ASSURANCE & ADVISORY
BUSINESS SERVICES

Kereskedelmi és Hitelbank Nyrt.
Consolidated Annual Financial Statements prepared in accordance with International Financial Reporting Standards for the year ended 31 December 2006 with the Report of Independent Auditors

ERNST & YOUNG
Quality In Everything We Do

Table of Contents

ERNST & YOUNG

Ernst & Young Kft.
H-1132 Budapest, Váci út 20.
1399 Budapest 62 Pf. 632
Hungary

Tel: +36 1 451-8100
Fax: +36 1 451-8199
E-mail: mailbox.ey@hu.ey.com
www.ey.com
Cg. 01-09-267553

INDEPENDENT AUDITOR'S REPORT

To the shareholders of Kereskedelmi és Hitelbank Nyrt.

Report on the consolidated Financial Statements

We have audited the accompanying consolidated financial statements of Kereskedelmi és Hitelbank Nyrt., ("the Group") which comprise the consolidated balance sheet as at 31 December 2006, and the consolidated income statement, consolidated statement of changes in equity and consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the consolidated Financial Statements

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

Auditor's Responsibility

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

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 and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

ERNST & YOUNG

■ Ernst & Young Kft.
H-1132 Budapest, Váci út 20.
1399 Budapest 62 Pf. 632
Hungary

■ Tel: +36 1 451-8100
Fax: +36 1 451-8199
E-mail: mailbox.ey@hu.ey.com
www.ey.com
Cg. 01-09-267553

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the financial position of Kereskedelmi és Hitelbank Nyrt. as of 31 December 2006, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

Without qualifying our opinion we draw attention to note 23 of these consolidated financial statements. In 2003 a significant fraud was discovered at K&H Equities, a member of the Group. As at 31 December 2006 the Group has a provision of HUF 20,893 million for its potential liability to clients as a result of the fraud, and an asset of HUF 8,357 million for expected reimbursements. The ultimate outcome of this matter cannot presently be determined and due to its fundamental uncertainty the actual loss incurred by the Group might be significantly different from the provision and the asset created.

Ernst & Young

Ernst & Young Kft.
Budapest, Hungary
19 March 2007

KERESKEDELMI ÉS HITELBANK NYRT.

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

FOR THE YEAR ENDED 31 DECEMBER 2006

WITH THE REPORT OF INDEPENDENT AUDITORS

CONTENTS OF THE CONSOLIDATED FINANCIAL STATEMENTS

KERESKEDELMI ÉS HITELBANK NYRT.

CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2006

CONSOLIDATED BALANCE SHEET AT 31 DECEMBER 2006

	Notes	2006 MHUF	Reclassified 2005 MHUF
ASSETS			
Cash and balances with the National Bank of Hungary	3	146 623	128 397
Trading securities	5	9 973	6 078
Financial assets designated at fair value through profit or loss	6	8 951	10 402
Balances due from other banks		162 616	142 663
Derivative financial instruments	7	46 606	20 328
Loans to customers	4	1 444 817	1 311 472
Investment securities	5	251 021	211 017
Securities pledged under repurchase agreements	5	17 278	39 837
Investments in associates		2 068	3 434
Bank premises and equipment	8	31 430	35 668
Intangible assets	9	1 003	986
Deferred tax asset	24	341	-
Other assets	10	30 300	31 987
Total assets		2 153 027	1 942 269
LIABILITIES AND SHAREHOLDERS' EQUITY			
Trading liabilities	5	8 076	7 573
Financial liabilities designated at fair value through profit or loss	6	40 300	
Balances due to banks	12	356 431	287 935
Derivative financial instruments	7	31 662	16 119
Deposits and certificates of deposits	11	1 284 393	1 219 814
Refinancing credits	13	162 174	165 549
Subordinated debt	15	19 790	14 823
Deferred tax liability	24	1 203	433
Provision	23	26 429	14 271
Other liabilities	14	53 677	60 230
Total liabilities		1 984 135	1 786 747
Share capital	16	52 507	52 507
Share premium		48 775	48 775
Statutory risk reserve	18	6 118	4 916
Available for sale reserve		449	654
Cash flow hedge reserve		1 189	849
Accumulated profit		59 854	47 821
Total shareholders' equity		168 892	155 522
Total liabilities and shareholders' equity		2 153 027	1 942 269

Approved by the Management on 19 March 2007.

Marko Voljc
Chief Executive Officer

Attila Gombás
Chief Financial Officer

The accompanying notes on pages 8 to 56 are an integral part of these financial statements.

KERESKEDELMI ÉS HITELBANK NYRT.

CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2006

CONSOLIDATED INCOME STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2006

	Notes	2006 MHUF	2005 MHUF
Interest income		127 868	120 193
Interest expense		(72 348)	(64 061)
Net interest income	20	55 520	56 132
Fee and commission income		41 335	32 889
Fee and commission expense		(11 412)	(9 739)
Net fee and commission income	21	29 923	23 150
Gains less losses on trading securities		652	854
Gains less losses from disposal of investments		927	40
Gains less losses on foreign exchange and interest rate instruments		28 625	23 623
Dividend income		165	32
Other operating income		1 497	1 640
Total operating income		117 309	105 471
Operating expenses	22	(70 427)	(67 458)
		46 882	38 013
Provision for possible loan and commitment losses	23	(29 310)	(15 110)
Share of the profit of associates		302	802
Gain on property, plant and equipment		268	11
Profit before income taxes		18 142	23 716
Income taxes	24	(4 907)	(5 968)
Net profit for the year		13 235	17 748
Earnings per share (HUF)	25	0.25	0.34

Approved by the Management on 19 March 2007.

Marko Voljc
Chief Executive Officer

Attila Gombás
Chief Financial Officer

The accompanying notes on pages 8 to 56 are an integral part of these financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY FOR THE YEAR ENDED 31 DECEMBER 2006

	Share capital MHUF	Share premium MHUF	Statutory risk reserve MHUF	Available for sale reserve MHUF	Cash flow hedge reserve MHUF	Accumu-lated profit MHUF	Total MHUF
Balance at 31 December 2004	*52 507*	*48 775*	*3 144*	*175*	*917*	*31 845*	*137 363*
Net gains on available-for-sale financial assets	-	-	-	479	-		479
Net loss on cash flow hedges	-	-	-	-	(68)	-	(68)
Total income and expenses for the year recognized directly in equity	-	-	-	479	(68)	-	411
Net profit for the year	-	-	-	-	-	17 748	17 748
Transfer from accumulated profit to statutory risk reserve	-	-	1 772	-	-	(1 772)	-
Balance at 31 December 2005	*52 507*	*48 775*	*4 916*	*654*	*849*	*47 821*	*155 522*
Net gains on available-for-sale financial assets	-	-	-	(205)	-	-	(205)
Net gains on cash flow hedges	-	-	-	-	340	-	340
Total income and expenses for the year recognized directly in equity	-	-	-	(205)	340	-	135
Net profit for the year	-	-	-	-	-	13 235	13 235
Transfer from accumulated profit to statutory risk reserve	-	-	1 202	-	-	(1 202)	-
Balance at 31 December 2006	*52 507*	*48 775*	*6 118*	*449*	*1 189*	*59 854*	*168 892*

The accompanying notes on pages 8 to 56 are an integral part of these financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2006

	Notes	2006	Reclassified 2005
		MHUF	MHUF
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before income taxes		18 142	23 716
Adjustments for:			
Depreciation, amortization and impairment	22	8 078	9 559
Impairment and provision losses on loans, commitments and legal cases		35 131	10 743
Provisions for other liabilities	23	(881)	69
Unrealised revaluations		(8 380)	(5 682)
Share of the profit of associates and gains less losses from disposal of investments		(1 229)	(842)
Gain on disposal of bank premises and equipment		(268)	(11)
(Increase)/decrease in operating assets:			
Trading securities and other financial assets designated at fair value through profit or loss		(4 819)	8 964
Balances due from NBH and other banks		(8 890)	(21 299)
Loans to customers		(155 424)	(219 622)
Other assets		2 172	(12 203)
Increase/(decrease) in operating liabilities:			
Trading liabilities and other financial liabilities designated at fair value through profit or loss		40 264	-
Balances due to other banks		68 496	(45 452)
Deposits and certificates of deposit		64 579	228 026
Refinancing credits		(3 375)	(6 720)
Other liabilities and minority interest		(6 368)	26 480
Taxes paid		(5 103)	(6 886)
Net cash from/(used in) operating activities		42 126	(11 160)
CASH FLOWS FROM INVESTING ACTIVITIES			
Increase in investment securities		(56 828)	(36 843)
Decrease in investment securities		41 679	29 982
Purchase of bank premises and equipment		(4 618)	(11 928)
Disposal of bank premises and equipment		1 029	2 374
Net cash used in investing activities		(18 738)	(16 415)
CASH FLOWS FROM FINANCING ACTIVITIES			
Increase in subordinated debt		4 967	272
Net cash provided by financing activities		4 967	272
Net increase/(decrease) in cash and cash equivalents		28 355	(27 303)
Cash and cash equivalents at beginning of year	3	202 368	229 671
Cash and cash equivalents at end of year	3	230 723	202 368

The cash flow does not disclose interest and dividends received and interest paid since these items are classified as operating activities in a financial institution. The accompanying notes on pages 8 to 56 are an integral part of these statements.

NOTES TO THE FINANCIAL STATEMENTS

NOTE 1 – GENERAL

Kereskedelmi és Hitelbank Bank NyRt. ("K&H Bank") is a limited liability company incorporated in the Republic of Hungary. K&H Bank and its subsidiaries ("the Group") provide a full range of banking services through a nation-wide network of 168 branches. K&H Bank's registered office is at Vigadó tér 1, Budapest.

The parent company of K&H Bank is KBC Bank N.V., the ultimate parent is KBC Group N.V.

NOTE 2 – ACCOUNTING POLICIES

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

2.1 Basis of presentation

The consolidated financial statements have been prepared on a historical cost basis, except for available-for-sale financial instruments, derivative financial instruments and financial assets and financial liabilities held at fair value through profit or loss, that have been measured at fair value. The carrying values of recognized assets and liabilities that are hedged items in fair value hedges, and otherwise carried at amortised cost, are adjusted to record changes in fair value attributable to the risk that are being hedged.

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

2.1.1 Statement of compliance

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") and all applicable IFRS's that have been adopted by the EU.

Effective 1 January 2005, the change in the Hungarian Accounting Act allows the Group to prepare its consolidated financial statements in accordance with IFRS that have been adopted by the EU. At this particular time, due to the endorsement process of the EU, and the activities of the Group, there is no difference in the policies applied by the Group between IFRS and IFRS that have been adopted by the EU.

