purchased or received in debt settlement and intended for resale

HUF millions

Description	31.12.2011.	31.12.2012.
Materials	72	67
Goods	175	315
Inventories purchased	**247**	**382**
Land and buildings	**56**	483
Technical equipment, machinery and vehicles	**0**	38
Received in debt settlement	**56**	**521**
Total (Balance Sheet line 90)	**303**	**903**

II/19. Risk-free securities at par value

HUF millions

Issue currency	Description	2011	2012
HUF	Government bonds for loan consolidation	110 676	110 676
HUF	Bonds issued by the NBH	361 000	265 000
HUF	Securities issued by the State of Hungary	485 095	512 786
HUF Total		**956 771**	**888 462**
JPY	Bonds issued by the NBH	3 499	2 896
JPY Total		**3 499**	**2 896**
EUR	Securities issued by the State of Hungary	1 329	0
EUR Total		**1 329**	**0**

II/20. The impacts of fair market valuation

a., Derivative transactions

HUF millions

Derivative transaction	Positive fair market value		Negative fair market value		Future cash-flow	
	2011	2012	2011	2012	2011	2012
Asset swap	0	0	-769	-450	-2 160	-1 449
CCIRS	8 979	1 009	-2 341	-1 133	-77 846	-28 488
Forward	5 076	685	-958	-1 605	1 110	-2 806
FRA	749	164	-1 285	-578	-536	-414
IRS	11 666	23 991	-13 229	-17 034	9 480	13 497
Option	10 731	3 999	-11 468	-4 253	0	0
Currency swap	297	227	-111	-42	3 778	1 528
Futures	6	2	-6	-6	36	-16
Total	**37 504**	**30 077**	**-30 167**	**-25 101**	**-66 138**	**-18 148**

Accruals related to the fair market valuation of derivative transactions amounted to HUF 16 386 million in interest income and HUF 8 752 million in interest expense.
The HUF 75 647 million price difference of interest arbitrage-like swap transactions is stated under other liabilities.

b., Securities

HUF millions

Securities held for trading	Book value		Fair market value		Valuation difference	
	31.12.2011	31.12.2012	31.12.2011	31.12.2012	31.12.2011	31.12.2012
Government bonds	427 558	333 945	427 344	334 136	-214	191
of which: reclassified from securities held for investment and maturing in 2013	41 532	46 441	41 532	46 441	0	0
Government bonds for loan consolidation	16	98 022	22	98 028	6	6
of which: reclassified from securities held for investment and maturing in 2013	0	98 006	0	98 006	0	0
Treasury bills	42 193	65 154	41 989	65 324	-204	170
Total government securities:	**469 767**	**497 121**	**469 355**	**497 488**	**-412**	**367**
Closed-end investment units	5 848	3 222	6 289	3 542	441	320
Bonds	27 512	2 485	1 659	2 485	-25 853	0
Total debt securities:	**33 360**	**5 707**	**7 948**	**6 027**	**-25 412**	**320**
Open-end investment units	5 928	6 112	6 048	6 384	120	272
Total shares and other variable-yield securities	**5 928**	**6 112**	**6 048**	**6 384**	**120**	**272**

c., Fair market value of financial instruments stated at original cost

The fair market value of securities held until maturity and classified as available for sale (balance prior to reclassification of securities maturing in the year 2013) amounted to HUF 596 935 million on 31 December 2012.
The fair market value of loans granted by, and other amounts due to, the Bank and that of other financial obligations is less than their book value with HUF 6 425 million. Fair market value of other financial liabilities is less than their book value with HUF 8 634 million.

II/21. Reclassification of financial instruments

The Bank did not reclassify any financial instruments into another category in 2012.

II/22. Data of restructure loan

HUF millions

Description	2011	2012
Conditional equity claim	233 185	207 316
Impairment	45 248	49 255
Book value of receivables	187 937	158 061

II. 23. Items managed in frame of special rating procedure

a., Net value of receivables

HUF millions

Description	2011				2012			
	Corporate loans	Retail loans	Credit institutions	Total	Corporate loans	Retail loans	Credit institutions	Total
Performing	705 222	480 226	74 650	**1 260 098**	572 343	385 211	71 067	**1 028 621**
Monitor	47 899	94 524	0	**142 423**	54 535	71 754	0	**126 289**
Substandard	8 833	21 360	0	**30 193**	4 100	12 519	0	**16 619**
Doubtful	9 562	48 382	0	**57 944**	14 508	46 159	0	**60 667**
Bad	2 554	34 456	93	**37 103**	1 813	34 503	0	**36 316**
Total	**774 070**	**678 948**	**74 743**	**1 527 761**	**647 299**	**550 146**	**71 067**	**1 268 512**

b., Net value of securities

HUF millions

Description	2011			2012		
	Investments	Debt securities	Total	Investments	Debt securities	Total
Performing	2 725	65 535	**68 260**	2 698	54 446	**57 144**
Monitor	95	0	**95**	0	3 496	**3 496**
Substandard	2 581	4 416	**6 997**	0	4 134	**4 134**
Doubtful	260	0	**260**	2 195	0	**2 195**
Bad	0	0	**0**	0	0	**0**
Total	**5 661**	**69 951**	**75 612**	**4 893**	**62 076**	**66 969**

c., Received in debt settlement

HUF millions

Description	2011			2012		
	Land and buildings	Technical equipment, machinery and vehicles	Total	Land and buildings	Technical equipment, machinery and vehicles	Total
Performing	56	0	**56**	483	0	**483**
Monitor	0	0	**0**	0	38	**38**
Substandard	0	0	**0**	0	0	**0**
Doubtful	0	0	**0**	0	0	**0**
Bad	0	0	**0**	0	0	**0**
Total	**56**	**0**	**56**	**483**	**38**	**521**

d., Net value of off balance sheet liabilities

HUF millions

Description	2011			2012		
	Corporate	Retail	Total	Corporate	Retail	Total
Performing	494 782	12 197	**506 979**	380 762	14 081	**394 843**
Monitor	15 248	0	**15 248**	8 337	6	**8 343**
Substandard	3 295	0	**3 295**	5 668	5	**5 673**
Doubtful	853	0	**853**	188	9	**197**
Bad	56	0	**56**	34	192	**226**
Total	**514 234**	**12 197**	**526 431**	**394 989**	**14 293**	**409 282**

II. 24 Financial leasing receivables

On 31 December 2012 the financial leasing receivables amounts was HUF 23 843 million.

