



Kereskedelmi és Hitelbank Nyrt.

Annual Report

31 December 2006

1019566465211401

statistical number

Kereskedelmi és Hitelbank Nyrt.
Balance Sheet (Credit Institutions) – Assets

HUF millions

No.	Description	Previous year 31.12.2005.	Reporting year 31.12.2006.
a	b	c	d
01.	1. CASH AND EQUIVALENTS	128 309	146 087
02.	2. GOVERNMENT SECURITIES	213 225	254 480
03.	a) held for trading	194 090	241 748
04.	b) held for investment	19 135	12 732
05.	2/A. VALUATION DIFFERENCE OF GOVERNMENT SECURITIES		
06.	3. AMOUNTS DUE FROM CREDIT INSTITUTIONS	130 940	152 961
07.	a) on demand	10 367	7 572
08.	b) other receivables from financial services	120 573	145 389
09.	ba) short-term	60 969	88 108
10.	of which: - from affiliated undertakings		
11.	- from other associated undertakings		
12.	- from the NBH		
13.	- from the clearing house		
14.	bb) long-term	59 604	57 281
15.	of which: - from affiliated undertakings		
16.	- from other associated undertakings		
17.	- from the NBH		
18.	- from the clearing house		
19.	c) from investment services		
20.	of which: - from affiliated undertakings		
21.	- from other associated undertakings		
22.	- from the clearing house		
23.	3/A. VALUATION DIFFERENCE OF AMOUNTS DUE FROM CREDIT INSTITUTIONS		
24.	4. AMOUNTS DUE FROM CLIENTS	1 347 773	1 458 814
25.	a) from financial services	1 336 036	1 458 722
26.	aa) short-term	610 899	502 691
27.	of which: - from affiliated undertakings	170 429	3 829
28.	- from other associated undertakings		
29.	ab) long-term	725 137	956 031
30.	of which: - from affiliated undertakings	155	164 749
31.	- from other associated undertakings		
32.	b) from investment services	11 737	92
33.	of which: - from affiliated undertakings		
34.	- from other associated undertakings		
35.	ba) receivables from stock exchange investment services	1	
36.	bb) receivables from over-the-counter investment services		
37.	bc) amounts due from clients, arising from investment services	11 735	91
38.	bd) amounts due from the clearing house	1	1
39.	be) other receivables from investment services		
40.	4/A. VALUATION DIFFERENCE OF AMOUNTS DUE FROM CLIENTS		
41.	5. DEBT SECURITIES, INCLUDING THOSE WITH A FIXED INTEREST RATE	1 333	1 974
42.	a) securities issued by local municipalities and other administrative institutions (excluding government securities)		
43.	aa) held for trading		
44.	ab) held for investment		
45.	b) securities issued by third-party issuers	1 333	1 974
46.	ba) held for trading	601	1 974
47.	of which: - issued by affiliated undertakings		
48.	- issued by other associated undertakings		
49.	- Treasury stock		
50.	bb) held for investment	732	
51.	of which: - issued by affiliated undertakings		
52.	- issued by other associated undertakings		
53.	5/A. VALUATION DIFFERENCE OF DEBT SECURITIES		

No.	Description	Previous year 31.12.2005.	Reporting year 31.12.2006.
a	b	c	d
54.	6. SHARES AND OTHER VARIABLE YIELD SECURITIES	904	-
55.	a) shares and participations held for trading	4	
56.	of which: - issued by affiliated undertakings		
57.	- issued by other associated undertakings		
58.	b) variable yield securities	900	-
59.	ba) held for trading		
60.	bb) held for investment	900	
61.	6/A. VALUATION DIFFERENCE OF SHARES AND OTHER VARIABLE YIELD SECURITIES		
62.	7. SHARES AND PARTICIPATIONS HELD FOR INVESTMENT	2 596	1 933
63.	a) shares and participations held for investment	2 596	1 933
64.	of which: - participations in credit institutions		
65.	b) adjustments to the value of shares and participations held for investment		
66.	of which: - participations in credit institutions		
67.	7/A. VALUATION DIFFERENCE OF SHARES AND PARTICIPATIONS		
68.	8. SHARES AND PARTICIPATIONS IN AFFILIATED UNDERTAKINGS	5 810	8 393
69.	a) shares and participations held for investment	5 810	8 393
70.	of which: - participations in credit institutions		
71.	b) adjustments to the value of shares and participations held for investment		
72.	of which: - participations in credit institutions		
73.	9. INTANGIBLE ASSETS	8 538	8 016
74.	a) intangible assets	8 538	8 016
75.	b) adjustments to the value of intangible assets		
76.	10. TANGIBLE ASSETS	20 224	22 110
77.	a) tangible assets used in financial and investment services	20 160	22 050
78.	aa) land and buildings	11 708	11 418
79.	ab) technical equipment, machinery and vehicles	6 563	6 894
80.	ac) capital expenditure	1 889	3 738
81.	ad) advances for capital investments		
82.	b) tangible assets not directly used in financial and investment services	64	60
83.	ba) land and buildings	2	2
84.	bb) technical equipment, machinery and vehicles	62	58
85.	bc) capital expenditure		
86.	bd) advances for capital investments		
87.	c) adjustments to the value of tangible assets		
88.	11. TREASURY STOCK		
89.	12. OTHER ASSETS	8 066	21 007
90.	a) inventories	249	263
91.	b) other receivables	7 817	20 744
92.	of which: - amounts due from affiliated undertakings	42	294
93.	- amounts due from other associated undertakings		
94.	12/A. VALUATION DIFFERENCE OF OTHER RECEIVABLES		
95.	12/b. POSITIVE VALUATION DIFFERENCE OF DERIVATIVE TRANSACTIONS		
96.	13. PREPAYMENTS AND ACCRUED INCOME	20 619	22 973
97.	a) accrued income	18 817	20 993
98.	b) prepayments	1 802	1 980
99.	c) deferred expense		
100.	TOTAL ASSETS	1 888 337	2 098 748
101.	of which: - CURRENT ASSETS [1+2.a)+3.a)+3.ba)+3.c)+4.aa)+4.b)+5.aa)+5.ba)+6.a)+6.ba)+11+12+ the values of Lines 2/A,+3/A,4/A,5/A,6/A,12/A and 12/B related to the items above]	1 025 042	1 009 279
102.	- FIXED ASSETS [2.b)+3.bb)+4.ab)+5.ab)+5.bb)+6.bb)+7+8+9+10 + the values of Lines 2/A,3/A,4/A,5/A,6/A,7/A,12/A and 12/B related to the items above]	842 676	1 066 496

Budapest, 19 March 2007

Marko Voljc
Chief Executive Officer

Attila Gombás
Head of the Finance and Risk
Management Division

1019566465211401

statistical number

Kereskedelmi és Hitelbank Nyrt.
Balance Sheet (Credit Institutions) – Liabilities & Equity