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

2.1.2 Basis of consolidation

The consolidated financial statements comprise the financial statements of the Bank and all entities it controlled as at 31 December 2006. The Bank and the entities which it controls are referred to collectively as "the Group". Control is presumed to exist where the Bank holds, directly or indirectly, more than 50% of the registered capital or where the Bank can exercise more than 50% of the voting rights or where the Bank can appoint or dismiss a majority of the members of the Board of Directors. The effects of all material intercompany balances and transactions are eliminated.

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

NOTE 2 – ACCOUNTING POLICIES (continued)

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

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

2.2 Significant accounting judgements and estimates

In the process of applying the Group's accounting policies, management has used its judgements and made estimates in determining the amounts recognised in the consolidated financial statements. The most significant use of judgements and estimates are as follows:

Allowance for impairment of loans and receivables

The Group regularly reviews its loans and receivables to assess impairment. The Group applies its judgement on the basis of experience to estimate the amount of any impairment loss in cases where a borrower is in financial difficulties and where there is little available historical data relating to similar borrowers. Similarly, the Group estimates changes in future cash flows based on the observable data indicating that there has been an adverse change in the payment status of borrowers in a group, or national or local economic conditions that correlate with defaults on assets in the group. Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the group of loans and receivables.

Provision for losses due to fraud at K&H Equities

The amount of provision required to meet losses incurred as a result of the fraud at K&H Equities is another principal area of estimation uncertainty in these financial statements. Refer to note 23 for further details.

2.3 Changes in accounting policies

The International Accounting Standards Board (IASB) has issued new accounting Standards and has introduced numerous changes to the Standards that became effective in 2006.

The changes in accounting policies result from adoption of the following new or revised standards:

IAS 19 (amended 2004) Employee Benefits;
IAS 21 (amended 2005) The Effects of Changes in Foreign Exchange Rates;
IAS 39 (amended 2005) Financial Instruments: Recognition and Measurement;
IFRS 4 (amended 2005) Insurance Contracts;
IFRIC 4 Determining whether an Arrangement contains a Lease;
IFRIC 5 Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds;
IFRIC 6 Liabilities arising from Participating in a Specific Market—Waste Electrical and Electronic Equipment

Where transition provisions in IFRSs adopted give an entity a choice of whether to apply the new standard prospectively or retrospectively the Group has elected to apply the standard prospectively from the date of transition.

The principal effects of these changes are as follows:

IAS 19 Employee Benefits

Entities accounting for defined benefit plans have the choice to recognise actuarial gains and losses outside of the income statement (through the equity). New disclosures were also introduced, applicable to all entities with defined benefit plans. As the Group has no defined benefit plans, the amendment did not have an effect on the consolidated financial statement.

NOTE 2 – ACCOUNTING POLICIES (continued)

IAS 21 The Effects of Changes in Foreign Exchange Rates

As of 1 January 2006, the Group adopted the amendments to IAS 21 The Effects of Changes in Foreign Exchange Rates. As a result, all exchange differences arising from a monetary item that forms part of the Group's net investment in a foreign operation are recognised in a separate component of equity in the consolidated financial statements, regardless of the currency in which the monetary item is denominated. This change has had no significant impact as at 31 December 2006 or 31 December 2005.

IAS 39 Financial Instruments: Recognition and Measurement

Amendment for hedges of forecast intragroup transactions (issued April 2005) – amended IAS 39 to permit the foreign currency risk of a highly probable intragroup forecast transaction to qualify as the hedged item in a cash flow hedge, provided that the transaction is denominated in a currency other than the functional currency of the entity entering into that transaction and that the foreign currency risk will affect the consolidated income statement. As the Group currently has no such transactions the amendment did not have an effect on the consolidated financial statement.

Amendment for the fair value option (issued June 2005) – amended IAS 39 to restrict the use of the option to designate any financial asset or any financial liability to be measured at fair value through the income statement. As the financial assets and liabilities of the Group previously classified as financial instruments at fair value through profit or loss meet the criteria of the amended fair value option, the amendment did not have an effect on the consolidated financial statement.

IAS 39 Financial Instruments: Recognition and Measurement and IFRS 4 Insurance Contracts

Amendment for financial guarantee contracts (issued August 2005) amended the scope of IAS 39 to require financial guarantee contract that are not considered to be insurance contracts to be recognised initially at fair value and to be remeasured at the higher of the amount determined in accordance with IAS 37 Provisions, Contingent Liabilities and Contingent Assets and the amount initially recognised less, when appropriate, cumulative amortisation recognised in accordance with IAS 18 Revenue. This amendment did not have an effect on the consolidated financial statement.

IFRIC 4 Determining whether an Arrangement contains a Lease

The Group adopted IFRIC interpretation 4 as of 1 January 2006 which provides guidance in determining whether arrangements contain a lease to which lease accounting must be applied. This change in accounting policy has not had a significant impact on the Group as at 31 December 2006 or 31 December 2005.

IFRIC 5 Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds

The Group adopted IFRIC interpretation 5 as of 1 January 2006, which established the accounting treatment of funds established to help finance decommissioning for a companies assets. As the Group does not currently operate in a country where such funds exist, this interpretation has had no impact on the consolidated financial statement.

IFRIC 6 Liabilities arising from Participating in a Specific Market - Waste Electrical and Electronic Equipment

The Group adopted IFRIC interpretation 6 as of 1 January 2006, which established the recognition date for liabilities arising from the EU Directive relating to the disposal of Waste Electrical and Electronic Equipment. This interpretation did not have an effect on the consolidated financial statement.

NOTE 2 – ACCOUNTING POLICIES (continued)

2.4 Summary of significant accounting policies

2.4.1 Foreign currency translation

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

2.4.2 Financial instruments

Financial instruments are classified for measurement purposes as either financial instruments at fair value through profit or loss, financial assets and financial liabilities measured at amortized cost or available-for-sale financial instruments, as appropriate. When financial instruments are recognised initially, they are measured at fair value, plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs. The Group determines the classification of its financial instruments after initial recognition and, where allowed and appropriate, re-evaluates this designation at each financial year-end.

2.4.2.1 Trade and settlement date accounting

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

2.4.2.2 Financial instruments at fair value through profit or loss

Financial assets and financial liabilities classified in this category are designated by management on initial recognition when the following criteria are met:

- the designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the assets or liabilities or recognising gains or losses on them on a different basis; or
- the assets and liabilities are part of a group of financial assets, financial liabilities or both which are managed and their performance evaluated on a fair value basis, in accordance with a documented risk management or investment strategy; or
- the financial instrument contains an embedded derivative, unless the embedded derivative does not significantly modify the cash flows or it is clear, with little or no analysis, that it would not be separately recorded.

Financial instruments classified as held for trading instruments are also included in the category 'financial instruments at fair value through profit or loss'. Financial instruments are classified as held for trading instruments if they are acquired for the purpose of selling in the near term. Derivatives are also classified as held for trading unless they are designated and effective hedging instruments.

Instruments classified as financial instruments at fair value through profit and loss subsequently measured at fair value, whereby the difference between the fair value and the amortized cost is recorded in the consolidation income statement as a trading result. The interest component is recognized as interest income using the effective interest rate method.

2.4.2.3 Derivatives

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

NOTE 2 – ACCOUNTING POLICIES (continued)

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

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

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

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

Hedge accounting is discontinued when the hedging instrument expires or is sold, terminated or exercised, or no longer qualifies for hedge accounting. At that point in time, the cumulative gain or loss on a cash flow hedge recognised in equity remains in equity until the forecasted transaction occurs, when it is than transferred to the consolidated income statement for the period. Also at that time an item subject to a fair value hedge ceases to be revalued.

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

2.4.2.4 Financial assets and financial liabilities measured at amortized cost

2.4.2.4.1 Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are carried at amortised cost using the effective interest method. Gains and losses are recognised in the consolidated income statement when the loans and receivables are derecognised or impaired, as well as through the amortization process.

2.4.2.4.2 Balances due from other banks

Balances due from other banks are stated at amortized cost less any amounts written off and provision for impairment. The carrying values of such assets which are being effectively hedged for changes in fair value are adjusted to the extent of the changes in fair value being hedged. Resultant gains or losses are recognised in the consolidated income statement.

2.4.2.4.3 Balances due to banks

After initial measurement, balances due to banks are subsequently measured at amortised cost using the effective interest rate method. Amortised cost is calculated by taking into account any discount or premium on the issue and costs that are integral part of the effective interest rate.

NOTE 2 – ACCOUNTING POLICIES (continued)

2.4.2.4.4 Deposits

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

2.4.2.4.5 Held-to-maturity instruments

Non-derivative financial instruments with fixed or determinable payments and fixed maturity are classified as held-to-maturity when the Group has the positive intention and ability to hold to maturity. Instruments intended to be held for an undefined period are not included in this classification. Held-to-maturity instruments are subsequently measured at amortised cost. This cost is computed as the amount initially recognised minus principal repayments, plus or minus the cumulative amortization using the effective interest method of any difference between the initially recognised amount and the maturity amount. This calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums and discounts. For instruments carried at amortised cost, gains and losses are recognised in the consolidated income statement when the instruments are derecognised or impaired, as well as through the amortization process.

2.4.2.5 Available-for-sale financial instruments

Available-for-sale financial instruments are those non-derivative financial instruments that are designated as available-for-sale or are not classified as:

- financial instruments at fair value through profit or loss, or
- financial assets and financial liabilities measured at amortized cost, or
- held-to-maturity instruments.

After initial recognition available-for sale financial instruments are measured at fair value with gains or losses being recognised as a separate component of equity until the instrument is derecognised or until the instrument is determined to be impaired at which time the cumulative gain or loss previously reported in equity is included the consolidated income statement. However, interest calculated using the effective interest method is recognised in the consolidated income statement.

The fair value of instruments that are actively traded in organised financial markets is determined by reference to quoted market bid prices at the close of business on the balance sheet date. For instruments where there is no active market, fair value is determined using valuation techniques. Such techniques include using recent arm's length market transactions, reference to the current market value of another instrument, which is substantially the same and discounted cash flow analysis.

2.4.3 Repurchase and resale agreements

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

NOTE 2 – ACCOUNTING POLICIES (continued)

2.4.4 Allowances for impairment of financial assets

The Group assesses at each balance sheet date whether a financial asset or group of financial assets is impaired.

2.4.4.1 Financial assets measured at amortised cost

If there is objective evidence that an impairment loss on financial assets carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition). The carrying amount of the asset shall be reduced through use of an allowance account. The amount of the loss shall be recognised in the consolidated income statement.