III. NOTES TO THE PROFIT & LOSS ACCOUNT

III/1. Expenses on non-financial and investment services

HUF millions

No.	Description	31.12.2011.	31.12.2012.
1.	Re-invoiced value of third-party services	452	465
2.	Book value of inventories sold	128	3 814
Total (Profit & Loss Account line 69)		**580**	**4 279**

III/2. Income from and expense on investment services

HUF millions

Income from investment services	31.12.2011.	31.12.2012.
1. Income from custody services	570	517
2. Income from trading operations	76 717	76 124
3. Income from brokerage activities	5 587	4 507
4. Income from organizing activities on securities issue	0	0
5. Other income	686	661
Total (Profit & Loss Account lines 20 + 39)	**83 560**	**81 809**

HUF millions

Expense on investment services	31.12.2011.	31.12.2012.
1. Expense on custody services	101	100
2. Expense on trading operations	61 157	62 541
3. Expense on brokerage activities	504	398
4. Expense on organizing activities on securities issue	0	0
Total (Profit & Loss Account lines 27 + 44)	**61 762**	**63 039**

III/3. Provisions required but not made (in the breakdown set forth in Section II/11)

The Bank made all the provisions prescribed by applicable regulations to cover credit, interest, investment and other risks related to its activities in 2012.

III/4. Other notes to the Profit & Loss Account

a) Contributions to deposit insurance and institutional protection funds

HUF millions

Description	Amount		Purpose
	2011	2012	
National Deposit Insurance Fund	595	669	Cost of other services
Investor Protection Fund	195	155	Contribution

b) Financial assistance received

The non-repayable grant was given for enlargement of tools of cashless payment transactions was used in amount of HUF 189 million in 2012, from which HUF 102 million received the Bank.

c) Geographic breakdown of income

In 2011

HUF millions

Profit & Loss Account lines	Geographical breakdown			Breakdown of non-EU countries			
	Domestic	EU member states	Non-EU countries	United States of America	Jersey, Channel Islands	Switzerland	Other
1. Interest received and similar income	175 384	4 460	238	69	20	145	4
3. Income from securities	2 295	0	5	5	0	0	0
4. Fees and commissions received (receivable)	40 956	85	13	7	0	1	5
6. Profit/loss from financial transactions							
a) income from other financial services	12 792	0	957	0	0	957	0
c) income from investment services	26 735	49 596	386	364	0	22	0
7. Other income from business activities	6 399	502	0	0	0	0	0

In 2012

HUF millions

Profit & Loss Account lines	Geographical breakdown			Breakdown of non-EU countries		
	Domestic	EU member states	Non-EU countries	United States of America	Switzerland	Other
1. Interest received and similar income	155 223	7 950	26	0	26	0
3. Income from securities	2 757	0	8	8	0	0
4. Fees and commissions received (receivable)	39 019	69	6	2	0	4
6. Profit/loss from financial transactions						
a) income from other financial services	15 809	0	0	0	0	0
c) income from investment services	15 138	60 756	230	226	4	0
7. Other income from business activities	13 039	187	1	0	0	1

d) Financial institutions' special tax

Other expenditures in amount of HUF 1 807 million was recorded by the Bank in 2012 due to financial institutions' special tax.

III/5. Extraordinary expense and extraordinary income recognized in 2012

HUF millions

Extraordinary expense	Amount		Extraordinary income	Amount	
	31.12.2011.	31.12.2012.		31.12.2011.	31.12.2012.
Extraordinary expense related to the final settlement of dissolution of a business association with an ownership interest	5 308	0	Extraordinary income related to the final settlement of dissolution of a business association with an ownership interest	4 581	0
Amounts not deemed uncollectible but nevertheless cancelled	151	492	Financial assistance received definitively for development purposes	49	56
			Lapsed liabilities	1	1
			Extraordinary income related to assets taken over as refund	0	1
			Other extraordinary income	0	1
Total (Profit & Loss Account line 89)	**5 459**	**492**	**Total (Profit & Loss Account line 88)**	**4 631**	**59**

III/6. Profit/loss from closed forwards/futures, options and swaps

HUF millions

Description		31.12.2011.	31.12.2012.
Futures / forwards	Forward	-1 229	-2 343
	FRAs	-252	-344
	FX futures	-172	-151
Options	Options	413	369
Swaps	Asset swaps	-190	-158
	Currency swaps	-1 338	6 318
	Index swaps	3	-2
	Interest rate swaps	7 232	9 981
Total		**4 467**	**13 670**

III/7. Net profit/loss against parent company and affiliates

HUF millions

Profit/loss	2011		2012	
	Parent	Affiliate	Parent	Affiliate
Interest difference	-8 477	-301	-1 422	-14
Fees and commissions	-594	-17	-807	-81
Profit/loss from financial transactions	N/A	0	N/A	0
Other	-399	687	-6	1 527
Extraordinary	49	0	49	0

IV. ADDITIONAL INFORMATION

IV/1. Signatories to the Bank's annual report

I.	Name:	Hendrik Scheerlinck
	Address:	Budapest
II.	Name:	Attila Gombás
	Address:	Szolnok

IV/2. Auditing

The Bank is required to have its accounts audited under applicable law.