HUF millions

No.	Description	Previous year 31.12.2005.	Reporting year 31.12.2006.
a	b	c	d
103.	1. AMOUNTS DUE TO CREDIT INSTITUTIONS	408 734	496 764
104.	a) on demand	9 458	56 193
105.	b) fixed-term liabilities from financial services	399 276	440 571
106.	ba) short-term	146 739	180 836
107.	of which: - to affiliated undertakings		
108.	- to other associated undertakings		
109.	- to the NBH	958	
110.	- to the clearing house		
111.	bb) long-term	252 537	259 735
112.	of which: - to affiliated undertakings		
113.	- to other associated undertakings		
114.	- to the NBH		
115.	- to the clearing house		
116.	c) from investment services		
117.	of which: - to affiliated undertakings		
118.	- to other associated undertakings		
119.	- to the clearing house		
120.	1/A. VALUATION DIFFERENCE OF AMOUNTS DUE TO CREDIT INSTITUTIONS		
121.	2. AMOUNTS DUE TO CLIENTS	1 250 699	1 338 394
122.	a) savings deposits		
123.	aa) on demand		
124.	ab) short-term		
125.	ac) long-term		
126.	b) other liabilities from financial services	1 236 969	1 335 381
127.	ba) on demand	646 411	529 830
128.	of which: - to affiliated undertakings	19 383	19 177
129.	- to other associated undertakings		
130.	bb) short-term	542 150	680 667
131.	of which: - to affiliated undertakings	2 008	3 014
132.	- to other associated undertakings		
133.	bc) long-term	48 408	124 884
134.	of which: - to affiliated undertakings		
135.	- to other associated undertakings		
136.	c) from investment services	13 730	3 013
137.	of which: - to affiliated undertakings		
138.	- to other associated undertakings		
139.	ca) liabilities from stock exchange investment services		52
140.	cb) liabilities from over-the-counter investment services		
141.	cc) amounts due to clients from investment services	13 730	2 961
142.	cd) amounts due to the organization performing clearing house activities		
143.	ce) other liabilities from investment services		
144.	2/A. VALUATION DIFFERENCE OF AMOUNTS DUE TO CLIENTS		
145.	3. LIABILITIES FROM SECURITIES ISSUED	439	395
146.	a) bonds issued	4	4
147.	aa) short-term	4	4
148.	of which: - to affiliated undertakings		
149.	- to other associated undertakings		
150.	ab) long-term		
151.	of which: - to affiliated undertakings		
152.	- to other associated undertakings		

No.	Description	Previous year 31.12.2005.	Reporting year 31.12.2006.
a	b	c	d
153.	b) other debt securities issued	-	-
154.	ba) short-term	-	-
155.	of which: - to affiliated undertakings		
156.	- to other associated undertakings		
157.	bb) long-term	-	-
158.	of which: - to affiliated undertakings		
159.	- to other associated undertakings		
160.	c) debt instruments treated as securities for accounting purposes but not deemed securities under the Securities Act	435	391
161.	ca) short-term	435	391
162.	of which: - to affiliated undertakings		
163.	- to other associated undertakings		
164.	cb) long-term		
165.	of which: - to affiliated undertakings		
166.	- to other associated undertakings		
167.	4. OTHER LIABILITIES	33 336	50 281
168.	a) short-term	33 336	50 281
169.	of which: - to affiliated undertakings		58
170.	- to other associated undertakings		
171.	- other financial contributions made by members of co-operative credit institutions		
172.	b) long-term		
173.	of which: - to affiliated undertakings		
174.	- to other associated undertakings		
175.	4/A. NEGATIVE VALUATION DIFFERENCE OF DERIVATIVE TRANSACTIONS		
176.	5. ACCRUALS AND DEFERRED INCOME	19 490	26 755
177.	a) accrued income	2 584	2 532
178.	b) accrued cost and expense	16 567	23 815
179.	c) deferred income	339	408
180.	6. PROVISIONS	19 220	23 509
181.	a) provisions for retirement benefits and severance pay		
182.	b) risk provisions for contingent and future liabilities	620	2 143
183.	c) general risk provisions	16 402	17 906
184.	d) other provisions	2 198	3 460
185.	7. SUBORDINATED LIABILITIES	14 823	19 852
186.	a) subordinated debt	14 823	19 852
187.	of which: - to affiliated undertakings		
188.	- to other associated undertakings		
189.	b) other financial contributions made by members of co-operative credit institutions		
190.	c) other subordinated liabilities		
191.	of which: - to affiliated undertakings		
192.	- to other associated undertakings		
193.	8. SUBSCRIBED CAPITAL	52 507	52 507
194.	- repurchased ownership interest at par value		
195.	9. SUBSCRIBED CAPITAL UNPAID (-)		
196.	10. CAPITAL RESERVE	28 070	28 070
197.	a) differences between the par value and offering price of shares and participations (premium)	14 393	14 393
198.	b) other	13 677	13 677
199.	11. GENERAL RESERVE	4 916	6 118
200.	12. PROFIT RESERVE (+/-)	40 153	56 103
201.	13. EARMARKED RESERVE		
202.	14. VALUATION RESERVE		
203.	a) valuation reserve for value adjustments		
204.	b) valuation reserve for fair market valuation		
205.	15. RETAINED EARNINGS (+/-)	15 950	
206.	TOTAL LIABILITIES & EQUITY	1 888 337	2 098 748
207.	of which: - SHORT-TERM LIABILITIES [1.a)+1.ba)+1.c)+1/A+2.aa)+2.ab)+2.ba)+2.bb)+2.c)+2/A+3.aa)+3.ba)+3.ca)+4.a)+4/A]	1 392 263	1 501 215
208.	- LONG-TERM LIABILITIES [1.bb)+2.ac)+2.bc)+3.ab)+3.bb)+3.cb)+4.b)+7]	315 768	404 471
209.	- EQUITY (8-9+10+11+12+13+14+15)	141 596	142 798

Budapest, 19 March 2007

10195664652111401

statistical number

Kereskedelmi és Hitelbank Nyrt.
Profit & Loss Account (Credit Institutions)

HUF millions

No.	Description	Previous year 31.12.2005.	Reporting year 31.12.2006.
a	b	c	d
01.	1. Interest received and similar income	133 704	156 042
02.	a) interest received (receivable) on fixed-interest debt securities	16 310	16 069
03.	of which: - from affiliated undertakings		
04.	- from other associated undertakings		
05.	b) other interest received and similar income	117 394	139 973
06.	of which: - from affiliated undertakings	3 054	4 882
07.	- from other associated undertakings		
08.	2. Interest paid and similar expense	75 446	95 907
09.	of which: - to affiliated undertakings	971	1 371
10.	- to other associated undertakings		
11.	NET INTEREST INCOME (1-2)	58 258	60 135
12.	3. Income from securities	652	1 477
13.	a) income from shares and participations held for trading (dividend, minority interest)		
14.	b) income from participations in affiliated undertakings (dividend, minority interest)	652	1 477
15.	c) income from other participations (dividend, minority interest)		
16.	4. Fees and commissions received (receivable)	34 237	38 983
17.	a) income from other financial services	31 000	32 955
18.	of which: - from affiliated undertakings	214	238
19.	- from other associated undertakings		
20.	b) income from investment services (excluding income from trading operations)	3 237	6 028
21.	of which: - from affiliated undertakings	2 051	4 695
22.	- from other associated undertakings		
23.	5. Fees and commissions paid (payable)	9 465	11 345
24.	a) expense on other financial services	9 262	11 090
25.	of which: - to affiliated undertakings		
26.	- to other associated undertakings		
27.	b) expense on investment services (excluding expense on trading operations)	203	255
28.	of which: - to affiliated undertakings	56	53
29.	- to other associated undertakings		
30.	6. Profit/loss on financial transactions [(6.a)-6.b)+6.c)-6.d)]	11 186	8 656
31.	a) income from other financial services	7 031	11 738
32.	of which: - from affiliated undertakings		11
33.	- from other associated undertakings		
34.	- valuation difference		
35.	b) expense on other financial services	73	182
36.	of which: - to affiliated undertakings		
37.	- to other associated undertakings		
38.	- valuation difference		
39.	c) income from investment services (income from trading operations)	12 214	9 805
40.	of which: - from affiliated undertakings		
41.	- from other associated undertakings		
42.	- writeback of impairment on securities held for trading		
43.	- valuation difference		
44.	d) expense on investment services (expense on trading operations)	7 986	12 705
45.	of which: - to affiliated undertakings		
46.	- to other associated undertakings		
47.	- impairment on securities held for trading		
48.	- valuation difference		