The calculation of the present value of the estimated future cash flows of a collateralised financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not the foreclosure is probable.

The Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If it is determined that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, the asset is included in a group of financial assets with similar credit risk characteristics and that group of financial assets is collectively assessed for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed. Any subsequent reversal of an impairment loss is recognised in the consolidated income statement, to the extent that the carrying value of the asset does not exceed its amortised cost at the reversal date.

When a loan is uncollectible, it is written off against the related allowance for loan impairment. Such loans are written off after all necessary procedures have been completed and the amount of the loss has been determined. Subsequent recoveries of amounts previously written off decrease the amount of allowance for loan impairment in the consolidated income statement.

2.4.4.2 Available-for-sale financial assets

If an available-for-sale asset is impaired, an amount comprising the difference between its cost (net of any principal payment and amortization) and its current fair value, less any impairment loss previously recognised in the consolidated income statement, is transferred from equity to the consolidated income statement. Reversals in respect of equity instruments classified as available-for-sale are not recognised in the consolidated income statement. Reversals of impairment losses on debt instruments are reversed through the consolidated income statement if the increase in fair value of the instrument can be objectively related to an event occurring after the impairment loss was recognised in the consolidated income statement.

2.4.5 Offsetting

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

NOTE 2 – ACCOUNTING POLICIES (continued)

2.4.6 Derecognition of financial assets

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognised where:

- the rights to receive cash flows from the asset have expired; or
- the Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and
- either (a) the Group has transferred substantially all the risks and rewards of the asset, or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Group's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

2.4.7 Derecognition of financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in the consolidated income statement.

2.4.8 Leases

2.4.8.1 Where the Group is the lessee

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

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

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

2.4.8.2 Where the Group is the lessor

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

NOTE 2 – ACCOUNTING POLICIES (continued)

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

Assets subject to operating leases are included in bank premises and equipment in the balance sheet and lease payments received are presented as income in the consolidated income statement.

2.4.9 Revenue recognition

Interest income is recognised on a time proportionate basis, taking account of the principal outstanding and the rate applicable. Fees related to financial instruments are recognized as part of the effective interest of the instrument, other fees receivable or payable are recognised when earned. Dividend income is recognised when the right to receive payment is established.

2.4.10 Cash and cash equivalents

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

2.4.11 Bank premises and equipment

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

Buildings	2 - 3%
Leasehold improvements	6%
Furniture, fixtures and equipment	7 - 33%
Software	20%

Replacements and improvements, which prolong the useful life or significantly improve the condition of the asset, are capitalised. Repairs and maintenance are charged to the consolidated income statement as incurred. The Group assesses at each reporting date whether there is an indication that an asset may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the Group makes an estimate of the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating unit's fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

2.4.12 Acquisitions

Upon acquisition, subsidiaries are accounted for using the fair value method of accounting for acquisitions. Goodwill, which represents the residual cost of the acquisition after recognising the acquirer's interest in the fair value of the identifiable assets and liabilities acquired, is held as an intangible asset. An impairment test is performed on any goodwill held in the consolidated balance sheet on an annual basis. Any impairment of goodwill is recognised immediately as an expense.

NOTE 2 – ACCOUNTING POLICIES (continued)

2.4.13 Intangible assets

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

Leasehold rights	2%

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

2.4.14 Commitments, contingent liabilities

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

Financial guarantees are initially recognised in the consolidated financial statement at fair value, in 'Other liabilities', being the premium received. Subsequent to initial recognition, the Group liability under each guarantee is measured at the higher of the amortised premium and the best estimate of expenditure required to settle any financial obligation arising as a result of the guarantee.

Any increase in the liability relating to financial guarantees is taken to the income statement in 'Provision for possible loan and commitment losses'. The premium received is recognised in the consolidated income statement in 'Net fee and commission income' on a straight line basis over the life of the guarantee.

The allowance for losses on commitments and contingent liabilities reflects Managements best estimate of incurred losses on this portfolio. Management determines the adequacy of the allowance based upon reviews of individual items, recent loss experience, current economic conditions, the risk characteristics of the various categories of transactions and other pertinent factors.

2.4.15 Provisions

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

2.4.16 Taxation

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

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

2.4.17 Fiduciary assets

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

NOTE 2 – ACCOUNTING POLICIES (continued)

2.4.18 Dividend on ordinary shares

Dividends on ordinary shares are recognized as a liability and deducted from equity when they are approved by the shareholders. Interim dividends are deducted from equity when they are declared and no longer at the discretion of the Bank.

Dividends for the year that are approved after the balance sheet date are disclosed as an event after the balance sheet date.

2.4.19 Collateral pending sale

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

2.5 Future changes in accounting policies

IFRSs and IFRIC interpretations not yet effective

The Group has not applied the following IFRSs and Interpretations of the International Financial Reporting Interpretations Committee (IFRIC) that have been issued but are not yet effective:

IFRS 7 Financial Instruments: Disclosures

Effective for annual periods beginning on or after 1 January 2007. IFRS 7 requires disclosures that enable users to evaluate the significance of the Group's financial instruments and the nature and extent of risks arising from those financial instruments.

IFRS 8 Operating Segments

Effective for annual periods beginning on or after 1 January 2009. This new standard replaces IAS 14 Segment Reporting and adopts a management approach to segment reporting.

Amendment to IAS 1 Presentation of Financial Statements (Capital disclosures)

Effective for annual periods beginning on or after 1 January 2007. This amendment requires entities to disclose information that enables readers to evaluate the entity's objectives, policies and processes for managing capital.

IFRIC 7 Applying the Restatement Approach under IAS 29

Effective for annual periods beginning on or after 1 March 2006. IFRIC interpretation 7 requires entities to apply IAS 29 Financial Reporting in Hyper-inflationary Economies in the reporting period in which an entity first identifies the existence of hyperinflation in the economy of its functional currency as if the economy had always been hyperinflationary.

IFRIC 8 Scope of IFRS 2

Effective for annual periods beginning on or after 1 May 2006. IFRIC interpretation 8 clarifies that IFRS 2 Share-based Payment will apply to any arrangement when equity instruments are granted or liabilities (based on a value of an entity's equity instrument) are incurred by an entity, when the identifiable consideration appears to be less than the fair value of the instruments given.

NOTE 2 – ACCOUNTING POLICIES (continued)

IFRIC 9 Reassessment of Embedded Derivatives

Effective for annual periods beginning on or after 1 June 2006. IFRIC interpretation 9 requires an entity to assess whether a contract contains an embedded derivative at the date an entity first becomes a party to the contract and prohibits reassessment unless there is a change to the contract that significantly modifies the cash flows.

IFRIC 10 Interim Financial Reporting and Impairment

Effective for annual periods beginning on or after 1 November 2006. IFRIC interpretation 10 states that the specific requirements of IAS 36 Impairment of assets take precedence over the general requirements of IAS 34 Interim Financial Reporting and, therefore, any impairment loss recognised for goodwill and equity instruments classified as available for sale in an interim period may not be reversed in subsequent interim periods.

IFRIC 11 IFRS 2—Group and Treasury Share Transactions

Effective for annual periods beginning on or after 1 March 2007. IFRIC interpretation 11 requires arrangements whereby an employee is granted rights to an entity's equity instruments to be accounted for as an equity-settled scheme by the entity.

IFRIC 12 Service Concession Arrangements

Effective for annual periods beginning on or after 1 January 2008. IFRIC interpretation 12 outlines an approach to account for contractual arrangements arising from entities providing public services. It provides that the operator should not account for the infrastructure as property, plant and equipment, but recognise a financial asset and/or an intangible asset.

The Group expects that the adoption of the pronouncements listed above will have no significant impact on the Group's consolidated financial statements in the period of initial application.

2.6 Reclassification

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

In accordance with IAS 39 (amended 2005) the Group reclassified financial assets designated at fair value through profit or loss separately from held to maturity instruments and from loans and receivables in the balance sheet.

Furthermore the Group changed the presentation of interest accruals in the balance sheet. Due to this change the interest accruals are not separated from the related financial instruments. Comparative figures have been amended accordingly.

Current income tax assets are reclassified for 2005 to other assets.

NOTE 2 – ACCOUNTING POLICIES (continued)

The effect of the reclassifications described above can be summarized as follows:

	As previously reported 2005 MHUF	Reclassification of accrued interest MHUF	Reclassification of current income tax assets MHUF	Reclassification of financial instruments designated at fair value through profit or loss MHUF	Reclassified 2005 MHUF
Assets					
Cash and balances with the National Bank of Hungary	128 341	56	-	-	128 397
Trading securities	6 264	(186)	-	-	6 078
Financial assets designated at fair value through profit or loss	-	-	-	10 402	10 402
Balances due from other banks	141 794	869	-	-	142 663
Derivative financial instruments	20 279	49	-	-	20 328
Loans to customers	1 308 906	5 309	-	(2 743)	1 311 472
Investment securities	211 313	7 363	-	(7 659)	211 017
Securities pledged under repurchase agreements	39 441	396	-	-	39 837
Accrued interest receivable	13 856	(13 856)	-	-	-
Income tax asset	972	-	(972)	-	-
Other assets	31 015	-	972	-	31 987
Liabilities					
Trading liabilities	7 573	-		-	7 573
Financial liabilities designated at fair value through profit or loss	-	-		-	-
Balances due to banks	287 349	586		-	287 935
Derivative financial instruments	16 039	80		-	16 119
Deposits and certificates of deposits	1 212 547	7 267		-	1 219 814
Refinancing credits	165 239	310		-	165 549
Subordinated debt	14 823	-		-	14 823
Accrued interest payable	8 243	(8 243)		-	-

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

	2006 MHUF	Reclassified 2005 MHUF
Cash in hand	15 372	12 641
Balances with the National Bank of Hungary		
- less than 90 days	131 251	115 756
- equal or greater than 90 days	-	-
	146 623	128 397

Balances with the National Bank of Hungary include the Bank's obligatory reserves. In Hungary obligatory reserve requirements are based on average monthly balances and as a result daily balances may fluctuate. The required average monthly balance for the month of December 2006 was HUF 70 823 million (HUF 61 762 million for December 2005).