a., Auditor

Auditor's name: Ernst & Young Kft.
Auditor's address: 1132 Budapest, Váci út 20.
MKVK registration number: 001165
Authorized signatory: Krisztina Sulyok (Budapest (006660))

b., Fees charged by the auditors in 2012

HUF millions

Description	**Amount**	
	Ernst & Young	**Economix**
Auditing	175	3
Other certification services	0	0
Tax consulting services	0	0
Other, non-auditor services	1	0
Total	**176**	**3**

IV/3. Person in charge of accounting tasks

Name: Paula Ecsedi

Registration number: 140573

IV/4. Registered office and website

Registered office: 1095 Budapest, Lechner Ödön fasor 9.
Website: www.kh.hu

IV/5. Number and par value of the Bank's shares by type

Details of the K&H Bank Zrt. share (HU0000075304):

type: registered, dematerialized ordinary share

basic denomination: HUF 1

amount issued: 140 978 164 412 shares

par value: HUF 140 978 164 412

IV/6. Entities that have an ownership interest in the Bank

Company name	Registered office	Voting rights (%)
Controlling interest: Qualified controlling interest: KBC Bank N.V.	B-1080 Brussels, Havenlaan 2.	100

IV/7. Details of the company consolidating the Bank as its subsidiary

Consolidating unit	Company name	Registered office	Public	Available for inspection
Biggest	KBC Group N.V.	B-1080 Brussels, Havenlaan 2.	Yes	At its registered office.
Smallest	KBC Bank N.V.	B-1080 Brussels, Havenlaan 2.	Yes	At its registered office.

IV/8. The Bank's equity participations

a, Participations in subsidiaries

No.	Company name	Registered office	Stake (%)	Equity (HUF m)* 31.12.2011.	Subscribed capital (HUF m) * 31.12.2011.	Reserves (HUF m) * 31.12.2011.	Retained earnings for the last financial year (HUF m)* 31.12.2011.
1	K&H Befektetési Alapkezelő Zrt.	1095 Budapest, Lechner Ödön fasor 9.	100	3 016	850	151	2 016
2	K&H Eszközfinanszírozó Zrt.	1095 Budapest, Lechner Ödön fasor 9.	100	102	51	250	-199
3	K&H Autófinanszírozó Zrt.	1095 Budapest, Lechner Ödön fasor 9.	100	181	51	1 421	-1 291
4	K&H Autópark Kft.	1095 Budapest, Lechner Ödön fasor 9.	100	27	10	-45	61
5	K&H Alkusz Kft.	1095 Budapest, Lechner Ödön fasor 9.	100	44	5	2	37
6	K&H Lízingház Zrt. "v.a."	1095 Budapest, Lechner Ödön fasor 9.	100	17	20	-89	86
7	K&H Lízing Zrt.	1095 Budapest, Lechner Ödön fasor 9.	100	137	50	92	-5
8	K&H Csoportszolgáltató Kft.	1095 Budapest, Lechner Ödön fasor 9.	100	496	60	193	244
9	K&H Equities Zrt.	1095 Budapest, Lechner Ödön fasor 9.	100	2 383	38	1 927	417
10	K&H Eszközlízing Kft.	1095 Budapest, Lechner Ödön fasor 9.	100	6	5	60	-59
11	Risk Kft. f.a.	1087 Budapest, Könyves Kálmán krt. 76.	100	N/A	444	N/A	N/A
12	K&H Ingatlanlízing Zrt.	1095 Budapest, Lechner Ödön fasor 9.	100	37	50	65	-78
13	K&H Faktor Pénzügyi Szolgáltató Zrt.	1095 Budapest, Lechner Ödön fasor 9.	100	199	51	194	-46

* Corresponding to the annual report for previous year

No.	Company name	Registered office	Stake (%)	Equity (HUF m)* 31.12.2012.	Subscribed capital (HUF m) 31.12.2012.	Reserves (HUF m) 31.12.2012.	Retained earnings for the last financial year (HUF m)* 31.12.2012.
1	K&H Befektetési Alapkezelő Zrt.	1095 Budapest, Lechner Ödön fasor 9.	100	2 647	850	151	1 647
2	K&H Autópark Kft.	1095 Budapest, Lechner Ödön fasor 9.	100	-169	10	2	-181
3	K&H Alkusz Kft.	1095 Budapest, Lechner Ödön fasor 9.	100	59	5	39	15
4	K&H Lízingház Zrt. "v.a."	1095 Budapest, Lechner Ödön fasor 9.	100	16	20	-89	85
5	K&H Lízing Zrt.	1095 Budapest, Lechner Ödön fasor 9.	100	130	50	83	-3
6	K&H Csoportszolgáltató Kft.	1095 Budapest, Lechner Ödön fasor 9.	100	529	60	440	30
7	K&H Equities Zrt.	1095 Budapest, Lechner Ödön fasor 9.	100	1 944	38	1 927	-21
8	K&H Eszközlízing Kft.	1095 Budapest, Lechner Ödön fasor 9.	100	112	5	26	81
9	Risk Kft. f.a.	1087 Budapest, Könyves Kálmán krt. 76.	100	N/A	444	N/A	N/A
10	K&H Ingatlanlízing Zrt.	1095 Budapest, Lechner Ödön fasor 9.	100	61	50	-49	60
11	K&H Faktor Pénzügyi Szolgáltató Zrt.	1095 Budapest, Lechner Ödön fasor 9.	100	250	51	148	52

* Unaudited

Participations of the Bank held in K&H Eszközfinanszírozó Zrt. and K&H Autófinanszírozó Zrt. was terminated by merge on 30th of September 2012.

b, Participations in jointly managed undertakings

The Bank holds no ownership interest in any jointly managed undertaking either in this year nor in the previous year.