No.	Description	Previous year 31.12.2005.	Reporting year 31.12.2006.
a	b	c	d
49.	7. Other income from business activities	4 006	6 818
50.	a) income from non-financial and investment services	804	1 799
51.	of which: - from affiliated undertakings	164	781
52.	- from other associated undertakings		
53.	b) other income	3 202	5 019
54.	of which: - from affiliated undertakings		56
55.	- from other associated undertakings		
56.	- writeback of impairment on inventories		
57.	8. General and administrative expenses	48 832	52 304
58.	a) personnel expense	25 435	26 789
59.	aa) salaries and wages	16 977	17 738
60.	ab) other personnel expense	2 398	2 709
61.	of which: - social security expense	498	456
62.	- retirement expense	380	388
63.	ac) contributions payable on salaries and wages	6 060	6 342
64.	of which: - social security expense	2 112	2 178
65.	- retirement expense	3 154	3 326
66.	b) other administrative expenses (material-type expenses)	23 397	25 515
67.	9. Depreciation	6 815	7 116
68.	10. Other expenses on business activities	9 697	18 133
69.	a) expense on non-financial and investment services	634	796
70.	of which: - to affiliated undertakings		
71.	- to other associated undertakings		
72.	b) other expense	9 063	17 337
73.	of which: - to affiliated undertakings		100
74.	- to other associated undertakings		
75.	- impairment on inventories		
76.	11. Impairment on receivables and risk provisioning for contingent and future liabilities	9 083	16 677
77.	a) impairment on receivables	8 492	14 519
78.	b) risk provisioning for contingent and future liabilities	591	2 158
79.	12. Writeback of impairment on receivables and risk provisions used for contingent and future liabilities	6 283	8 201
80.	a) writeback of impairment on receivables	6 180	7 571
81.	b) risk provisions used for contingent and future liabilities	103	630
82.	12/A. Difference between general risk provisions made and used	- 2 940	- 1 504
83.	13. Impairment on debt securities held for investment and shares and participations in affiliated and other associated undertakings	4 663	2 521
84.	14. Writeback of impairment on debt securities held for investment and shares and participations in affiliated and other associated undertakings	1 644	256
85.	15. Profit/loss on ordinary activities	24 771	14 926
86.	of which: - profit/loss on financial and investment services [1-2+3+4-5+6+7.b)-8-9-10.b)-11+12-13+14]	24 601	13 923
87.	- profit/loss on non-financial and investment services [7.a)-10.a)]	170	1 003
88.	16. Extraordinary income	1 158	1 091
89.	17. Extraordinary expense	2 870	836
90.	18. Extraordinary profit/loss (16-17)	- 1 712	255
91.	19. Pretax profit/loss (+15+18)	23 059	15 181
92.	20. Taxation	5 337	3 156
93.	21. Net profit/loss (+19-20)	17 722	12 025
94.	22. General provisions made/used (+)	- 1 772	- 1 202
95.	23. Profit reserve used for dividend and minority interest		
96.	24. Dividend and minority interest approved		10 823
97.	of which: - to affiliated undertakings		
98.	- to other associated undertakings		
99.	25. Retained earnings (+21-/+22+23-24)	15 950	-

Budapest, 19 March 2007

Marko Voljc
Chief Executive Officer

Attila Gombás
Head of the Finance and Risk Management Division

Kereskedelmi és Hitelbank Nyrt.

Notes to the Financial Statements

31 December 2006

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I. OVERVIEW

I/1. Kereskedelmi és Hitelbank Nyrt. – key facts

type of company: company limited by shares

method of operation: public

date of establishment: 20 February 1987

shareholders:

Shareholder	31 December 2005		31 December 2006	
	Subscribed capital (HUF m)	Stake (%)	Subscribed capital (HUF m)	Stake (%)
KBC Bank N.V. B-1080 Brussels, Havenlaan 2.	31 226	59.47	52 487	99.96
ABN AMRO Bank N.V. NL-1082 Amsterdam, Gustav Mahlerlann 10.	21 123	40.23	0	0
Other	158	0.30	20	0.04
Total subscribed capital	52 507	100.00	52 507	100.00

Activities:

65.12 Other monetary intermediation

65.21 Financial leasing

65.22 Other lending

65.23 Other financial intermediation not elsewhere classified

67.12 Securities brokerage, fund management

67.13 Other auxiliary financial activities not elsewhere classified

67.20 Activities auxiliary to insurance and pension funding

74.14 Management consulting

74.87 Other business services not elsewhere classified

I/2. Kereskedelmi és Hitelbank Rt. – Accounting Policy

The Bank has compiled its Accounting Policy in accordance with the provisions of Act C of 2000 on Accounting, Act CXII of 1996 on Credit Institutions and Financial Enterprises, amended by Act CXXIV of 2000, Government Decree No.250/2000 (XII.24.) on the special bookkeeping and annual reporting obligations of credit institutions and financial enterprises and Decree No.14/2001 (III.9.) of the Finance Minister on the rating and valuation criteria of outstanding receivables, investments, off-balance sheet items and collaterals.

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

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

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

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

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

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

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

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

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

The bank-level general ledger statement prepared in accordance with the requirements set forth in the monthly closing directives serves as the basis for the data reports to be submitted to supervisory authorities.

In compliance with accounting regulations, the Bank closes its records at the end of the calendar year. All economic events that are related to the calendar year in question and become known between the balance sheet date and the date when the balance sheet is actually prepared are entered into the Bank's books.

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

The Bank prepares all its accounting vouchers in Hungarian.

In order to support the yearend closing of its books, the preparation of the annual report and to verify balance sheet items the Bank draws up and files for future record a detailed and verifiable inventory of its assets and liabilities as at the balance sheet date, stating both their quantity and value.

During the year the Bank continuously maintains its analytical records to support the various asset and liability items, then at the end of the year prepares an inventory in accordance with the inventory taking timetable, which is issued every year.

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

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

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

The balance sheet is prepared on 4 January 2007.

The annual report consists of the following parts:

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

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

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

The Balance Sheet and Profit & Loss Account must show the corresponding previous-year figure for each item; if the two figures are not comparable, the Bank must provide an explanation in the Notes to the Financial Statements.

Valuation of Balance Sheet assets and liabilities

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

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

The Accounting Policy merely summarizes the key principles.

Fair market valuation

In its accounting operations the Bank does not use fair market valuation in respect of financial instruments.

Valuation of assets

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

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

The Bank posts any interim exchange rate gain/loss under other receivables on a technical account, against the re-valued foreign exchange assets or liabilities account. During monthly general ledger account closing the balance of this technical account is transferred to income from other financial services or expense on other financial services, depending on the nature of the account. At the beginning of the following month, this balance is written back to the technical account. At yearend (at the balance sheet date) the balance of the account is posted to income from other financial services or expense on other financial services.

Valuation of debt securities held for investment or trading

- Interest-bearing securities held for investment (debt securities with a maturity of over one year) are posted to the Bank's books at original cost less purchased interest; the Bank uses the FIFO (first in, first out) method in respect of such securities. In the case of interest-bearing securities held for investment, the difference between par value and purchase price is recognized *pro rata temporis* during the term of the securities.
- Impairment must be recognized if the difference between the book value and market value of securities held for investment is negative (i.e., a loss), significant and appears to be permanent. If the market value of securities held for investment is significantly and permanently higher at the date when the balance sheet is prepared, the impairment previously recognized must be reduced by the difference. Such writeback of impairment, however, cannot cause the book value of the securities to exceed their purchase cost, or, if the purchase cost is higher than the par value, the writeback of impairment cannot cause the book value of the securities to exceed their par value.
- Any impairment recognized on the basis of the rating of debt securities held for investment, and any impairment recognized in the reporting year that is written back in the reporting year must be stated on the Profit & Loss Account under "Impairment on debt securities held for investment and shares and participations in affiliated and other associated undertakings", while any writeback of impairment recognized in the previous years must be stated under "Writeback of impairment on debt securities held for investment and shares and participations in affiliated and other associated undertakings".
- Securities held for trading are posted to the Bank's books at original cost; the Bank uses the FIFO method in respect of such securities.
- Impairment must be recognized if the difference between the book value and market value of securities held for trading is negative (i.e., a loss), significant and appears to be permanent. If the market value of securities held for trading is significantly and permanently higher at the date when the balance sheet is prepared, the book value must be adjusted for the difference by writing back the impairment previously recognized.
- Any impairment recognized on debt securities stated under current assets and any impairment recognized in the reporting year that is written back in the reporting year must be stated as "Expense on investment services" under "Profit/loss on financial transactions", while any writeback of impairment recognized in the previous years must be stated as "Income from investment services" under "Profit/loss on financial transactions".