Cash and cash equivalents

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

	2006 MHUF	Reclassified 2005 MHUF
Cash and balances with the National Bank of Hungary	146 623	128 397
Balances less than 90 days maturity with other banks	83 574	72 511
Trading securities (see note 5)	526	1 460
Cash and cash equivalents	230 723	202 368

NOTE 4 – LOANS TO CUSTOMERS

	2006	Reclassified 2005
	MHUF	MHUF
Industry sector		
Service industry	263 788	223 685
Agriculture	104 618	118 352
Manufacturing and building	144 336	173 305
Food processing	51 015	58 019
Wholesale and retail	190 895	221 400
Power industry	109 858	74 935
Other	67 520	64 007
Individuals	560 153	410 655
Gross loans	1 492 183	1 344 358
Collective allowance for loan losses	(8 094)	(3 482)
Specific allowance for loan losses	(39 272)	(29 404)
Allowance for loan losses (see Note 23)	(47 366)	(32 886)
Loans to customers	1 444 817	1 311 472

Analysis of loans by type	2006	Reclassified 2005
	MHUF	MHUF
Corporate loans		
Current account advances	121 517	86 796
Term loans to 1 year	216 776	217 261
Term loans over 1 year	528 656	522 276
Corporate loans	866 949	826 333
Retail loans		
Current account advances	6 366	5 942
Term loans to 1 year	3 788	2 674
Term loans over 1 year	437 233	346 542
Retail loans	447 387	355 158
Lease receivables	53 341	47 839
Loans originated by lease companies	118 066	113 543
Other loans (factoring, trade bills & acceptances, etc.)	6 440	1 485
Gross loans	1 492 183	1 344 358

NOTE 5 – TRADING AND INVESTMENT SECURITIES

	2006 MHUF	Reclassified 2005 MHUF
Trading securities		
Treasury bills		
- maturing in less than 90 days	526	1 460
- maturing in 90 days or more	2 728	294
Government bonds	6 719	2 650
Listed shares	-	1 674
Total trading securities	9 973	6 078

	2006 MHUF	Reclassified 2005 MHUF
Investment securities		
Available for sale	125 780	147 521
Held to maturity	125 241	63 496
Total investment securities	251 021	211 017

	2006 MHUF	Reclassified 2005 MHUF
Investment securities – available for sale		
Consolidation bonds issued in HUF	107 678	84 605
Other government bonds issued in HUF	15 044	59 558
Other bonds – listed issued in HUF	542	649
Other bonds – unlisted issued in HUF	234	-
Listed shares	1 290	819
Unlisted shares	991	1 889
Other	1	1
Available for sale investment securities	125 780	147 521

NOTE 5 – TRADING AND INVESTMENT SECURITIES (continued)

	2006 MHUF	Reclassified 2005 MHUF
Investment securities – held to maturity		
Treasury bills	2 465	292
Government bond issued in HUF	122 776	63 204
Total held to maturity investment securities	125 241	63 496

	2006 MHUF	Reclassified 2005 MHUF
Securities pledged under repurchase agreements		
Consolidation bonds issued in HUF – available for sale	4 510	27 957
Other governments bonds issued in HUF – available for sale	6 944	3 930
Other governments bonds issued in HUF – held to maturity	5 824	7 950
Total securities pledged	17 278	39 837

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

Collateral for repos

The fair value of securities accepted as collateral in connection with reverse repo transactions (within Balances due from other banks) as at 31 December 2006 was HUF 8 635 million, of which HUF 8 076 million (reported as Trading liabilities in the consolidated balance sheet) has been sold or repledged (31 December 2005 HUF 10 129 million and HUF 7 573 million respectively). Under reverse repo transactions, the Group obtains legal ownership of the respective collateral received and, thus, is permitted to utilise the collateral; however, the same collateral must be delivered back to the borrower of the funds on maturity.

NOTE 6 – FINANCIAL ASSETS AND FINANCIAL LIABILITIES DESIGNATED AT FAIR VALUE THROUGH PROFIT OR LOSS

	2006 MHUF	Reclassified 2005 MHUF
Financial assets designated at fair value through profit or loss		
Government bonds issued in foreign currencies	6 414	7 659
Loans to customers	2 537	2 743
	8 951	10 402

	2006 MHUF	2005 MHUF
Financial liabilities designated at fair value through profit or loss		
Deposits with embedded derivatives	3 732	-
Deposits designated at fair value	36 568	-
	40 300	-

Included in financial assets designated at fair value through profit or loss are fixed rate government bonds and a corporate loan which are economically hedged by interest derivatives starting from the acquisition. For further details see Note 7.

The maximum credit risk exposure of financial assets designated at fair value through profit or loss is their amortised cost, which was HUF 8 014 million as at 31 December 2006 (HUF 8 840 million as at 31 December 2005).

Based on the Group's treasury policy the long term fixed rate deposits included in financial liabilities designated at fair value through profit or loss are economically hedged by interest rate derivatives, which do not qualify for hedge accounting.

At the maturity date of the deposits the Group is contractually required to pay HUF 47 863 million.

NOTE 7 – DERIVATIVE FINANCIAL INSTRUMENTS

	Year ended 31 December 2006			Reclassified Year ended 31 December 2005		
	Notional amount	Positive fair value Assets	Negative fair value Liabilities	Notional amount	Positive fair value Assets	Negative fair value Liabilities
Derivatives held for trading	MHUF	MHUF	MHUF	MHUF	MHUF	MHUF
Foreign exchange derivatives						
Currency forwards	221 596	5 115	(8 458)	155 013	1 174	(2 935)
Currency swaps	1 112 214	27 877	(15 441)	1 023 293	10 066	(6 094)
Currency options bought and sold	164 311	1 466	(1 433)	250 497	2 516	(2 315)
Total foreign exchange derivatives	1 498 121	34 458	(25 332)	1 428 803	13 756	(11 344)
Interest rate derivatives						
Interest rate swaps	524 754	7 196	(3 339)	232 819	4 985	(2 303)
Cross currency interest rate swaps	124 853	3 170	(2 688)	5 485	49	(2 067)
Interest rate options	41 575	1	(1)	42 447	31	(31)
Forward rate agreements	172 480	153	(160)	121 528	120	(98)
Total interest rate derivatives	863 662	10 520	(6 188)	402 279	5 185	(4 499)
Total derivatives held for trading	2 361 783	44 978	(31 520)	1 831 082	18 941	(15 843)
Derivatives designated as cash flow hedges						
Currency options	45 296	1 628	(142)	43 564	1 387	(276)
Total derivatives held for hedging	45 296	1 628	(142)	43 564	1 387	(276)
Total derivative financial instruments	2 407 079	46 606	(31 662)	1 874 646	20 328	(16 119)

Options

Although they are not accounted for as hedges, the Group has an operational policy where the risks of options sold and purchased are matched on a one to one basis with offsetting deals conducted with counterparties of sound credit standing.

Derivatives designated as cash flow hedges

Currency options

The Group entered into currency options to cover the foreign currency risk deriving from future currency cash flows of leasing companies of the Group, which are expected to occur evenly over the next two years.

In 2006 HUF 1 019 million was transferred from cash flow hedge reserve to "Gains less losses on foreign exchange" in the consolidated income statement (HUF 937 million in 2005).

NOTE 8 - BANK PREMISES AND EQUIPMENT

	Land and buildings	Leasehold improvements	Furniture, fixtures and equipment	Software	Construction in progress	Total
	MHUF	MHUF	MHUF	MHUF	MHUF	MHUF
At 1 January 2005						
Cost	12 870	4 145	17 790	31 115	2 493	68 413
Accumulated depreciation	(4 491)	(304)	(5 571)	(21 994)	-	(32 360)
Net book value	8 379	3 841	12 219	9 121	2 493	36 053
Movements in 2005						
Additions	-	-	-	-	11 928	11 928
Disposals - net	(676)	-	(1 679)	(5)	(3)	(2 363)
Transfers	857	1 149	6 544	862	(9 947)	(535)
Impairment charge	(23)	(32)	(154)	(7)	(20)	(236)
Depreciation charge	(254)	(400)	(4 770)	(3 755)	-	(9 179)
At 31 December 2005						
Cost	12 747	5 156	21 091	32 029	4 451	75 474
Accumulated depreciation	(4 464)	(598)	(8 931)	(25 813)	-	(39 806)
Net book value	8 283	4 558	12 160	6 216	4 451	35 668
Movements in 2006						
Additions	-	-	-	32	9 484	9 516
Disposals - net	(238)	(47)	(209)	-	(263)	(757)
Transfers	101	640	3 772	2 783	(7 484)	(188)
Impairment charge	(167)	(22)	-	-	-	(189)
Depreciation charge	(245)	(432)	(3 590)	(3 455)	-	(7 722)
Other	-	-	(4 898)	-	-	(4 898)
At 31 December 2006						
Cost	12 302	5 749	17 923	32 995	6 175	75 144
Accumulated depreciation	(4 568)	(1 052)	(10 688)	(27 406)	-	(43 714)
Net book value	7 734	4 697	7 235	5 589	6 175	31 430

The lease contracts of K&H Autópark Kft. – a member of the Group - were reviewed in 2006. As a result of the review certain lease contracts designated as operating lease were reclassified as financial leases. The effect of the reclassification is disclosed in the other movement line.

NOTE 9 - INTANGIBLE ASSETS

	2006 MHUF	2005 MHUF
Leasehold rights at the beginning of the year		
Cost	1 850	1 623
Accumulated depreciation	(864)	(1 028)
Net book value	986	595
Movements		
Disposals - net	(4)	-
Transfers	188	535
Depreciation charge	(167)	(144)
Leasehold rights at the end of the year		
Cost	1 888	1 850
Accumulated depreciation	(885)	(864)
Net book value	1 003	986

NOTE 10 - OTHER ASSETS

	2006 MHUF	Reclassified 2005 MHUF
Receivables from investment services	89	12 774
Prepayments and taxes receivable	1 175	686
Trade receivables	548	830
Receivables from employees	1 013	836
Receivables from bankcard service	3 959	1 859
Items in transit due to payment services	1 519	612
Receivables from compensation (see Note 23)	9 581	-
Items in transit due to trading in securities	155	56
Other accruals	9 084	8 555
Other inventories	926	1 298
Other receivables	2 251	4 481
	30 300	31 987

NOTE 11 - DEPOSITS AND CERTIFICATES OF DEPOSIT

	2006 MHUF	Reclassified 2005 MHUF
Individuals		
- current accounts	69 108	63 596
- term deposits, savings accounts	428 809	531 239
Corporations		
- current accounts	215 148	221 180
- term deposit	349 220	320 442
Other entities		
- current accounts	41 980	16 552
- term deposits	179 731	66 364
	1 283 996	1 219 373
Certificates of deposit	397	441
	1 284 393	1 219 814

NOTE 12 – BALANCES DUE TO BANKS

	2006 MHUF	Reclassified 2005 MHUF
Current and settlements accounts	56 193	9 458
Term deposits	282 964	238 077
Liabilities to repurchase securities sold	17 274	40 400
	356 431	287 935

NOTE 13 – REFINANCING CREDITS

	2006 MHUF	Reclassified 2005 MHUF
Refinancing credits from National Bank of Hungary	-	958
Other refinancing credits	162 174	164 591
	162 174	165 549

K&H Bank has entered into several refinancing credit facilities with the National Bank of Hungary ("NBH") and other financial institutions (such as the EBRD and World Bank, FHB – Mortgage Bank) for the purpose of funding portions of the Bank's activities. There are several covenants governing the determination of qualified recipients, the on-going monitoring process of the ultimate recipients and the repayment process. In all cases the Bank assumes all credit risk related to the ultimate borrower and must check compliance with all covenants. At 31 December 2006, management believes that the Bank is in compliance with all significant covenants.