c, Participations in affiliated undertakings

No.	Company name	Registered office	Stake (%)*	Equity (HUF m)* 31.12.2011.	Subscribed capital (HUF m) * 31.12.2011.	Reserves (HUF m) * 31.12.2011.	Retained earnings for the last financial year (HUF m)* 31.12.2011.
1	HAGE Zrt.	4181 Nádudvar, Kossuth u. 2.	25,00	7 418	2 689	4 539	190
2	GIRO Elszámolásforgalmi Zrt.	1054 Budapest, Vadász u. 31.	20,99	7 373	2 496	3 615	1 262
3	Garantiqa Hitelgarancia Zrt.	1063 Budapest, Szép u. 2.	13,30	14 702	4 812	13 082	-3 191

* Corresponding to the annual report for previous year

No.	Company name	Registered office	Stake (%)	Equity (HUF m)* 31.12.2012.	Subscribed capital (HUF m) 31.12.2012.	Reserves (HUF m) 31.12.2012.	Retained earnings for the last financial year (HUF m)* 31.12.2012.
1	HAGE Zrt.	4181 Nádudvar, Kossuth u. 2.	25,00	6 453	2 689	4 742	-978
2	GIRO Elszámolásforgalmi Zrt.	1054 Budapest, Vadász u. 31.	20,99	7 482	2 496	3 626	1 360
3	Garantiqa Hitelgarancia Zrt.	1063 Budapest, Szép u. 2.	13,30	12 759	4 812	9 605	-1 658

* Unaudited

d, Participations in other associated undertakings

No.	Company name	Registered office	Stake (%)*	Equity (HUF m) * 31.12.2011.	Subscribed capital (HUF m) * 31.12.2011.	Reserves (HUF m) * 31.12.2011.	Retained earnings for the last financial year (HUF m) * 31.12.2011.
1	Árpád Üzletház Egyesülés	1045 Budapest, Árpád út 112.	7,52	N/A	3	N/A	N/A
2	Swift SC	Belgium, B-1310 La Hulpe, Avenue Adele 1.	0,00**	N/A	N/A	N/A	N/A
3	VISA Europe Limited	London, W2 6TT, Sheldon square 1	0,00**	N/A	N/A	N/A	N/A
4	VISA Inc.	USA	0,00**	N/A	N/A	N/A	N/A

* Corresponding to the annual report for previous year
** Rounded value

No.	Company name	Registered office	Stake (%)	Equity (HUF m) 31.12.2012.	Subscribed capital (HUF m) 31.12.2012.	Reserves (HUF m) 31.12.2012.	Retained earnings for the last financial year (HUF m) 31.12.2012.
1	Árpád Üzletház Egyesülés	1045 Budapest, Árpád út 112.	7,52	N/A	3	N/A	N/A
2	Swift SC	Belgium, B-1310 La Hulpe, Avenue Adele 1.	0,02	N/A	N/A	N/A	N/A
3	VISA Europe Limited	London, W2 6TT, Sheldon square 1	0,095	N/A	N/A	N/A	N/A
4	VISA Inc.	USA	0,004	N/A	N/A	N/A	N/A

IV/9. Business associations in which the Bank has an ownership interest

Company name	Registered office	Subscribed capital (HUF m)	Voting rights
Controlling interest:			
-	-	-	-
Qualified controlling interest:			
K&H Befektetési Alapkezelő Zrt.	1095 Budapest, Lechner Ödön fasor 9.	850	100,00%
Risk Kft. f.a.	1087 Budapest, Könyves Kálmán krt. 76.	444	100,00%
K&H Equities Zrt.	1095 Budapest, Lechner Ödön fasor 9.	38	100,00%
K&H Csoportszolgáltató Kft.	1095 Budapest, Lechner Ödön fasor 9.	60	100,00%
K&H Ingatlanlízing Zrt.	1095 Budapest, Lechner Ödön fasor 9.	50	100,00%
K&H Lízing Zrt.	1095 Budapest, Lechner Ödön fasor 9.	50	100,00%
K&H Eszközlízing Kft.	1095 Budapest, Lechner Ödön fasor 9.	5	100,00%
K&H Lízingház Zrt. "v.a."	1095 Budapest, Lechner Ödön fasor 9.	20	100,00%
K&H Autópark Kft.	1095 Budapest, Lechner Ödön fasor 9.	10	100,00%
K&H Alkusz Kft.	1095 Budapest, Lechner Ödön fasor 9.	5	100,00%
K&H Faktor Pénzügyi Szolgáltató Zrt.	1095 Budapest, Lechner Ödön fasor 9.	51	100,00%

IV/10. Other events with a significant impact on the company's financial position

a., Impairment recognized on the investment in K&H Equities Zrt.

The Bank recognizes impairment on the investment in its subsidiary, K&H Equities Zrt., due to the loss of capital resulting from the fraudulent practices that had occurred before 2003.

As at 31.12.2012. the impairment recognized by the Bank on its investment totaled HUF 2 827 million, after an increase of HUF 437 million in 2012.

The claims awarded in court proceedings are being settled continuously by K&H Equities Zrt. The timetable and outcome of further court proceedings is uncertain. Taking into account the findings of a comprehensive audit and well-founded legal opinions, after careful consideration the Management believes that the amount of impairment recognized reflects the best possible estimate and is at present sufficient to cover the possible exposure.

In 2003 the Bank agreed to guarantee that the equity of K&H Equities Zrt. would comply with applicable regulations. At the same time the Bank's owner agreed to guarantee the Bank's equity in compliance with applicable regulations.
In 2006 the Bank entered into a compensation agreement with ABN AMRO Bank N.V. – its former co-owner – whereby ABN AMRO will pay compensation, to an extent approximating its former stake (40%), to reimburse the Bank for claims awarded in court proceedings as a result of the fraudulent practices that had occurred at K&H Equities Zrt. in 2003 and the years before.