The Bank does not recognize impairment on government securities.

A permanent difference between book value and market value is any difference that exists for more than one year.

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

Valuation of participations

- Impairment must be recognized on any investment that represents an ownership interest in another business association – regardless of whether such investment is stated under current assets or financial fixed assets – in the amount of the difference between the book value and market value of such investment if such difference is negative (i.e., a loss), significant and appears to be permanent.
- If the market value of the investment is significantly and permanently higher than its book value at the date when the balance sheet is prepared, the book value must be adjusted for the difference by writing back the impairment previously recognized. Such writeback of impairment, however, cannot cause the book value of the investment to exceed its purchase cost.
- Any impairment recognized on the basis of the rating of participations held for investment, and any impairment recognized in the reporting year that is written back in the reporting year must be stated on the Profit & Loss Account under "Impairment on debt securities held for investment and shares and participations in affiliated and other associated undertakings", while any writeback of impairment recognized in the previous years must be stated under "Writeback of impairment on debt securities held for investment and shares and participations in affiliated and other associated undertakings".
- Any impairment recognized on investments representing an ownership interest that are stated under current assets, and any impairment recognized in the reporting year that is written back in the reporting year must be stated as "Expense on investment services" under "Profit/loss on financial transactions", while any writeback of impairment recognized in the previous years must be stated as "Income from investment services" under "Profit/loss on financial transactions".

A permanent difference between book value and market value is any difference that exists for more than one year.

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

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

Valuation of amounts due from credit institutions and clients

- The original cost of receivables arising from contracts concluded by the Bank equals the amount of principal not yet repaid; in the case of receivables purchased, the original cost equals the part of the purchase price not yet paid.
- Impairment must be recognized on a receivable if it is downgraded; similarly, if a receivable is upgraded, its book value must be increased by writing back the impairment previously recognized.
- Any impairment on foreign currency receivables, and any writeback thereof, is recognized and stated in foreign currency.
- Any impairment recognized on the basis of the rating of receivables, and any impairment recognized in the reporting year that is written back in the reporting year must be stated on the Profit & Loss Account under "Impairment on receivables and risk provisioning for contingent and future liabilities". Any writeback that exceeds the amount of impairment recognized in the given business year must be stated under "Writeback of impairment on receivables and risk provisions used for contingent and future liabilities".
- Any impairment on interest receivable (interest claims) dating from before 1 January 1996 must be recognized by reducing the amount of other income accordingly.
- When receivables are sold by the Bank, the impairment recognized on them is not written back up to the sale price or the purchase cost.

When rating receivables, the Bank pays particular attention to:

- delays in principal repayments and interest payments,
- changes in the debtor's financial standing, stability and income generating ability,
- the value and liquidity of assets pledged as collateral.

Rating categories have strict criteria, as follows:

- Receivables with a repayment deadline may only be rated 'performing' if there are documents to suggest that the amount will be recovered and the Bank will not have to sustain any loss (the delay in payment does not exceed 15 days or 30 days).
- Receivables with no repayment deadline, and contingent and future commitments may only be rated 'performing' if they are not likely to result in any loss based on the data available.
- The Bank must give a 'special mention' rating to all receivables, investments and off-balance sheet commitments where the debtor or the receivable requires special handling though nothing suggests any loss at the time of rating.
- Receivables, investments and off-balance sheet commitments must be rated 'substandard' if they appear to carry higher-than-average risk according to the information available, or a loss of an indefinite amount seems likely at the time of the rating.
- Receivables, investments and off-balance sheet commitments must be rated 'doubtful' if they can clearly be seen to result in a loss for the Bank, but the extent of such loss is not known at the time of the rating, or the delay in payment is permanent (in excess of ninety days) or regular.
- Receivables, investments and off-balance sheet commitments are rated 'bad' if the resulting loss will probably exceed seventy percent of the exposure, and the debtor fails to perform its repayment obligations despite repeated notices or liquidation proceedings has already begun (except for receivables arising in the course of the liquidation proceedings).
- Litigated claims (receivables) and commitments linked to matters in litigation must be rated on the basis of the likely outcome of litigation.

In the case of assets transferred to the Bank's ownership as collateral for a loan:

- if the Bank buys the asset from the borrower before the end of the bankruptcy or liquidation proceedings, the asset will be entered into the books at the invoiced value, which, however, cannot be higher than the book value of the original receivable;
- if the Bank acquires the asset after the end of the liquidation proceedings, it will be entered into the books at the value specified in the proposal for the division of assets.

Impairment on accounts receivable and advances paid

Impairment must be recognized – on the basis of information available at the date when the balance sheet is prepared – on accounts receivable and advances paid to suppliers that are outstanding at the balance sheet date of the business year and are not settled by the date the balance sheet is prepared in the amount of the difference between the book value of the receivable and the sum expected to be recovered if such difference is negative (i.e., a loss), significant and appears to be permanent.

If based on the rating of the given customer or debtor the sum expected to be recovered significantly exceeds the book value of the receivable, the amount of the difference must be written back to reduce the impairment previously recognized.

A difference is deemed permanent if it exists for more than 365 days.

A difference is deemed significant if it reaches 15 percent of the book value of the receivable in question.

Valuation of intangible and tangible assets

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

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

Accelerated depreciation is applicable in accordance with the principle of case-by-case valuation when some event reduces the useful life of an asset below its life expectancy established at the time of purchase. The new depreciation rate must be determined on a case-by-case basis in view of the documented actual useful life of the asset in a manner whereby the net value of the asset is reduced to the residual value determined for the end of its useful life.

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

In relation to vehicles purchased after 1 January 2001, ordinary depreciation is calculated on the basis of original cost less 20% residual value, using the straight-line depreciation method.

The original cost of intangible and tangible assets less the residual value expected at the end of their useful life – with the exception of goodwill and formation-reorganization – must be divided among the years when the Bank is expected to use these assets.

The expected useful life of tangible assets is calculated on the basis of the physical wear-and-tear and obsolescence of the individual asset, as well as its role in the life of the enterprise.

The useful life and residual value of an asset is determined upon the recommendation of the organizational unit responsible for purchasing.

Residual value must be determined in the same way for assets purchased in bulk and assets purchased separately but possessing similar parameters and used under similar circumstances. Particular care should be exercised in connection with purchasing high-value assets.

The Bank depreciates goodwill and the capitalized value of formation-reorganization in 5 years. No ordinary depreciation may be recognized on land, building lots, works of art and capital investment projects not yet put into operation.

Extraordinary depreciation must be recognized on:

- intangible and tangible assets – excluding capital investments – if their book value permanently and significantly exceeds their market value,
- trademarks, patents and tangible assets if their value is permanently reduced because they have become redundant, been damaged or destroyed or cannot be (properly) used due to any incompleteness,
- rights if they cannot be enforced at all or can only be enforced with restrictions due to any amendment to the underlying agreement.

If at the balance sheet date of the business year the market value of an individual asset significantly exceeds its net value calculated on the basis of ordinary depreciation, the amount of extraordinary depreciation recognized must be reduced by the amount of the difference, and the book value of the given asset must be increased against other income. The amount written back may not be higher than the amount previously recognized as extraordinary depreciation.

No ordinary or extraordinary depreciation may be recognized on any intangible or tangible asset that has been written off in full; furthermore, no ordinary depreciation may be recognized on any intangible or tangible asset that or reached its planned residual value.

A permanent difference between book value and market value is any difference that exists for more than one year.

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

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

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

Valuation of inventories

The Bank keeps records of the inventories stored at its warehouses by type, at weighted average purchase price.

If the book value of inventories significantly and permanently exceeds their market value as at the date when the balance sheet is prepared, the Bank must recognize impairment in the amount of the difference. If the market value of inventories significantly and permanently exceeds their book value, the amount of the difference must be written back to reduce the impairment previously recognized.