NOTE 14 - OTHER LIABILITIES

	2006 MHUF	2005 MHUF
Trade creditors	4 890	3 704
Lease liabilities	14	229
Items in transit due to payment services	21 613	20 435
Vostro accounts	6 923	3 519
Items in transit due to lending activity	2 231	3 501
Items in transit due to trading in securities	885	973
Liabilities from bankcard service	2 428	1 297
Liabilities from brokerage services	2 838	14 645
Other	11 855	11 927
Total other liabilities	53 677	60 230

NOTE 15 - SUBORDINATED DEBT

	2006 MHUF	Reclassified 2005 MHUF
Subordinated loan from KBC Group	15 076	10 109
Bonds issued to the State	4 714	4 714
	19 790	14 823

An EUR 40 million of subordinated debt borrowed in September 1999 from Irish Intercontinental Bank (member of the KBC Group) matured in on 31 July 2006.

In June 2006, the Group borrowed EUR 60 million of subordinated debt from KBC Bank N.V. Dublin branch, a member of the KBC Group. The loan matures on 30 June 2016 and bears a variable interest rate of 3 month-EURIBOR plus 0.55 percent per annum.

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

NOTE 16 - SHARE CAPITAL

	2006 MHUF	2005 MHUF
Ordinary shares issued and outstanding	52 507	52 507

The nominal value of the ordinary shares issued and outstanding at 31 December 2006 is HUF 1 per share (2005: HUF 1).

NOTE 16 - SHARE CAPITAL (continued)

Shareholders of the Bank:

	2006 Shares held (millions)	2006 Shareholding %	2005 Shareholding %
KBC Bank N. V.	52 487	99.96%	59.47%
ABN Amro N.V.	-	-	40.23%
Other shareholders	20	0.04%	0.30%
	52 507	100.0%	100.0%

On 29 May 2006 KBC Bank N.V. fully acquired ABN Amro N.V.'s participation in K&H Bank.

NOTE 17 – CAPITAL ADEQUACY

The Group capital adequacy calculation shown below was prepared based on the international guidelines set forth by the Basle Committee on Banking Regulations and Supervisory Practices. The Bank is also subject to separate Hungarian capital adequacy regulations calculated from the statutory accounts. According to these, the Bank's capital adequacy ratio at 31 December 2006 was 11.44% (11.19% at 31 December 2005). The minimum ratio according to Hungarian regulations is 8.00%.

	2006 MHUF	2005 MHUF
Total risk-weighted assets and off balance sheet items	1 426 111	1 327 095

	2006 MHUF	2005 MHUF
Shareholders' equity	167 254	154 019
Capital requirement for trading book	(3 965)	(2 133)
Tier 1 capital	163 289	151 886
Available for sale reserve	449	654
Cash flow reserve	1 189	849
Subordinated debt	19 790	6 736
Tier 2 capital	21 428	8 239
Tier 1+ Tier 2 capital	184 717	160 125
Capital adequacy: Tier 1	11.45%	11.45%
Capital adequacy: Tier 1 + Tier 2	12.95%	12.07%

NOTE 18 – STATUTORY RISK RESERVE

The Bank is required to set aside 10% of its profit calculated in accordance with Hungarian Accounting standards as a non-distributable reserve for use against future losses. The balance of this reserve as at 31 December 2006 was HUF 6 118 million (HUF 4 916 million as at 31 December 2005).

NOTE 19 – DISTRIBUTABLE RESERVES AND DIVIDENDS PROPOSED

According to Hungarian corporate and banking law, only profit for the current period and the retained earnings included in the statutory standalone financial statements and calculated using Hungarian accounting principles may be distributed to shareholders. Additionally, this can occur only after the Group establishes the required minimum level of statutory risk reserve (see note 18).

Accordingly, the Bank had distributable reserves of HUF 66 926 million as at 31 December 2006 (HUF 56 103 million as at 31 December 2005).

The dividend proposed on ordinary shares for approval at Annual General Meeting (not recognised as a liability as at 31 December 2006) is HUF 10 823 million (0.206108 HUF/share). No dividend was paid in 2005.

NOTE 20 – NET INTEREST AND SIMILAR INCOME

	2006 MHUF	2005 MHUF
Interest from credit institutions	12 058	10 256
Interest on loans	97 014	88 461
Interest on trading securities	1 322	859
Interest on investment securities	17 474	20 617
Interest and similar income	127 868	120 193
Interest on deposits and certificates of deposits	(56 763)	(52 423)
Interest paid to credit institutions	(9 683)	(6 901)
Interest on refinancing credits	(4 882)	(3 630)
Interest on subordinated debt	(877)	(815)
Net loss on hedging transactions	(143)	(292)
Interest and similar charges	(72 348)	(64 061)
Net interest and similar income	55 520	56 132

NOTE 21 – NET FEE AND COMMISSION INCOME

	2006 MHUF	2005 MHUF
Payment transactions	18 629	17 606
Card services	8 355	6 987
Investment services	8 951	5 064
Credit and guarantee fee income	4 702	2 544
Other	698	688
Fee and commission income	41 335	32 889
Payment transactions	(3 855)	(3 749)
Card services	(3 949)	(3 620)
Investment services	(861)	(681)
Credit and guarantee fee expense	(1 361)	(972)
Insurance services	(930)	(645)
Other	(456)	(72)
Fee and commission expense	(11 412)	(9 739)
Net fee and commission income	29 923	23 150

NOTE 22 – OPERATING EXPENSES

	2006 MHUF	2005 MHUF
Personnel costs	31 437	28 802
Operations	9 354	9 327
Depreciation and amortization	8 078	9 323
Technology costs	8 429	8 235
Taxes and duties	5 268	4 796
Marketing costs	2 736	2 516
Other expenses	5 125	4 459
	70 427	67 458

The average number of employees in 2006 was 3 808 (in 2005: 3 792).

NOTE 23 – ALLOWANCES AND PROVISIONS

Movements in allowance for loan losses and provisions for commitments and legal cases are the following:

	Allowance for loan losses		Allowance for other assets	Provisions for commitments and contingent liabilities		Provisions for losses from legal cases	Total
	Collective	Specific	Specific	Collective	Specific	Specific	
	MHUF	MHUF	MHUF	MHUF	MHUF	MHUF	MHUF
Balance as at 1 January 2005	2 261	23 191	275	137	68	11 872	37 804
Additions	1 221	13 107	4	-	33	5 945	20 310
Reversals	-	(4 387)	(35)	(1)	(53)	(724)	(5 200)
Write offs	-	(2 568)	(12)	-	-	(4 366)	(6 946)
Foreign exchange revaluation	-	240	7	(1)	(3)	(9)	234
Discount effect	-	(179)	-	-	-	-	(179)
Balance as at 31 December 2005	3 482	29 404	239	135	45	12 718	46 023
Additions	4 612	24 727	-	2 539	1 672	17 205	50 755
Reversals	-	(7 260)	(3)	-	(91)	(3 242)	(10 596)
Write offs	-	(10 150)	-	-	-	(5 028)	(15 178)
Foreign exchange revaluation	-	(312)	-	-	(10)	-	(322)
Discount effect	-	(261)	-	-	-	-	(261)
Other	-	3 124	-	-	-	-	3 124
Balance as at 31 December 2006	8 094	39 272	236	2 674	1 616	21 653	73 545

HUF 3 124 million increase on the other line relating to specific allowance for loan losses includes a provision for interest receivables suspended in previous years.

The Group has a provision of HUF 20 893 million (HUF 11 775 million in 2005) for its liability to clients as a result of the fraud that occurred at K&H Equities in 2003 and before. In 2003, the two shareholders of the Bank, KBC Bank N.V. and ABN Amro Bank N.V., issued a letter of commitment that they will maintain the legally required level of equity in K&H Bank Rt. The Bank also issued a letter of commitment that it will maintain the legally required level of equity at K&H Equities.

For the majority of claims, criminal investigations were launched which are litigated in Court. Some contested claims have already been determined by the Courts. As a result K&H Equities has incurred and charged against the provision HUF 5 028 million in 2006 (HUF 4 366 million in 2005).

NOTE 23 – ALLOWANCES AND PROVISIONS (continued)

In 2006 the Group revised its previous estimate for the fraud case and increased the provisions by HUF 14 191 million (HUF 4 713 million in 2005). In 2006 the letter of commitment of ABN Amro Bank N.V. was replaced by an indemnity agreement between KBC Bank N.V., ABN Amro Bank N.V., K&H Bank and K&H Equities. Under this agreement ABN Amro Bank N.V. indemnifies 40% of the payments to clients based on finalised court decisions. The Group created an asset for 40% of the provisions (HUF 10 849 million) to recognise the indemnity provided by ABN Amro N.V. The change in provision and the asset itself are presented net in the consolidated income statement (HUF 3 341 million in 2006).

The further timing and the final decisions of the Courts are uncertain. As a result of this the amount of the provision may be subject to changes in the years ahead. However after careful consideration, based on comprehensive investigation and substantiated legal opinions the Group believes that the amount of provision raised is the best possible estimate and is at this moment adequate to cover actual losses. This provision does not include legal and ancillary costs of settling claims.

The K&H Group is also party to litigation and claims arising in the normal course of business. An allowance of HUF 760 million at 31 December 2006 (HUF 943 million at 31 December 2005) has been made relating to these contingencies and included in provisions for losses from legal cases. Management believes that adequate allowance has been made in the consolidated financial statements for potential losses from litigation.

The Group recognised provisions for other purposes. Movements in other provisions are the following:

	2006 MHUF	2005 MHUF
Other provisions at the beginning of the year	1 373	1 302
Additions	44	293
Reversals	(925)	(224)
Foreign exchange revaluation	(6)	2
Other provisions at the end of the year	486	1 373

Other provisions include provision for the cancellation of lease contracts totalling HUF 270 million as at December 2006 (HUF 951 million as at 31 December 2005). The release of these provisions in this financial year relates to expenditure incurred.