An insurance agreement was signed in 2008, whereby the insurer will pay partial compensation for payments by K&H Equities Zrt. to clients.

The amount of loss of capital referred to above does not include legal and other costs to be incurred in the future.

b., Debtor relief programs

In the course of 2011 and 2012 the debtor relief programs were initiated by the government in the following steps:

Debt repayment possibility at preferential foreign exchange rates for foreign currency mortgage debtors:

The foreign exchange repayment scheme at preferential rates for foreign exchange mortgage debtors was introduced by the government in the third quarter of 2011 providing a possibility for a full repayment of foreign exchange mortgage loans at a fixed (preferential) exchange rate for qualifying customers in period from 29 September 2011 to 28 of February 2012.

As at 31 December 2011 the Group recognised a HUF 48 886 million impairment loss for realised (until 31 December 2011) and for expected (realized between 31 December 2011 and 29 February 2012) losses in relation to this legislation. Out of the total HUF 48 886 million losses HUF 22,135 million impairment loss was provided as a portfolio based impairment at 31 December 2011 for the expected losses realized by the Group between 31 December 2011 and 29 February 2012.

The Group became entitled to claim 30% of the losses suffered in connection with the above mortgage repayment program at preferential rate for foreign exchange mortgage debtors. The total amount of the claim recognised is HUF 15 340 million in 2011. This amount was recoverable as a reduction in 2011 bank tax in accordance with legislation passed in December 2011.

The total pre-tax effect of the repayment scheme amounted to HUF -33 546 million in 2011, including the above mentioned 2011 bank tax reclaim.

Measures to assist performing retail foreign exchange mortgage debtors

A special (‘buffer’) account was implemented by the government to provide temporary foreign exchange protection for retail foreign exchange mortgage debtors performing liabilities to financial institutes.

According to the legislation relating to “buffer” account the interest part of the difference between the current spot rate and the preferential fixed foreign exchange rate for the principal part of the monthly instalment is waived, it is borne by the Hungarian state. The commitment for contribution payable by credit institutions is borne by the Bank by 50% of the above difference on the principal part of the loan repayments.

The difference between the actual spot rate and the preferential fixed rate for the principal part of the monthly instalment is recorded in a special “buffer” account denominated in HUF and bear three months BUBOR interest rate until 2014.

The total amount of commitment for contribution payable by credit institutions related to the difference on the principal part of the loan repayments was HUF 250 million in 2012.

Measures to assist defaulted retail foreign exchange mortgage debtors

Retail foreign exchange mortgage debtors whose loans were overdue by more than 90 days on 30 September 2011 can request to have their foreign exchange mortgage loans converted into HUF mortgage loans in case of existing certain conditions. For all loans converted, the bank is required to waive 25% of the converted total obligations at the date of conversion. 30% of the obligation waived by the Bank has been deducted from the bank tax due for 2012.

The amount of obligations waived by the Bank in the framework of the debtor relief program is HUF 2 967 million in 2012, which resulted in deduction of bank tax in amount of HUF 890 million.
The National Asset Management Company (NAMC) shall purchase residential properties of eligible mortgages debtors, the so called social cases. The NAMC is expected to purchase 25 000 properties by the end of 2014.

The measure had no substantial impact on the consolidated income statement as of year end 2012.

c., Impact of K&H Eszközfinanszírozó Zrt.’s and K&H Autófinanszírozó Zrt.’s merge into K&H Bank Zrt.

K&H Eszközfinanszírozó Zrt.’s and K&H Autófinanszírozó Zrt.’s merge had no material impact on the comparability of the bank’s annual reports.

d., Miscellaneous

The main part of the provision of HUF 2 954 million has been created on contingent liabilities relating to commercial litigations as a consequence of the sale of investment products to clients in the past.
In 2009 commercial compensation was offered to clients and in the majority of the cases a settlement has been reached for which the cost was recorded. The Bank has signed further contract with costumers in 2010 and 2011.
Management believes that the provision raised for the still pending cases adequate to cover any remaining potential losses.

IV/11. Average number of employees and wage costs by employee category and other personnel expenses

Employees by category	Average statistical number of employees		Salaries and wages (HUF m)	
	2011	2012	2011	2012
Full-time	3 120	3 223	18 431	20 366
Part-time	63	70	241	243
Retired	8	7	65	34
Not on payroll	0*	0*	1	1
Total **Profit & Loss Account line 59**	**3 191**	**3 300**	**18 738**	**20 644**

* rounded figure

The amounts of other personnel expenses were in 2011 HUF 2 741 million, in 2012 HUF 2 548 million.

IV/12. Remuneration paid to members of the Board of Directors, Executive Management and the Supervisory Board for the business year

HUF millions

Description	Number of persons receiving remuneration		Remuneration	
	31.12.2011.	31.12.2012.	31.12.2011.	31.12.2012.
Board of Directors	3	3	225	239
Executive Management	36	38	1 410	1 370
Supervisory Board	1	1	10	6
Total:	**40**	**42**	**1 645**	**1 615**

IV/13. Loans granted to members of the Board of Directors, Executive Management and the Supervisory Board

31 December 2012

Members of the Board of Directors, the Executive Management and the Supervisory Board have a total debt of HUF 235 million to the Bank in loans and interest/charges.

IV/14. Adjustments to the Bank's taxable income
31 December 2012

HUF millions

Items decreasing taxable income	Amount	Items increasing taxable income	Amount
Income from the use of provisions	1 596	Expense arising from provisioning	534
Depreciation according to the Corporation Tax Act	6 628	Depreciation according to the Accounting Act	7 001
Book value of tangible assets removed from the books	924	Book value of tangible assets removed from the books	593
Dividends received	2 765	Fines	1
Reversal of impairment	1 984	Depreciations	252
Income and expenses related to previous years	300	Income and expenses related to previous years	101
Accrued loss	11 536	Taxes paid abroad	78
Credit institutions' special tax	12 858	Expenses not incurred in the interest of the company	3 657
Total:	**38 591**	**Total:**	**12 217**

Extraordinary expense and extraordinary income had no material impact on the adjustments to the Bank's taxable income.