The impairment recognized must be stated as other expense, while the writeback of impairment must be stated as other income on the Profit & Loss Account.

In respect of assets acquired as payment of receivables and stated under inventories, the impairment recognized on the basis of the rating of such assets must be stated as other expense, while any writeback of such impairment must be stated as other income.

A permanent difference between book value and market value is any difference that exists for more than one year.

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

Valuation of liabilities & equity

Equity, provisions and liabilities must be stated on the Balance Sheet at book value.

Subordinated liabilities must be presented separately under liabilities on the Balance Sheet.

Subordinated liabilities comprise subordinated debt and other subordinated liabilities.

Subordinated liabilities that do not meet the criteria of subordinated debt are stated under other subordinated liabilities.

The Bank makes provisions – to the required extent – for payment obligations to third parties arising from past or ongoing transactions or contracts that probably or certainly exist at the balance sheet date but their amount or due date is uncertain, and the funds required to cover them have not yet been provided by the Bank in any other manner.

In addition to the above, in order to give determine the actual profit or loss, the Bank raises provisions – to the required extent – for expected, significant and periodically recurring future expenses if it is likely or certain at the balance sheet date that they will arise in the future but their amount or the date when they are to arise is uncertain, and they cannot be classified under "Accruals and deferred income". No such provisions may be raised for the regular and continuous expenses of ordinary business activities.

The Bank raises provisions for the following purposes:

- 1) "Provisions for retirement benefits and severance pay" consist of provisions made for such purposes among the provisions made for expected liabilities, as defined in the Accounting Act. Provisions made are posted against other expense, while provisions released or used are posted against other income.

- 2) "Risk provisions for contingent and future liabilities" comprises the risk provisions made for off-balance sheet items, including matters in litigation, unused credit facilities, bank and payment guarantees. Provisions made are stated under "Impairment on receivables and risk provisioning for contingent and future liabilities", while provisions released or used are stated under "Writeback of impairment on receivables and risk provisions used for contingent and future liabilities".
- 3) "General risk provisions" refer to provisions made by the Bank pursuant to the Credit Institutions Act for possible exposure-related losses that cannot be seen or determined in advance. General risk provisions cannot exceed 1.25 percent of the adjusted balance sheet total. Provisioning and the use of provisions are stated under "Difference between general risk provisions made and used".
- 4) The Bank posts under "Other provisions", against other expense or other income, respectively:
 - a) provisions for expected liabilities, including non-financial guarantee obligations and the forward leg of futures, forwards, options and swaps that do not serve hedging purposes, are not closed by the date the balance sheet is prepared and are highly likely to result in a loss;
 - b) provisions for expected, significant and periodically recurring future expenses.

According to the Bank's applicable decision, when any risk provision made for future contingent or expected liabilities is used at the time the related off-balance sheet liability is cancelled, the asset created in connection with such off-balance sheet liability must simultaneously be valued, and the required impairment must be recognized.

The Bank must earmark a general reserve from its net profit prior to the payment of dividends; the general reserve must equal 10% of the net profit.

If the Bank has a net loss, the general reserve must be used up to the amount of such loss or the general reserve itself. At the Bank's request the HFSA may exempt the Bank from the obligation to make a general reserve if the Bank's capital adequacy ratio is above twelve percent and it has no negative profit reserve.

The Bank may only use its general reserve to settle losses arising from its activities.

Rules for accruals

Accruals are posted as a result of the consistent application of the matching principle.

Prepayments and accrued income include the following items:

- Interest (late interest) and interest-type commissions earned *pro rata temporis* in the reporting year if they are due and are actually received by the date the balance sheet is prepared, as well as financial service fees earned *pro rata temporis* in the reporting year if they are received between the balance sheet date and the date when the balance sheet is prepared.
- Interest and interest-type commissions earned *pro rata temporis* in the reporting year but not due by the date the balance sheet is prepared, provided that they are receivable from a debtor whose debts are rated 'performing' or 'special mention'.
- All expenditures incurred before the balance sheet date that may only be recognized as cost after the balance sheet date.
- All incomes related to the reporting period that are only payable after the balance sheet date.
- In the case of debt securities issued and purchased below par value (discounted securities), the part of the difference between par value and issue price (purchase price) that is allocated *pro rata temporis* to the reporting year (posted against interest income).
- In the case of interest-bearing debt securities purchased below par value and stated under financial fixed assets, the part of the positive difference (gain) between purchase price and par value that is allocated *pro rata temporis* to the period between the purchase date and the balance sheet date.
- In the case of futures/forward trades made for hedging purposes either on or off the stock exchange and not closed by the balance sheet date, the difference between the trading (market) price of the traded instrument (security, currency, option, listed instrument; e.g. foreign currency exchange rate deposit and loan interest rate) and its market value as at the balance sheet date are posted under "Prepayments and accrued income" and income in an amount that does not exceed the prorated gain/loss recognized on the hedged trade(s) by the balance sheet date, but with the opposite sign.
- With regard to swap trades made for hedging purposes and not closed by the balance sheet date:

a) in the case of HUF-foreign currency swaps, the prorated part for the business year of the difference between the HUF rate (spot rate) of the given foreign currency as at the date of the forward agreement and the trading rate are posted – depending on its nature – to either “Interest received and similar income” or “Interest paid and similar expense” against “Prepayments and accrued income” at the balance sheet date;

b) in the case of foreign currency swaps, the HUF equivalent – calculated at the official NBH foreign exchange rate published for the balance sheet date – of the prorated part for the business year of the difference between the cross rate (spot rate) of the two currencies as at the date of the forward agreement and the trading cross rate are posted – depending on its nature – to either “Interest received and similar income” or “Interest paid and similar expense” against “Prepayments and accrued income” at the balance sheet date.

- Swap trades made for the purpose of interest arbitrage or in order to convert an existing currency into receivables in another currency and reconvert it at the end of the term at a pre-agreed exchange rate are governed by the accounting rules applicable to swaps made for hedging purposes, excluding the stipulation whereby any prorated gain/loss incurred by the balance sheet date and any prorated gain/loss realized by the date the balance sheet is prepared may only be recognized in an amount that does not exceed the prorated gain/loss recognized on the hedged trade for the business year, but with the opposite sign.
- Complex trades created by matching off-exchange spot and forward foreign exchange trades made with different counterparties for the purpose of interest arbitrage or in order to convert an existing currency into receivables in another currency and reconvert it at the end of the term at a pre-agreed exchange rate – which are thus similar to swap trades – are governed by the rules set forth in the paragraph above. It must be ensured in the accounting records that the forward trade matched to the spot trade in the complex trade is properly marked until the end of the term (i.e., until the trade is closed).
- In the case of interest rate swaps, the prorated part for the business year of the financially settled difference between the fixed and variable interest rates is stated by the Bank as at the balance sheet date under “Prepayments and accrued income” against “Interest received and similar income”.

If the trade is made for hedging purposes, the prorated part for the business year of the gain/loss realized by the date the balance sheet is prepared is recognized for the business year in an amount that does not exceed the prorated gain/loss recognized on the hedged trade(s) by the balance sheet date, but with the opposite sign.

- In the case of interest rate swaps made for hedging purposes and not closed by the date the balance sheet is prepared, the difference between the fixed and variable interest rates calculated *pro rata temporis* by the balance sheet date must, depending on its nature, be posted to “Interest received and similar income” against “Prepayments and accrued income”.
- The option premium paid on options not closed by the date the balance sheet is prepared must be stated by the option buyer at the balance sheet date under “Prepayments and accrued income” and as a decrease in “Expense on investment services”.
- If debt is assumed without consideration, the agreed amount of the liability assumed definitively and not settled financially – which is recognized as extraordinary expense – must be stated as a deferred expense under “Prepayments and accrued income”.