NOTE 24 - INCOME TAXES

The components of income tax expense for the years ended 31 December 2006 and 2005 are:

	2006 MHUF	2005 MHUF
Statutory income tax expense	4 419	6 442
Deferred taxation (credit)/charge	488	(474)
Income tax charge	4 907	5 968

NOTE 24 - INCOME TAXES (continued)

Statutory income tax expense

In 2006, corporate income tax is payable at 24% (16% corporate tax plus 8% bank tax) on taxable statutory profits. An additional 4% solidarity tax is payable on taxable statutory profit as from 1 September 2006. The 8% bank tax is cancelled as from 1 January 2007.

There is no procedure for final agreement of tax assessments in Hungary. The tax authorities may examine the accounting records and revise assessments for up to five years after the period to which they relate. Consequently, the K&H Group may be subject to further assessments in the event of an audit by the tax authorities. The corporate tax returns for K&H have been reviewed and closed off by the taxation authorities for the years up to 2003. Management is not aware of any additional significant unaccrued potential tax liability which might arise relating to years not audited by the tax authorities.

Deferred income taxes

The deferred tax included in the balance sheet and changes recorded in the consolidated income statement and equity are as follows:

For the year ended 31 December 2006:

	Assets 2006 MHUF	Liabilities 2006 MHUF	Income statement 2006 MHUF	Equity 2006 MHUF
Employee benefits	-	(205)	(79)	-
Losses carry forward	(154)	(7)	(34)	-
Tangibles and intangibles assets	147	(419)	50	-
Provisions for risk and charges	-	187	295	-
Impairment for losses on loans and advances	(287)	1 477	(704)	-
Financial instruments at fair value	(62)	251	(197)	-
Fair value adjustments AFS	-	112	-	(94)
Cash flow hedge	-	297	-	35
Other	15	(490)	1 157	-
Total	(341)	1 203	488	(59)

For the year ended 31 December 2005:

	Assets 2005 MHUF	Liabilities 2005 MHUF	Income statement 2005 MHUF	Equity 2005 MHUF
Employee benefits	(126)	-	(9)	-
Losses carry forward	(127)	-	-	-
Tangibles and intangibles	(322)	-	174	-
Provisions for risk and charges	(108)	-	184	-
Impairment for losses on loans and advances	-	1 894	124	-
Financial instruments at fair value	-	386	(227)	-
Fair value adjustments AFS	-	206	-	152
Cash flow hedge	-	262	-	(28)
Other	(1 670)	38	(720)	-
Total	(2 353)	2 786	(474)	124

NOTE 24 - INCOME TAXES (continued)

Deferred income taxes are calculated on all temporary differences under the asset and liability method using a principal rate of 20% (16% corporate income tax and 4% solidarity tax).

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

Reconciliation of the total tax charge

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

	2006 MHUF	2005 MHUF
Income before income taxes	18 142	23 716
Tax at statutory rate of 16%	2 903	3 795
Tax at statutory rate of 8%	1 491	1 897
Tax at statutory rate of 4%	(22)	-
Effect of future changes in the tax rate	530	(448)
Tax effect of permanent differences	5	724
Tax charge for the period	4 907	5 968

The effective income tax rate for 2006 is 27.05% (2005: 25.16%).

NOTE 25 - EARNINGS PER SHARE

Earnings per share is the profit attributable to shareholders of the Group divided by the weighted average number of shares outstanding during the period, excluding treasury shares. There were no other potentially dilutive securities in existence at 31 December 2006 and 2005. The following amounts were used in the calculation of earnings per share:

	2006	2005
Net profit attributable to shareholders (MHUF)	13 235	17 748
Weighted average shares outstanding (in millions)	52 507	52 507
Earnings per share (HUF)	0.25	0.34

NOTE 26 - RELATED PARTY TRANSACTIONS

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

Parent:

KBC Bank N.V. owns 99.96% of the ordinary shares in K&H Bank (2005: 59.47%). The ultimate parent of the Group is KBC Group N.V.

Entity with significant influence over the Group:

At 31 December 2006 ABN Amro Bank N.V has no influence over the Group due to the sale of its full shareholding of 40.23 % ordinary shares in the Bank to KBC Bank N.V.

Subsidiaries:

See list of subsidiaries in Note 34.

Associates:

See list of associates in Note 34.

Other related parties, members of KBC Group:

CBC Banque SA Brussels
Ceskoslovenska Obchodni Banka a.s. Bratislava
Ceskoslovenska Obchodni Banka Praha
Irish Intercontinental Bank
KBC Asset Management Ltd
KBC Asset Management N.V.
KBC Bank Deutschland AG.
KBC Bank Nederland N.V.
KBC Exploitatie N.V.
KBC Securities N.V.
Kredyt Bank PBI SA Warsaw
Kredietbank SA Luxembourgeoise

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

NOTE 26 - RELATED PARTY TRANSACTIONS (continued)

The year-end balances and the incomes and expenses in respect of related parties included in the consolidated financial statements are as follows:

As at 31 December 2006:

	Balances due from related parties	Balances due to related parties	Subordinated debt	Commitments and contingent liabilities	Guarantees received	Nominal amount of derivatives
	MHUF	MHUF	MHUF	MHUF	MHUF	MHUF
Parent	28 613	204 248	15 076	1 082	37 744	682 034
Subsidiaries	-	150	-	-	-	-
Associates	544	123	-	-	-	-
Other related parties	445	2 141	-	-	-	11 779
	29 602	206 662	15 076	1 082	37 744	693 813

For the year ended 31 December 2006:

	Interest income	Interest expense	Net interest income	Commission income	Commission expense	Net commission income
	MHUF	MHUF	MHUF	MHUF	MHUF	MHUF
Parent	588	(3 769)	(3 181)	142	(173)	(31)
Entity with significant influence over the Group	159	(54)	105	-	-	-
Subsidiaries	-	(5)	(5)	11	(11)	-
Associates	50	(8)	42	3	(337)	(335)
Other related parties	62	(317)	(254)	506	(157)	349
	859	(4 153)	(3 293)	662	(678)	(18)

As at 31 December 2005:

	Balances due from related parties	Balances due to related parties	Subordinated debt	Commitments and contingent liabilities	Guarantees received	Nominal amount of derivatives
	MHUF	MHUF	MHUF	MHUF	MHUF	MHUF
Parent	11 689	156 025	-	1 084	37 808	346 360
Entity with significant influence over the Group	512	774	-	848	-	348 959
Subsidiaries	-	123	-	7	-	-
Associates	980	1 790	-	-	-	-
Other related parties	556	1 357	10 109	632	-	4 991
	13 737	160 069	10 109	2 571	37 808	700 310

NOTE 26 - RELATED PARTY TRANSACTIONS (continued)

For the year ended 31 December 2005:

	Interest income	Interest expense	Net interest income	Commission income	Commission expense	Net commission income
	MHUF	MHUF	MHUF	MHUF	MHUF	MHUF
Parent	435	(783)	(348)	39	(83)	(44)
Entity with significant influence over the Group	560	(53)	507	-	-	-
Subsidiaries	-	(5)	(5)	-	-	-
Associates	72	(151)	(79)	15	(745)	(730)
Other related parties	31	(419)	(388)	24	-	24
	1 098	(1 411)	(313)	78	(828)	(750)

Transactions with key management

Loans

In accordance with the Group's internal policy, senior management may apply for interest-free loans or for loans with favourable conditions. Interest-free loans are only provided in line with relevant local laws (for housing, if the claimant and the property fit pre-defined requirements). Favourable conditions are a waiver of handling fees and lower than market interest rates.

At 31 December 2006 loans with the above conditions were housing loans with long-term maturity obligations (15-20 years).

The outstanding amount of loans at 31 December 2006 was HUF 28 million (HUF 30 million at 31 December 2005).

Deposits

In accordance with the Group's internal policy, all K&H employees, including key management staff are entitled to have a bank account and a securities/bonds account free from transaction or other applicable fees (only the cost of services provided by a third-party supplier are required to be reimbursed). All K&H employees, including key management staff receive the basic interest rate of the Hungarian National Bank less 0.5% on the first HUF 3 million of deposit.

At 31 December 2006 the outstanding amount of deposits was HUF 86 million (HUF 79 million at 31 December 2005). In 2006 the Bank paid HUF 5 million interest on these deposits (2005: HUF 5 million).

The following amounts have been granted to key management personnel:

Type of benefit	2006	2005
	MHUF	MHUF
Short-term employee benefits	372	284
Post-employment benefits	-	-
Other long-term benefits	-	-
Termination benefits	-	-
Total benefits	372	284

NOTE 27 - CURRENCY EXPOSURE

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

	HUF	EURO	USD	CHF	JPY	Other	Total
	MHUF	MHUF	MHUF	MHUF	MHUF	MHUF	MHUF
At 31 December 2006							
Assets							
Cash and balances with the National Bank of Hungary	144 309	1 493	439	74	18	290	146 623
Trading securities	9 973	-	-	-	-	-	9 973
Financial assets designated at fair value through profit or loss	-	2 537	-	-	6 414	-	8 951
Balances due from other banks	37 541	71 991	42 352	9 608	326	798	162 616
Derivative financial instruments	46 551	-	55	-	-	-	46 606
Loans to customers	667 485	244 886	18 897	512 990	535	24	1 444 817
Investment securities	251 012	9	-	-	-	-	251 021
Securities pledged under repurchase agreements	17 278	-	-	-	-	-	17 278
Investments in associates	2 068	-	-	-	-	-	2 068
Bank premises and equipment	31 430	-	-	-	-	-	31 430
Intangible assets	1 003	-	-	-	-	-	1 003
Deferred tax asset	341	-	-	-	-	-	341
Other assets	28 467	1 409	387	11	-	26	30 300
Total assets	1 237 458	322 325	62 130	522 683	7 293	1 138	2 153 027
Liabilities							
Trading liabilities	8 076	-	-	-	-	-	8 076
Financial liabilities designated at fair value through profit or loss	35 299	2 444	2 469	88	-	-	40 300
Balances due to banks	78 208	114 307	32 198	131 396	-	322	356 431
Derivative financial instruments	31 472	119	-	-	71	-	31 662
Deposits and certificates of deposits	944 221	275 214	55 022	2 530	210	7 196	1 284 393
Refinancing credits	112 747	43 360	6 067	-	-	-	162 174
Subordinated debt	4 714	15 076	-	-	-	-	19 790
Deferred tax liability	1 203	-	-	-	-	-	1 203
Provision	26 258	170	1	-	-	-	26 429
Other liabilities	44 519	5 812	2 845	335	14	152	53 677
Total liabilities and subordinated debt	1 286 717	456 502	98 602	134 349	295	7 670	1 984 135
Net balance sheet position	(49 259)	(134 177)	(36 472)	388 334	6 998	(6 532)	168 892
Net position of foreign exchange derivatives	231 526	131 337	38 608	(391 513)	(5 731)	6 781	11 008