IV/15. Cash Flow Statement (presenting the sources and use of the Bank's funds)

HUF millions

No.	Description	Previous year	Reporting year
A.			
01.	+ Interest income	180 082	163 199
02.	+ Income from other financial services (excluding reversal of impairment on securities)	47 960	49 218
03.	+ Other income (excluding use of provisions, reversal of surplus provisions, reversal of impairment on inventories and reversal of extraordinary depreciation)	822	2 499
04.	+ Income from investment services (excluding reversal of impairment on securities)	64 194	58 095
05.	+ Income from non-financial and investment services	2 500	6 679
06.	+ Dividend income	2 300	2 765
07.	+ Extraordinary income	4 631	59
08.	- Interest expense	92 799	94 416
09.	- Expense on other financial services (excluding impairment on securities)	15 489	14 764
10.	- Other expense (excluding provisioning, impairment on inventories and extraordinary depreciation)	41 422	47 909
11.	- Expense on investment services (excluding impairment on securities)	49 618	65 903
12.	- Expense on non-financial and investment services	580	4 279
13.	- General and administrative expense	55 153	56 348
14.	- Extraordinary expense (excluding corporation tax liability for the year)	5 459	492
15.	- Corporation tax liability for the year	-9	14 612
16.	- Dividend paid	3 995	23 797
17.	**CASH FLOW FROM OPERATIONS (lines 01-16)**	**37 983**	**-40 006**
18.	Change in liabilities (+ if increase, - if decrease)	-382 099	-434 851
19.	Change in receivables (- if increase, + if decrease)	85 003	289 135
20.	Change in inventories (- if increase, + if decrease)	-164	-600
21.	Change in securities stated under current assets (- if increase, + if decrease)	276 988	-1 192
22.	Change in securities stated under fixed assets (- if increase, + if decrease)	1 278	104 181
23.	Change in capital expenditure (including advances) (- if increase, + if decrease)	-2 481	2 148
24.	Change in intangible assets (- if increase, + if decrease)	-3 599	-5 175
25.	Change in tangible assets (excluding capital expenditure and advances for capital investments) (- if increase, + if decrease)	-27 455	-4 358
26.	Change in prepayments and accrued income (- if increase, + if decrease)	-7 921	-359
27.	Change in accruals and deferred income (+ if increase, - if decrease)	1 227	10 088
28.	Share offering at sale price	67 269	0
29.	Cash and equivalents received definitively under applicable law	0	0
30.	Cash and equivalents transferred definitively under applicable law	-19	-48
31.	Par value of Treasury stock and equity bonds retired	0	0
32.	**NET CASH FLOW (lines 17-34)**	**46 010**	**-82 517**
33.	of which: - change in cash (HUF and foreign currency cash and checks)	901	5 111
34.	- change in account balances (short-term, HUF and foreign currency technical and deposit accounts maintained with the NBH, and HUF transaction accounts maintained with other credit institutions under separate laws)	45 109	-87 628

V. EVALUATION OF THE BANK'S NET WORTH, FINANCIAL POSITION AND INCOME

1. Balance sheet and profit & loss account

1.1. Balance sheet

billion HUF	31.12. 2011.	31.12. 2012.	Change
Balance sheet total	2 896	2 470	-14.70%
Receivables from customers	1 458	1 206	-17.31%

K&H Bank's total assets amounted to 2 470 bln on 31 Dec 2012. Receivables from customers and liabilities to customers both decreased compared to the previous year.
Similarly to the trends experienced in the banking sector, loan demand remained subdued in retail, SME and corporate sectors as well in 2012. Within *receivables from customers* both retail and corporate loan portfolio decreased compared to previous year (by 20% and 18%, respectively). In case of retail loans the drop in volume is mainly due to the final repayment scheme for retail FX mortgage loans and impact of FX rate changes. The merge with Eszközfinanszírozó Zrt. and Autófinanszírozó Zrt. on 30 September 2012 had no significant impact on the credit portfolio (the parent financing granted to these the leasing companies was replaced by the customer credits provided by the former leasing companies).

billion HUF	31.12. 2011.	31.12. 2012.	Change
Liabilities to customers	1 728	1 689	-2.26%
Equity	181	183	+1.05%

The volume of *liabilities to customers* decreased by 39 billion (2.3%) during the year. Despite the adverse external environment (decreasing savings in connection with the FX mortgage repayment, intensive competition in deposits) deposit volume and the Bank's market share in retail segments remained practically unchanged compared to previous year-end primarily driven by the successful deposit campaigns and savings strategies. The decrease in corporate deposits is primarily due to large individual items.

Market share	2011	2012 *
Total assets	10.0%	9.4%
Corporate loans	8.2%	7.9%
Retail loans	9.1%	8.7%
Corporate deposits	11.1%	11.1%
Retail deposits+mutual funds	10.2%	10.2%

** Preliminary figures*
Source: MNB, K&H

The HUF 1.9 bln increase in *shareholders' equity* is coming from the 0.7 bln decrease in capital reserves and the 2.6 bln increase in general reserves. Pursuant to a shareholder's decision, the bank will pay 23.8 billion dividends after its profit of 2012.

	31.12. 2011.	31.12. 2012.	Difference
Guarantee capital (billion HUF)	199,4	188,2	-5.64%
Capital adequacy ratio	11,36%	12,91%	+1.55%

The improvement in **capital adequacy ratio** is primarily driven by the lower capital requirement on the back of decreasing loan portfolio.