Accruals and deferred income include the following items:

- Interest and interest-type commissions payable to credit institutions and clients *pro rata temporis* by the balance sheet date of the reporting year if they are actually paid by the date the balance sheet is prepared, as well as interest and interest-type commissions payable *pro rata temporis* for the reporting year by the balance sheet date if they do not fall due by the date the balance sheet is prepared.

Interest payable *pro rata temporis* by the balance sheet date of the reporting year on variable-yield securities issued by the Bank.

- Any cash income received before the balance sheet date that constitutes income for the period following the balance sheet date.
- Any cost and expense recognized before the balance sheet date that will only be incurred in the period following the balance sheet date.

- Any compensation claim, late interest, damages and court costs that becomes known and is enforced against the Bank between the balance sheet date and the date the balance sheet is prepared, and is linked to reporting period.
- Any bonus, premium pay and related taxes, if they related to the reporting year and paid or approved (imposed) by the date the balance sheet is prepared, but have not been paid yet.
- The option premium paid on options not closed by the date the balance sheet is prepared must be stated by the option writer at the balance sheet date under "Accruals and deferred income" and as a decrease in "Income from investment services".
- In the case of non-repayable aid received to reimburse costs and expenses and recognized as other income, the part of the amount not covered by costs and expenses in the given business year.
- In the case of interest-bearing debt securities purchased above par value and stated under financial fixed assets, the part of the negative difference (loss) between purchase price and par value that is allocated *pro rata temporis* to the period between the purchase date and the balance sheet date.
- Funds received for development purposes and recognized as extraordinary income, debts cancelled (provided that they are related to assets purchased), and the market value of assets received without consideration and assets identified as surplus must be stated as deferred income under "Accruals and deferred income".
- In the case of futures/forward trades made for hedging purposes either on or off the stock exchange and not closed by the balance sheet date, the difference between the trading (market) price of the traded instrument (security, currency, option, listed instrument; e.g. foreign currency exchange rate deposit and loan interest rate) and its market value as at the balance sheet date is posted under "Accruals and deferred income" and expenses in an amount that does not exceed the prorated gain/loss recognized on the hedged trade(s) by the balance sheet date, but with the opposite sign.
- With regard to swap trades made for hedging purposes and not closed by the balance sheet date:
 - a) in the case of HUF-foreign currency swaps, the prorated part for the business year of the difference between the HUF rate (spot rate) of the given foreign currency as at the date of the forward agreement and the trading rate is posted – depending on its nature – to "Interest paid and similar expense" against "Accruals and deferred income" at the balance sheet date;
 - b) in the case of foreign currency swaps, the HUF equivalent – calculated at the official NBH foreign exchange rate published for the balance sheet date – of the prorated part for the business year of the difference between the cross rate (spot rate) of the two currencies as at the date of the forward agreement and the trading cross rate is posted – depending on its nature – to "Interest paid and similar expense" against "Accruals and deferred income" at the balance sheet date.
- Swap trades made for the purpose of interest arbitrage or in order to convert an existing currency into receivables in another currency and reconvert it at the end of the term at a pre-agreed exchange rate are governed by the accounting rules applicable to swaps made for hedging purposes, excluding the stipulation whereby any prorated gain/loss incurred by the balance sheet date and any prorated gain/loss realized by the date the balance sheet is prepared is recognized in an amount that does not exceed the prorated gain/loss recognized on the hedged trade for the business year, but with the opposite sign.
- Complex trades created by matching off-exchange spot and forward foreign exchange trades made with different counterparties for the purpose of interest arbitrage or in order to convert an existing currency into receivables in another currency and reconvert it at the end of the term at a pre-agreed exchange rate – which are thus similar to swap trades – are governed by the rules set forth in the paragraph above. It must be ensured in the accounting records that the forward trade matched to the spot trade in the complex trade is properly marked until the end of the term (i.e., until the trade is closed).
- In the case of interest rate swaps, the prorated part for the business year of the financially settled difference between the fixed and variable interest rates is stated by the Bank as at the balance sheet date under "Accruals and deferred income" against "Interest paid and similar expense".

If the trade is made for hedging purposes, the prorated part for the business year of the gain/loss realized by the date the balance sheet is prepared is only recognized for the business year in an amount that does not exceed the prorated gain/loss recognized on the hedged trade(s) by the balance sheet date, but with the opposite sign.

- In the case of interest rate swaps made for hedging purposes and not closed by the date the balance sheet is prepared, the difference between the fixed and variable interest rates calculated *pro rata temporis* by the balance sheet date must, depending on its nature, be posted to "Interest paid and similar expense" against "Accruals and deferred income".

Profit & Loss Account

The Profit & Loss Account presents the calculation of the Bank's retained earnings – i.e., net profit/loss after taxation and dividends – for the reporting year, showing separately any adjustment to the retained earnings of previous years required by any audit or self-audit. It presents all key factors contributing to or affecting net profit/loss, as well as the components and development thereof.

Retained earnings are the aggregate of the profit/loss on ordinary activities and extraordinary profit/loss (pretax profit/loss), less taxation (net profit/loss), adjusted for the general reserve, plus valuation reserve used, less dividend and minority interest paid (approved).

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

The Profit & Loss Account also shows the corresponding figures of the previous year. In these figures, general risk provisions raised and used were transferred from "Other expenses" and "Other income" respectively to "Difference between general risk provisions made and used".

Pursuant to the applicable government decree, the Notes to the Financial Statements must present the Bank's revenues broken down into domestic income, income realized in the European Union and income derived from outside the European Union. The Bank's income from markets outside the European Union is broken down by country in the Notes to the Financial Statements.

Notes to the Financial Statements

The Notes to the Financial Statements present every item prescribed by the Accounting Act and the applicable government decree, and all information necessary to give a reliable, true and fair view of the Bank's net worth, financial position and business results.

They provide a more detailed explanation on specific lines of the Balance Sheet and the Profit & Loss Account, and include comments on any item that requires further explanation.

The corresponding figures of the previous calendar year must be shown alongside each item of the Balance Sheet and the Profit & Loss Account; if the figures are not comparable, an explanation must be given in the Notes to the Financial Statements, to quantify the impact of any change for the purposes of comparability.

The range and form of data to be provided by the Bank's competent organizational units is specified in a directive issued by the Bank annually in compliance with applicable laws and regulations.

The Bank's Notes to the Financial Statements are structured as follows:

- Overview
- Notes to the Balance Sheet
- Notes to the Profit & Loss Account
- Additional Information
- Evaluation of the Bank's Net Worth and Financial Position.

The Bank's Cash Flow Statement is prepared in compliance with the Version "A" form and content requirements set forth in the Government Decree on Credit Institutions.

II. NOTES TO THE BALANCE SHEET

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

Description	Balance Sheet	31 December 2005			31 December 2006		
		HUF	Foreign currency	Total	HUF	Foreign currency	Total
Cash and equivalents	Line 1	126 935	1 374	128 309	143 773	2 314	146 087
Government securities	Line 2	206 867	6 358	213 225	248 852	5 628	254 480
Amounts due from credit institutions	Line 6	24 846	106 094	130 940	28 321	124 640	152 961
Amounts due from clients	Line 24	655 235	692 538	1 347 773	680 406	778 408	1 458 814
Debt securities, including those with a fixed interest rate	Line 41	1 333	0	1 333	1 974	0	1 974
Shares and other variable yield securities	Line 54	904	0	904	0	0	0
Shares and participations held for investment purposes	Line 62	2 587	9	2 596	1 925	8	1 933
Shares and participations in affiliated undertakings	Line 68	5 810	0	5 810	8 393	0	8 393
Intangible assets	Line 73	8 538	0	8 538	8 016	0	8 016
Tangible assets	Line 76	20 224	0	20 224	22 110	0	22 110
Treasury stock	Line 88	0	0	0	0	0	0
Other assets	Line 89	5 542	2 524	8 066	19 315	1 692	21 007
Prepayments and accrued income	Line 96	16 609	4 010	20 619	17 947	5 026	22 973
Total assets		1 075 430	812 907	1 888 337	1 181 032	917 716	2 098 748