NOTE 27 - CURRENCY EXPOSURE (continued)

Reclassified	HUF	EURO	USD	CHF	JPY	Other	Total
	MHUF	MHUF	MHUF	MHUF	MHUF	MHUF	MHUF
At 31 December 2005							
Assets							
Cash and balances with the National Bank of Hungary	127 023	823	312	36	13	190	128 397
Trading securities	6 078	-	-	-	-	-	6 078
Financial assets designated at fair value through profit or loss	-	2 743	-	-	7 659	-	10 402
Balances due from other banks	36 643	72 557	21 305	9 732	245	2 181	142 663
Derivative financial instruments	20 279	-	49	-	-	-	20 328
Loans to customers	634 239	242 584	23 082	411 560	-	7	1 311 472
Investment securities	211 008	9	-	-	-	-	211 017
Securities pledged under repurchase agreements	39 837	-	-	-	-	-	39 837
Investments in associates	3 434	-	-	-	-	-	3 434
Bank premises and equipment	35 668	-	-	-	-	-	35 668
Intangible assets	986	-	-	-	-	-	986
Other assets	29 292	389	2 306	-	-	-	31 987
Total assets	1 144 487	319 105	47 054	421 328	7 917	2 378	1 942 269
Liabilities							
Trading liabilities	7 573	-	-	-	-	-	7 573
Financial liabilities designated at fair value through profit or loss	-	-	-	-	-	-	-
Balances due to banks	20 012	105 413	11 012	149 489	-	2 009	287 935
Derivative financial instruments	15 803	236	-	-	80	-	16 119
Deposits and certificates of deposits	961 504	195 119	54 026	1 750	877	6 538	1 219 814
Refinancing credits	113 023	42 913	9 613	-	-	-	165 549
Subordinated debt	4 714	10 109	-	-	-	-	14 823
Income and deferred tax liability	433	-	-	-	-	-	433
Provision	14 269	-	2	-	-	-	14 271
Other liabilities	48 019	9 809	1 234	553	17	598	60 230
Total liabilities and subordinated debt	1 185 350	363 599	75 887	151 792	974	9 145	1 786 747
Net balance sheet position	(40 863)	(44 494)	(28 833)	269 536	6 943	(6 767)	155 522
Net position of foreign exchange derivatives	208 326	40 974	29 686	(279 293)	(4 997)	6 579	1 275

NOTE 28 – INTEREST RATE RISK

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

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

The tables below detail the Group's interest exposure on a total basis.

Interest bearing assets with fixed interest rate at 31 December 2006:

	Below 1 month MHUF	1-3 months MHUF	3-12 months MHUF	1-5 years MHUF	Over 5 years MHUF	Non interest bearing MHUF	Total MHUF
Cash and balances with the National Bank	77 387	-	-	-	-	15 370	92 757
Balances due from other banks	74 351	-	600	-	-	-	74 951
Derivative financial instruments	9 287	14 078	15 641	7 284	316	-	46 606
Loans to customers	28	55	2 774	7 693	737	33 142	44 429
Securities and investments	53	2 459	22 445	86 013	52 832	4 350	168 152
Total	161 106	16 592	41 460	100 990	53 885	52 862	426 895

Interest bearing assets with floating interest rate at 31 December 2006:

	Below 1 month MHUF	1-3 months MHUF	3-12 months MHUF	1-5 years MHUF	Total MHUF
Cash and balances with the National Bank	53 866	-	-	-	53 866
Financial assets designated at fair value through profit or loss	1 125	2 537	5 289	-	8 951
Balances due from other banks	31 153	48 344	8 168	-	87 665
Loans to customers	863 708	372 046	139 593	25 041	1 400 388
Securities and investments	-	-	112 188	-	112 188
Total	949 852	422 927	265 238	25 041	1 663 058

NOTE 28 – INTEREST RATE RISK (continued)

Interest bearing liabilities with fixed interest rate at 31 December 2006:

	Below 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Non interest bearing	Total
	MHUF	MHUF	MHUF	MHUF	MHUF	MHUF	MHUF
Trading liabilities	-	-	1 671	5 821	584	-	8 076
Balance due to banks	142 994	66 321	29 357	-	-	-	238 672
Derivative financial instruments	4 778	9 067	12 230	4 456	1 131	-	31 662
Deposits and certificates of deposit	437 453	106 940	102 437	35 463	-	4	682 297
Refinancing credits	-	-	-	-	-	284	284
Total	585 225	182 328	145 695	45 740	1 715	288	960 991

Interest bearing liabilities with floating interest rate at 31 December 2006:

	Below 1 month	1-3 months	3-12 months	1-5 years	Total
	MHUF	MHUF	MHUF	MHUF	MHUF
Financial liabilities designated at fair value through profit or loss	2 532	965	234	36 569	40 300
Balance due to banks	911	112 504	4 344	-	117 759
Deposits and certificates of deposit	528 361	12 746	35 976	25 013	602 096
Refinancing credits	24 200	74 045	25 164	38 481	161 890
Subordinated debt	-	15 076	4 714	-	19 790
Total	556 004	215 336	70 432	100 063	941 835

NOTE 28 – INTEREST RATE RISK (continued)

Interest bearing assets with fixed interest rate at 31 December 2005:

Reclassified	Below 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Non interest bearing	Total
	MHUF	MHUF	MHUF	MHUF	MHUF	MHUF	MHUF
Cash and balances with the National Bank	71 037	-	-	-	-	12 641	83 678
Balances due from other banks	49 354	6 467	-	-	-	-	55 821
Derivative financial instruments	4 601	4 023	7 945	3 630	129	-	20 328
Loans to customers	189	229	2 530	10 901	74	-	13 923
Securities and investments	100	1 727	8 614	53 284	45 969	7 867	117 561
Total	125 281	12 446	19 089	67 815	46 172	20 508	291 311

Interest bearing assets with floating interest rate at 31 December 2005:

Reclassified	Below 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Total
	MHUF	MHUF	MHUF	MHUF	MHUF	MHUF
Cash and balances with the National Bank	44 719	-	-	-	-	44 719
Financial assets designated at fair value through profit or loss	-	-	-	6 011	4 391	10 402
Balances due from other banks	86 842	-	-	-	-	86 842
Loans to customers	688 145	415 416	122 550	71 438	-	1 297 549
Securities and investments	21 940	10 172	110 693	-	-	142 805
Total	841 646	425 588	233 243	77 449	4 391	1 582 317

NOTE 28 – INTEREST RATE RISK (continued)

Interest bearing liabilities with fixed interest rate at 31 December 2005:

Reclassified	Below 1 month MHUF	1-3 months MHUF	3-12 months MHUF	1-5 years MHUF	Over 5 years MHUF	Total MHUF
Balance due to banks	100 751	26 635	10 219	-	-	137 605
Derivative financial instruments	3 934	3 545	5 825	2 365	450	16 119
Deposits and certificates of deposit	330 649	92 854	87 568	36	-	511 107
Refinancing credits	-	-	-	241	110	351
Total	435 334	123 034	103 612	2 642	560	665 182

Interest bearing liabilities with floating interest rate at 31 December 2005:

Reclassified	Below 1 month MHUF	1-3 months MHUF	3-12 months MHUF	1-5 years MHUF	Over 5 years MHUF	Total MHUF
Trading liabilities	-	-	1 037	4 023	2 513	7 573
Balance due to banks	34 970	105 257	10 103	-	-	150 330
Deposits and certificates of deposit	638 205	50 965	18 383	1 154	-	708 707
Refinancing credits	64 209	29 998	4 163	66 299	529	165 198
Subordinated debt	14 823	-	-	-	-	14 823
Total	752 207	186 220	33 686	71 476	3 042	1 046 631

NOTE 29 – LIQUIDITY RISK

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

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

The following table shows a breakdown of the balance sheet by maturity at 31 December 2006:

	Below 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Total
	MHUF	MHUF	MHUF	MHUF	MHUF	MHUF
Cash and balances with the National Bank of Hungary	146 623	-	-	-	-	146 623
Financial assets designated at fair value through profit or loss	-	-	827	5 700	2 424	8 951
Balances due from other banks	83 719	-	20 551	58 346	-	162 616
Derivative financial instruments	9 287	14 079	15 640	7 284	316	46 606
Loans to customers	184 468	76 229	287 444	433 491	463 185	1 444 817
Securities and investments	53	2 653	22 749	86 805	168 080	280 340
Total	424 150	92 961	347 211	591 626	634 005	2 089 953

	Below 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Total
	MHUF	MHUF	MHUF	MHUF	MHUF	MHUF
Trading liabilities	-	-	1 671	5 821	584	8 076
Financial liabilities designated at fair value through profit or loss	1 083	2 341	308	36 568	-	40 300
Balance due to banks	142 586	66 321	29 102	114 541	3 881	356 431
Derivative financial instruments	4 779	9 067	12 225	4 460	1 131	31 662
Deposits and certificates of deposit	928 061	113 490	142 196	91 607	9 039	1 284 393
Refinancing credits	2 450	1 217	13 417	55 917	89 173	162 174
Subordinated debt	-	-	-	-	19 790	19 790
Total	1 078 959	192 436	198 919	308 914	123 598	1 902 826

NOTE 29 – LIQUIDITY RISK (continued)

The following table shows a breakdown of the balance sheet by maturity at 31 December 2005:

Reclassified	Below 1 month MHUF	1-3 months MHUF	3-12 months MHUF	1-5 years MHUF	Over 5 years MHUF	Total MHUF
Cash and balances with the National Bank of Hungary	128 397	-	-	-	-	128 397
Financial assets designated at fair value through profit or loss	-	-	-	5 955	4 447	10 402
Balances due from other banks	65 600	6 911	20 432	48 280	1 440	142 663
Derivative financial instruments	4 601	4 027	7 941	3 630	129	20 328
Loans to customers	151 470	34 780	224 799	389 918	510 505	1 311 472
Securities and investments	13 149	11 424	20 664	52 423	162 706	260 366
Total	363 217	57 142	273 836	500 206	679 227	1 873 628

Reclassified	Below 1 month MHUF	1-3 months MHUF	3-12 months MHUF	1-5 years MHUF	Over 5 years MHUF	Total MHUF
Trading liabilities	-	-	1 037	4 023	2 513	7 573
Financial liabilities designated at fair value through profit or loss	-	-	-	-	-	-
Balance due to banks	135 282	3 205	35 471	113 977	-	287 935
Derivative financial instruments	3 394	3 310	4 967	2 701	1 747	16 119
Deposits and certificates of deposit	940 854	110 807	115 585	50 149	2 419	1 219 814
Refinancing credits	1 944	5 816	14 869	42 037	100 883	165 549
Subordinated debt	-	-	10 109	-	4 714	14 823
Total	1 081 474	123 138	182 038	212 887	112 276	1 711 813

NOTE 30 – FAIR VALUE

Substantially all the Group's monetary assets and liabilities are carried at their fair values as of 31 December 2006 and 2005.