1.2. Profit

In 2012 the bank reached 26.4 billion in profit after taxation (2011: 4.4 billion)[1]. The merge with Eszközfinanszírozó Zrt. and Autófinanszírozó Zrt. on 30 September 2012 had no material impact on the bank's result (interest income from financing the activity of these leasing companies was replaced by interest earned on the portfolio of these former leasing companies in the standalone K&H Bank's result).

billion HUF	2011	2012	Change
Profit from ordinary operations	5.3	41.5	+689.01%
Profit after taxation	4.4	26.4	+495.65%

- In comparison with previous year *net interest and interest-type income* decreased by 21% (2012: 68.8 billion, 2011: 87.3 billion), primarily due to reduced loan related income (impact of FX mortgage repayment) and change in the structure of EUR financing granted by KBC[2],
- The decrease in *net income from fees and commission* (2012: 24,8 billion; 2011: 26.7 billion) is related primarily to the *investment services* (less capital protected fund units were sold compared to last year).
- *Profit/loss on financial transactions* remained practically on the level of previous year (2012: 28.4 billion, 2011: 27.5 billion) as result of the accounting settlement of the following technical items: 2012 includes increased income due to change in the structure of EUR financing granted by KBC (see the related decrease in 'interest income'), while 2011 was boosted by ALM activity related income (mark-to-market of ALM derivatives).
- There was 2.4 billion growth in *operating expenses* (2012: 63.5 billion, 2011: 61.1 billion), while depreciation increased by 1.1 billion.

2. 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.

2.1 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.

[1] Profit in 2011 included 48.9 billion loss before taxation on the final repayment of retail foreign currency mortgage loans (of this, 15.3 billion was deducted from the bank tax payable on group level).

[2] In the *new financing structure* KBC has ensured the majority of EUR financing need of K&H Bank via HUF/EUR swap instead of the previous on-balance sheet sources starting from August 2011. The structural changes in the balance sheet (lower interbank financing was accompanied by a similar decrease in the 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 securities portfolio and EUR interbank financing costs, which was partially compensated by the increased interest-type income from FX swaps among "profit/loss on financial operations").

- 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.

2.2 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 whole lending process. The Bank continuously 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, late 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 KBC 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 increase in overdue retail credit portfolio was similar to that of previous year. The economic conditions, especially the expected evolution of unemployment and FX rates can have a considerable influence on the future quality of the credit portfolio.
  The bank also helps its retail clients to retain their solvency by credit restructuring. Due to the government and own debtor relief programs portfolio quality indicators for the first time since the beginning of the financial crisis have shown improvement from mid 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 continuously monitors banking and trading book risks and controls them by setting up 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).
- **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 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** (that is, 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 covers the various techniques for risk recognition (a system of self-assessments – both for junior and senior management, analysis of losses incurred, analysis of risks identified on KBC group level) as well as the method for risk mitigation or acceptance and the uniform decision-making authorities alike. The Hungarian Financial Supervisory Authority granted the Bank a permission to apply the standardized method for the capital requirement on operational risk in December 2007 (from 1 January 2008).

3. The Bank's operating conditions

The head office organizational units of the Bank finished the move to the new HO building by 2012 Q1, while the former buildings became emptied and were given back to the Lessors. The new HO of K&H is the first newly constructed building to win the LEED Gold Certificate in Hungary.
The number of bank employees decreased by 81 during the year and amounted to 3 064 at the end of 2012.

Capital investments in branches:

In 2012 the set-up, or full or partial reconstruction of 15 branches was started or completed as follows:

- 4 new branches were finished and opened, or construction is still in progress;
- 2 branches are being moved to new locations;
- 9 branches were fully or partially reconstructed;
- 11 branches were closed during the year.

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Budapest, 8th April 2013

Hendrik Scheerlinck Chief Executive Officer	Attila Gombás Chief Financial Officer

K&H Bank Zrt.

Management Report

31 December 2012

Below we summarise the business operations, the operating conditions and the financial results of K&H Bank in 2012.

1. Economic environment

The outlook for global economy further deteriorated throughout the year, although the efforts related to the European debt crisis management and the quantitative easing by the US Fed both contributed to the market's stabilisation in the 2nd half of the year.
The Hungarian economy contracted by 1.7% in 2012. As a result of the worsening external environment, the contribution of the export sector to the economic growth is more limited than in the previous periods. Domestic demand continued to be subdued as well.
Both the internal and external balances of Hungarian economy improved further in 2012, sustainability remains a question though.

	2011 actual	2012 preliminary
GDP growth	+1.7%	-1.7%
CPI (avg)	3.9%	5.7%
Investments	-4.5%	-5.2%
Unemployment rate	10.7%	10.7%
Budget deficit (ESA)	+4.2%	-2.7%
Balance of payments (in a % of GDP)	+0.9%	+2.0%

Source: MNB, KSH, K&H

Positive market sentiment resulted in a significant decrease in Hungarian risk premia over the year.
In the first half of 2012, the national bank's base rate remained unchanged, then the Monetary Council reduced the base rate by 25 bp at five consecutive rate setting meetings and as a result the base rate decreased from 7.0% at the beginning of the year to 5.75% by the year end.