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

Description	Balance Sheet	31 December 2005			31 December 2006		
		HUF	Foreign currency	Total	HUF	Foreign currency	Total
Amounts due to credit institutions	Line 103	114 599	294 135	408 734	170 363	326 401	496 764
Amounts due to clients	Line 121	992 505	258 194	1 250 699	992 912	345 482	1 338 394
Liabilities from securities issued	Line 145	439	0	439	395	0	395
Other liabilities	Line 167	21 089	12 247	33 336	42 309	7 972	50 281
Accruals and deferred income	Line 176	15 901	3 589	19 490	22 313	4 442	26 755
Provisions	Line 180	19 218	2	19 220	23 338	171	23 509
Subordinated liabilities	Line 185	4 714	10 109	14 823	4 714	15 138	19 852
Subscribed capital	Line 193	52 507	0	52 507	52 507	0	52 507
Subscribed capital unpaid (-)	Line 195	0	0	0	0	0	0
Capital reserve	Line 196	28 070	0	28 070	28 070	0	28 070
General reserve	Line 199	4 916	0	4 916	6 118	0	6 118
Profit reserve (+/-)	Line 200	40 153	0	40 153	56 103	0	56 103
Earmarked reserve	Line 201	0	0	0	0	0	0
Valuation reserve	Line 202	0	0	0	0	0	0
Retained earnings	Line 205	15 950	0	15 950	0	0	0
Total liabilities & equity		1 310 061	578 276	1 888 337	1 399 142	699 606	2 098 748

II/3. Amounts due from credit institutions and clients, by maturity
31 December 2006

Description	31 December 2005					Total
	0-3 months	3 months – 1 year	1-5 years	5+ years		
Amounts due from credit institutions, arising from financial services (Balance Sheet line 08)	45 960	13 568	58 123	2 922		120 573
Amounts due from clients, arising from financial services (Balance Sheet line 25)	217 572	387 469	349 893	381 102		1 336 036
Total	263 532	401 037	408 016	384 024		1 456 609

Description	31 December 2006					Total
	0-3 months	3 months – 1 year	1-5 years	5+ years		
Amounts due from credit institutions, arising from financial services (Balance Sheet line 08)	67 557	20 551	57 281	0		145 389
Amounts due from clients, arising from financial services (Balance Sheet line 25)	250 736	243 932	509 174	454 880		1 458 722
Total	318 293	264 483	566 455	454 880		1 604 111

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

31 December 2006

Description	31 December 2005					Total
	0-3 months	3 months – 1 year	1-5 years	5+ years		
Amounts due to credit institutions – fixed-term liabilities from financial services (Balance Sheet line 105)	121 678	25 061	154 644	97 893		399 276
Amounts due to clients – other short-term liabilities from financial services (Balance Sheet line 130)	434 915	107 235	0	0		542 150
Amounts due to clients – other long-term liabilities from financial services (Balance Sheet line 133)	0	0	45 679	2 729		48 408
Subordinated liabilities (Balance Sheet line 185)	0	10 109	0	4 714		14 823
Total	556 593	142 405	200 323	105 336		1 004 657

HUF millions

Description	31 December 2006					Total
	0-3 months	3 months – 1 year	1-5 years	5+ years		
Amounts due to credit institutions – fixed-term liabilities from financial services (Balance Sheet line 105)	138 924	41 912	166 766	92 969		440 571
Amounts due to clients – other short-term liabilities from financial services (Balance Sheet line 130)	545 672	134 553	429	13		680 667
Amounts due to clients – other long-term liabilities from financial services (Balance Sheet line 133)	0	0	119 392	5 492		124 884
Subordinated liabilities (Balance Sheet line 185)	0	0	4 714	15 138		19 852
Total	684 596	176 465	291 301	113 612		1 265 974

HUF millions

III/5. Gross value of intangible and tangible assets

2006

HUF millions

Description	Balance Sheet	Change in gross value					Closing value
		Opening value	Reclassification (+/-)	Merger (+)*	Increase (+)	Decrease (-)	
<u>Intangible assets</u>	Line 73	30 598	-98	0	2 703	-1 880	31 323
- rights		1 071	112		372	-148	1 407
- trademarks and patents		29 527	-210		2 331	-1 732	29 916
<u>Tangible assets used in financial services</u>	Line 77	30 923	98	0	6 288	-1 327	35 982
- land and buildings	Line 78	16 810	-32		777	-523	17 032
- technical equipment, machinery and vehicles	Line 79	12 224	133		3 629	-774	15 212
- capital expenditure	Line 80	1 889	-3		1 882	-30	3 738
- advances for capital investments	Line 81	0			0	0	0
<u>Tangible assets not directly used in financial services</u>	Line 82	66	0	0	5	-8	63
- land and buildings	Line 83	3					3
- technical equipment, machinery and vehicles	Line 84	63			5	-8	60
- capital expenditure	Line 85	0					0
- advances for capital investments	Line 86	0					0

The amount stated for technical equipment, machinery and vehicles includes the value of so-called small-value assets. The total value of such assets is HUF 115 million.

II/6. Accumulated depreciation of intangible and tangible assets

2006

Description	Balance Sheet	Accumulated depreciation				Closing value
		Opening value	Reclassification (+/-)	Increase (+)	Decrease (-)	
<u>Intangible assets</u>	Line 73	22 060	-45	3 162	-1 870	23 307
- rights		341		76	-147	270
- trademarks and patents		21 719	-45	3 086	-1 723	23 037
<u>Tangible assets used in financial services</u>	Line 77	10 763	45	4 095	-971	13 932
- land and buildings	Line 78	5 102		810	-298	5 614
- technical equipment, machinery and vehicles	Line 79	5 661	45	3 285	-673	8 318
<u>Tangible assets not directly used in financial services</u>	Line 82	2	0	1	0	3
- land and buildings	Line 83	1	0	0	0	1
- technical equipment, machinery and vehicles	Line 84	1	0	1	0	2

The amount stated for technical equipment, machinery and vehicles includes the depreciation of so-called small-value assets, which totals HUF 115 million.

II/7. Net value of intangible and tangible assets**2006**

HUF millions

Description	Balance Sheet	31.12.2005.	31.12.2006.
		Opening value	Closing value
Intangible assets	Line 73	8 538	8 016
- rights		730	1 137
- trademarks and patents		7 808	6 879
- capital expenditure on tangible assets		0	0
Tangible assets used in financial services	Line 77	20 160	22 050
- land and buildings	Line 78	11 708	11 418
- technical equipment, machinery and vehicles	Line 79	6 563	6 894
- capital expenditure	Line 80	1 889	3 738
- advances for capital investments	Line 81	0	0
Tangible assets not directly used in financial services	Line 82	64	60
- land and buildings	Line 83	2	2
- technical equipment, machinery and vehicles	Line 84	62	58
- capital expenditure	Line 85	0	0
- advances for capital investments	Line 86	0	0

II/8. Annual depreciation of intangible and tangible assets
2006

HUF millions

Description	Ordinary	Extraordinary	Total
<u>Intangible assets</u>	3 162	0	3 162
<u>Tangible assets used in financial services</u>	3 899	142	4 041
- land and buildings	664	142	806
- technical equipment, machinery and vehicles	3 235	0	3 235
<u>Tangible assets not directly used in financial services</u>	1	0	1
- land and buildings	0	0	0
- technical equipment, machinery and vehicles	1	0	1
<u>Depreciation of tangible assets with a value of less than HUF 50,000</u>	26	0	26
<u>Adjustment due to self-audit</u>	28	0	28
Total	7 116	142	7 258

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

On 1 December 2006 the Bank changed the limit applicable to assets (rights, trademarks and patents, tangible assets) that are depreciated in one sum at the time they are put into use. The limit was increased from an individual purchase or production cost of HUF 50,000 to HUF 100,000. The profit impact of the change was insignificant in 2006.