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

Financial instruments at fair value

Held-for-trading instruments, financial instruments designated at fair value through profit or loss and available-for-sale instruments are carried at their market value.

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

Fair value of derivatives

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

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

Loans to customers

Loans to customers are carried net of incurred credit losses. The estimated fair value of loans should be the amount of estimated future cash flows expected to be received, discounted at market rates. As the majority of loans are repriced quarterly, management believes that the carrying value approximates the fair value.

Loans with a net book value of HUF 63 billion (HUF 72 billion at 31 December 2005), a portion of which is at fixed rate, are refinanced through facilities with the FHB on substantially the same terms and conditions. As such any difference in the fair values from the carrying value will be largely offset by a corresponding variance between the carrying value and the fair value of refinancing credits that were used to finance the loans.

Balances due to banks

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

As detailed under loans to customers any difference between the carrying value and the fair value of refinancing credits from the FHB will be largely offset by a corresponding variance between the carrying value and the fair value of the loans granted to customers that these funds were used to finance.

Balances due from other banks

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

Deposits and certificates of deposit

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

NOTE 30 – FAIR VALUE (continued)

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

Held-to-maturity instruments

Bonds and other investments held to maturity are carried at amortised cost. The fair value of these bonds is HUF 195 million lower (HUF 553 million higher in 2005) than their carrying value.

Other financial assets and liabilities

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

NOTE 31 - CREDIT RISK

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

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

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

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

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

	Total assets	Equity and liabilities	Commitments and contingent liabilities
	MHUF	MHUF	MHUF
As at 31 December 2006			
Hungary	2 048 490	1 632 036	556 053
EMU countries	55 257	444 577	5 641
East-European countries	22 406	6 003	88
Russia	17	5 534	-
Other European countries	18 324	55 444	279
Non – European Countries	8 533	9 433	10 161
	2 153 027	2 153 027	572 222

NOTE 31 - CREDIT RISK (continued)

	Total assets	Equity and liabilities	Commitments and contingent liabilities
	MHUF	MHUF	MHUF
As at 31 December 2005			
Hungary	1 855 201	1 522 124	526 348
EMU countries	42 832	383 338	5 977
East-European countries	11 677	5 157	7
Russia	139	3 178	-
Other European countries	10 610	13 263	813
Non – European countries	21 810	15 209	3 955
	1 942 269	1 942 269	537 100

The above contractual amounts represent the maximum credit risk which would arise if the contracts were fully drawn, the customers defaulted and the value of any existing collateral became worthless. Many of the commitments are collateralised and most are expected to expire without being drawn upon; therefore, the total commitment contractual amounts do not necessarily represent the risk of loss or future cash requirements.

NOTE 32 – FINANCE AND OPERATING LEASES

Lessee position

The Group has the following finance leases:

	2006	2005
	MHUF	MHUF
Net carrying amount of leased assets in the Balance Sheet		
Bank premises and equipment-software	101	416
Finance lease liabilities-minimum lease payments		
less than one year	-	171
one to five years	-	-
	-	171
The present value of finance lease liabilities may be analysed as follows:		
less than one year	-	165
one to five years	-	-
	-	165

NOTE 32 – FINANCE AND OPERATING LEASES (continued)

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

	2006 MHUF	2005 MHUF
Total of future minimum lease payments under non-cancellable operating leases:		
less than one year	1 573	1 476
one to five years	5 737	6 225
more than five years	513	1 517
	7 823	9 218

	2006 MHUF	2005 MHUF
Future minimum sublease payments expected to be received	140	90
Minimum lease payments recognized as expense	3 376	3 326

Lessor position

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

Finance leases

	2006 MHUF	2005 MHUF
Total of gross investment in the lease:		
less than one year	20 270	20 870
one to five years	31 242	30 086
more than five years	3 434	2 132
	54 946	53 088
The present value of minimum lease payments receivables:		
less than one year	17 286	16 031
one to five years	30 548	28 579
more than five years	5 507	3 229
	53 341	47 839
Unearned finance income	1 606	5 249
Non-guaranteed residual values	1 685	1 567
Accumulated allowance on minimum lease payments receivable	1 894	2 429

NOTE 32 – FINANCE AND OPERATING LEASES (continued)

The terms of the contracts are between 4 and 120 months. For some special equipment and real estate leases the term of the contracts may be for as long as 126 months. Interest rates are in BUBOR, EURO LIBOR or CHF LIBOR plus an average margin of 4.02% (4.90% in 2005).

Operating leases

	2006 MHUF	2005 MHUF
Gross carrying amount of equipment for operating leases	-	7 117
Accumulated depreciation of equipment for operating leases	-	(1 736)
	-	5 381
Depreciation recognised in income for the period	-	1 084

For further details see note 8.

NOTE 33 – COMMITMENTS AND CONTINGENT LIABILITIES

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

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

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

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

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

NOTE 33 – COMMITMENTS AND CONTINGENT LIABILITIES (continued)

The Group has the following commitments and contingent liabilities:

	2006 Amount MHUF	2005 Amount MHUF
Commitments to extend credit	409 739	370 083
Guarantees	160 028	164 203
Letters of credit	2 455	2 814
Commitments and contingent liabilities	572 222	537 100

Legal claims

Litigation is a common occurrence in the banking industry due to the nature of the business. The Group has an established protocol of dealing with such legal claims. Once professional advance has been obtained and the amount of damages reasonably estimated, the Group makes adjustments to account for any adverse effects which the claims may have on its financial standing. At year end, the Group had several unresolved legal claims in amount of HUF 36 640 million (HUF 14 219 million in 2005). Management believes that adequate provisions have been set aside for litigations and legal claims. See also Note 23.

NOTE 34 – SUBSIDIARIES AND ASSOCIATES

	Principal activities	Effective Shareholding 2006 %	Effective Shareholding 2005 %
Fully consolidated subsidiaries			
K&H Pannonlízing ZRt.	Finance lease	100	100
K&H Autópark Kft.	Operative lease	100	100
K&H Autófinanszírozó ZRt.	Finance lease	100	100
K&H Eszközfinanszírozó ZRt.	Finance lease	100	100
K&H Eszközlízing Kft.	Operative lease	100	100
K&H Alkusz Kft.	Insurance broker	100	100
K&H Lízingház Rt.	Operative lease	100	100
K&H Lízing ZRt.	Finance lease	100	100
K&H Lízingadminisztrációs Rt.	Dormant	100	100
K&H DLH Lízing Kft. „v.a."	Under liquidation	100	100
K&H Ingatlanlízing ZRt.	Finance lease	100	100
K&H Befektetési Alapkezelő ZRt.	Fund manager	100	100
K&H Csoportszolgáltató Kft.	Group service center	100	100
K&H Equities ZRt.	Investment services	100	100
Fordat Kft.	Dormant	100	100
Kvantum Követeléskezelő és Befektetési Rt. "v.a."	Under liquidation	100	100
Talentum Rt. "v.a."	Under liquidation	-	100
MHB Work Out Kft. "v.a."	Under liquidation	-	100
Giro Bankkártya ZRt.	Card services	75	75
Associates consolidated using the equity method			
Giro Elszámolásforgalmi ZRt.	Clearing house	21	21
HAGE ZRt.	Meet processing	25	25
Budatrend III. Ingatlanhasznosító ZRt.	Real estate management	34	34
K&H ITS Kft.	Dormant	100	49
K&H Életbiztosító ZRt.	Life insurance	-	50
K&H Vagyonkezelési Holding Kft. „v.a."	Under liquidation	-	100
K&H Általános Tanácsadó Rt. „v.a."	Under liquidation	-	100
Immaterial, non consolidated subsidiaries			
Piac és Pénz Kiadó Kft. „v.a."	Under liquidation	-	100

During 2006, Talentum Rt., MHB Work Out Kft., K&H Vagyonkezelési Holding Kft. and K&H Általános Tanácsadó Rt. were liquidated.

K&H Életbiztosító ZRt. merged with K&H Biztosító ZRt. in 2006 with the shares of the Bank in K&H Életbiztosító acquired by K&H Biztosító.

NOTE 35 – SUBSEQUENT EVENTS

On 8 January 2007 the Bank signed an agreement for the sale of its 75% owned subsidiary GIRO Bankkártya Zrt. (with a net book value of HUF 965 million) for an amount of HUF 8 800 million. The transaction still has to be formally approved by the Hungarian Financial Supervisory Authority and is expected to be completed by the end of May 2007.

NOTE 36 - RECONCILIATION OF STATUTORY ACCOUNTS TO IFRS ACCOUNTS

	Profit for the year MHUF	Shareholders' equity [1] MHUF	Assets MHUF	Subordinated debt and liabilities MHUF
K&H Bank accounts prepared under Hungarian Accounting Rules	12 025	141 595	2 098 748	1 945 128
Adjustments for IFRS accounts				
Capitalization of VAT, financial leases and revaluation of real estates	27	551	1 417	839
Collective allowance for loan losses	(5 074)	13 721	(6 585)	(15 232)
Specific allowance for loan losses	(350)	(550)	(908)	(8)
Adjustment on delivery repos	4 004	(1 585)	27 535	25 116
Fair valuation of financial instruments (excluding AFS and cash flow hedge)	1 190	2 940	28 348	24 218
Fair valuation of AFS portfolio	-	562	562	-
Cash flow hedge on FX options	-	1 486	1 628	142
Holiday accruals	(239)	(786)	-	1 025
Amortization of loan origination fees	1 737	(6 927)	(5 257)	(67)
Deferred tax	(652)	(541)	-	1 193
K&H Bank standalone IFRS adjustments	643	8 871	46 740	37 226
Subsidiaries accounts prepared under Hungarian Accounting Standards	565	14 074	201 283	186 644
Adjustments for IFRS accounts				
Collective allowance for loan losses	(552)	(912)	(1 218)	246
Financial leases	(383)	259	(538)	(414)
Specific allowance for loan losses	9	12	8 376	8 355
Deferred tax	164	167	-	(331)
Subsidiaries standalone IFRS adjustments	(762)	(474)	6 620	7 856
Adjustments for consolidation	764	(8 409)	(200 364)	(192 719)
Balance per IFRS report	13 235	155 657	2 153 027	1 984 135

[1] Excluding the current year profit