2. Key balance sheet and performance data

2.1. Balance sheet

billion HUF	**2011. Dec 31.**	**2012. Dec 31.**	**Change**
Balance sheet total	2 896	2 470	-14.70%
Receivables from customers	1 458	1 206	-17.31%

K&H Bank's total assets amounted to 2,470 bln on 31 Dec 2012. Receivables from customers and liabilities to customers both decreased compared to the previous year.
Similarly to the trends experienced in the banking sector, loan demand remained subdued in retail, SME and corporate sectors as well in 2012. Within *receivables from customers* both retail and corporate loan portfolio decreased compared to previous year (by 20% and 18%, respectively). In case of retail loans the drop in volume is mainly due to the final repayment scheme for retail FX mortgage loans and impact of FX rate changes. The merge with Eszközfinanszírozó Zrt. and Autófinanszírozó Zrt. on 30 September 2012 had no significant impact on the credit portfolio (the parent financing granted to these the leasing companies was replaced by the customer credits provided by the former leasing companies).

billion HUF	**2011. Dec 31.**	**2012. Dec 31.**	**Change**
Liabilities to customers	1 728	1 689	-2.26%
Equity	181	183	+1.05%

The volume of *liabilities to customers* decreased by 39 billion (2.3%) during the year. Despite the adverse external environment (decreasing savings in connection with the FX mortgage repayment, intensive competition in deposits) deposit volume and the Bank's market share in retail segments remained practically unchanged compared to previous year-end primarily driven by the successful deposit campaigns and savings strategies. The decrease in corporate deposits is primarily due to large individual items.

Market share	2011	2012 *
Total assets	10.0%	9.4%
Corporate loans	8.2%	7.9%
Retail loans	9.1%	8.7%
Corporate deposits	11.1%	11.1%
Retail deposits+mutual funds	10.2%	10.2%

** Preliminary figures*
Source: MNB, K&H

The HUF 1.9 bln increase in *shareholders' equity* is coming from the 0.7 bln decrease in capital reserves and the 2.6 bln increase in general reserves. Pursuant to a shareholder's decision, the bank will pay 23.8 billion dividends after its profit of 2012.

	2011. Dec 31.	**2012. Dec 31.**	**Difference**
Guarantee capital (billion HUF)	199.4	188.2	-5.64%
Capital adequacy ratio	11.36%	12.91%	+1.55%

The improvement in **capital adequacy ratio** is primarily driven by the lower capital requirement on the back of decreasing loan portfolio.

2.2. Profit

In 2012 the bank reached 26.4 billion in profit after taxation (2011: 4.4 billion)[1]. The merge with Eszközfinanszírozó Zrt. and Autófinanszírozó Zrt. on 30 September 2012 had no material impact on the bank's result (interest income from financing the activity of these leasing companies was replaced by interest earned on the portfolio of these former leasing companies in the standalone K&H Bank's result).

billion HUF	**2011**	**2012**	**Change**
Profit from ordinary operations	5.3	41.5	+689.01%
Profit after taxation	4.4	26.4	+495.65%

- In comparison with previous year *net interest and interest-type income* decreased by 21% (2012: 68.8 billion, 2011: 87.3 billion), primarily due to reduced loan related income (impact of FX mortgage repayment) and change in the structure of EUR financing granted by KBC[2],

[1] Profit in 2011 included 48.9 billion loss before taxation on the final repayment of retail foreign currency mortgage loans (of this, 15.3 billion was deducted from the bank tax payable on group level).

[2] In the *new financing structure* KBC has ensured the majority of EUR financing need of K&H Bank via HUF/EUR swap instead of the previous on-balance sheet sources starting from August 2011. The structural changes in the balance sheet (lower interbank financing was accompanied by a similar decrease in the 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 securities portfolio and EUR interbank financing costs, which was partially compensated by the increased interest-type income from FX swaps among "profit/loss on financial operations").

- The decrease in *net income from fees and commission* (2012: 24,8 billion; 2011: 26.7 billion) is related primarily to the *investment services* (less capital protected fund units were sold compared to last year).
- *Profit/loss on financial transactions* remained practically on the level of previous year (2012: 28.4 billion, 2011: 27.5 billion) as result of the accounting settlement of the following technical items: 2012 includes increased income due to change in the structure of EUR financing granted by KBC (see the related decrease in 'interest income'), while 2011 was boosted by ALM activity related income (mark-to-market of ALM derivatives).
- There was 2.4 billion growth in *operating expenses* (2012: 63.5 billion, 2011: 61.1 billion), while depreciation increased by 1.1 billion.

3. 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.

3.1 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.

3.2 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 whole lending process. The Bank continuously 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, late 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 KBC 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 increase in overdue retail credit portfolio was similar to that of previous year. The economic conditions, especially the expected evolution of unemployment and FX rates can have a considerable influence on the future quality of the credit portfolio.
  The bank also helps its retail clients to retain their solvency by credit restructuring. Due to the government and own debtor relief programs portfolio quality indicators for the first time since the beginning of the financial crisis have shown improvement from mid 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 continuously monitors banking and trading book risks and controls them by setting up 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).
- **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 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** (that is, 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 covers the various techniques for risk recognition (a system of self-assessments – both for junior and senior management, analysis of losses incurred, analysis of risks identified on KBC group level) as well as the method for risk mitigation or acceptance and the uniform decision-making authorities alike. The Hungarian Financial Supervisory Authority granted the Bank a permission to apply the standardized

method for the capital requirement on operational risk in December 2007 (from 1 January 2008).

4. Operating Conditions of the Bank

The head office organizational units of the Bank finished the move to the new HO building by 2012 Q1, while the former buildings became emptied and were given back to the Lessors. The new HO of K&H is the first newly constructed building to win the LEED Gold Certificate in Hungary.
The number of bank employees decreased by 81 during the year and amounted to 3,064 at the end of 2012.

Capital investments in branches:

In 2012 the set-up, or full or partial reconstruction of 15 branches was started or completed as follows:

- 4 new branches were finished and opened, or construction is still in progress;
- 2 branches are being moved to new locations;
- 9 branches were fully or partially reconstructed;
- 11 branches were closed during the year.

In connection with the construction of the branches, 4 ATMs were installed at new locations (in the branches) and nearly 10 ATMs were mounted at other external locations (especially at stores).

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Dated: Budapest, 29th April 2013

Hendrik Scheerlinck	Attila Gombás
Chief Executive Officer	Chief Financial Officer