II/10. Contingent and future liabilities by type

Description	HUF millions	
	31.12.2005.	31.12.2006.
Guarantees issued	166 714	160 776
Credit and guarantee lines	425 671	461 021
Export letters of credit	21	799
Import letters of credit	2 793	1 656
Liabilities from lawsuits	2 444	15 748
Liabilities from options	337 004	253 530
Total contingent liabilities	934 647	893 530

Description	HUF millions	
	31.12.2005.	31.12.2006.
Foreign currency swaps	1 028 400	1 221 358
Foreign currency forwards	149 634	204 059
Liabilities from the sale/purchase of securities	18 932	12 114
Other future liabilities	11 414	24 832
Total future liabilities	1 208 380	1 462 363

**II/11. Impairment and risk provisioning
2006**

Description	Opening balance	Impairment recognized and provisions made in the reporting year (+)	Writeback of impairment recognized, and use/release of provisions made in the previous year (-)	Other changes	HUF millions	
					Closing balance	
Impairment recognized on receivables (amounts due from credit institutions, clients)	21 320	14 519	7 571	-364	27 904	
Impairment recognized on financial fixed assets	18 441	2 521	256	0	20 706	
Impairment recognized on other receivables (operating)	18	0	0	0	18	
Total impairment recognized on assets	39 779	17 040	7 827	-364	48 628	
Risk provisions for contingent and future liabilities	620	2 158	630	-5	2 143	
Provisions for operating risks and other provisions	419	240	98	0	561	
General risk provisions	16 402	1 504	0	0	17 906	
Provisions for future expenses	951	0	681	0	270	
Provisions for futures/forward trades	828	2 079	278	0	2 629	
Total provisions	19 220	5 981	1 687	-5	23 509	

The "Other changes" column shows the change resulting from the 2006 revaluation.

II/12. Other notes to the Balance Sheet**II/12.a. Listed securities held by the Bank****- Under financial fixed assets:**

HUF millions

Description	31 December 2005		31 December 2006	
	Par value	Book value	Par value	Book value
Government bonds	7 880	7 621	9 079	9 001
Corporate bonds	90	86	0	0
Investment units	754	732	0	0
Total	8 724	8 439	9 079	9 001

- Under current assets:

HUF millions

Description	31 December 2005		31 December 2006	
	Par value	Book value	Par value	Book value
Government bonds	82 889	86 820	194681	197 722
Discounted Treasury bills	582	567	5 726	5 522
Mortgage notes	500	510	500	510
Corporate bonds	10	9	0	0
Investment units	0	0	1 122	1 239
Total:	83 981	87 906	202 029	204 993

- b., The total amount of loans, securities, participations and liabilities classified as legal lending limits pursuant to Section 79(1) of the Credit Institutions Act was HUF 1,458,226 million as at the balance sheet date.
- c., As at 31 December 2006 the Bank had subordinated loans of HUF 1.7 million (EUR 6,600, interest rate 2%) stated as subordinated receivables under assets. Under liabilities it had subordinated debt of HUF 19,852 million (HUF 4,714 million, maturity date 20.12.2014., interest rate: same as the rate of interest on 2014/B government bonds; and EUR 60 million, maturity date 30.06.2016., interest rate 4.272%).
- d., The Bank's own real estate properties are free of mortgages; in the case of partially owned properties, the Bank's ownership interests are also free of mortgages.

- e., To cover potential losses related to risk exposure that cannot be foreseen or determined in advance, the Bank must make general risk provisions for up to 1.25% of the adjusted balance sheet total, not later than three years after the effective date of Act CXII of 1996 on Credit Institutions and Financial Enterprises. The Bank made general risk provisions of HUF 17,906 million by 31 December 2006.
- f., The amount of accrued interest (including transaction interest and late interest), interest-type commission and fees receivable totalled HUF 1,420 million on 31 December 2006.
- g., The HUF equivalent of receivables and liabilities arising from spot foreign exchange trades totalled HUF 14,474 million and HUF 14,485 million, respectively, at the balance sheet date, 31 December 2006.
- h., On 31 December 2006, the balances of swap sell and buy trades made in the interbank market stood at HUF 1,130,066 million and HUF 1,146,150 million, respectively, while the balances of swap sell and buy trades made with clients were HUF 91,292 million and HUF 90,916 million, respectively. The balances of forward sell and buy trades made in the interbank market stood at HUF 9,420 million and HUF 27,036 million, respectively, while the balances of FX forward sell and buy trades made with clients were HUF 200,358 million and HUF 187,370 million, respectively. The transactions served hedging as well as trading purposes.
The positive market value of derivative transactions totalled HUF 46,826 million and their negative market value to HUF 33,387 million.
- i., At the end of 2006 the Bank accrued interest income of HUF 4,019 million and prorated interest expense of HUF 3,211 million in respect of FX transactions.
- j., The Bank participates, for a fee, in the distribution of investment units issued by various investment funds. Settlements are effected with these funds on a daily basis, sometimes in arrears. At the end of the year the Bank owed a debt of HUF 771 million to these funds.
The par value of investment units distributed by the Bank itself and posted as off-balance sheet items (held on securities accounts) – expressed in Hungarian forints – totalled HUF 337,423 million at the end of the year.
- k., The Bank did not have any earmarked reserves on 31 December 2006.
- l., On 31 December 2006 the adjusted balance sheet total was HUF 1,432,489 million.
- m., The Bank did not have any retirement benefit payment obligations to its former Board of Directors or Supervisory Board members.
- n., The Bank manages securities with a total par value of HUF 895,567 million for its clients on custody and securities accounts.
As part of its investment services, the Bank also maintains restricted cash accounts (client accounts) for its clients, the aggregate balance of which – expressed in Hungarian forints – was HUF 2,695 million as at 31 December 2006. Clients had receivables of HUF 2,785 million and payables of HUF 99 million on their client accounts at the end of the year.
- o., The Bank did not provide any asset management services for insurance funds in 2006.
- p., On 31 December 2006 the Bank had a total amount of HUF 28,604 million due from its parent company; at the same time, the Bank had short-term liabilities of HUF 214,947 million to its parent.
The net interest expense posted in respect of the parent company totalled HUF 3,113 million in 2006.
On 31 December 2006, amounts due from subsidiaries totalled HUF 168,872 million, while short-term liabilities amounted to HUF 22,249 million. The Bank had no subordinated or long-term liabilities to its subsidiaries.
In relation to its subsidiaries, the Bank posted net interest income of HUF 3,511 million and other income of HUF 5,770 million.
- q., On 31 December 2006 actual repo transactions amounted to zero.

II/13. Third-party securities**- Third-party securities (in safekeeping with KELER Rt.)**

HUF millions

Description	Par value		Comments
	31.12.2005.	31.12.2006.	Physical / Dematerialized
Investment units	143 178	308 943	Dematerialized
Discounted Treasury bills	57 841	46 128	Dematerialized
Other bonds	23 606	55 305	Dematerialized
Mortgage notes	7 584	4 094	Dematerialized
Compensation coupons	0	4	Physical
Interest-bearing Treasury bills	9 695	9 381	Dematerialized
Government bonds for loan consolidation	13 478	14 778	Dematerialized
Hungarian government bonds	347 932	268 274	Dematerialized
Shares	94 026	103 012	Physical / Dematerialized
Foreign government bonds	0	534	Dematerialized
Total	697 340	810 453	

- Third-party securities (in safekeeping at the Bank's depository)

HUF millions

Description	Par value		Comments
	31.12.2005.	31.12.2006.	Physical / Dematerialized
Investment units	0	1	Physical
Other bonds	4 715	4 714	Physical
Compensation coupons	323	385	Physical
Warehouse receipts	11 506	15 457	Physical
Hungarian government bonds	0	8	Physical
Shares	42 754	36 573	Physical
Total	59 298	57 138	

- Third-party securities in safekeeping with third parties

HUF millions**

Description	Par value		Comments
	31.12.2005.	31.12.2006.	Safekeeping agent
Investment units	20 516	28 479	Clearstream Luxembourg (2875.57); KBC Bank N.V. (11,491.53); Kredietbank S.A. Luxembourgeoise (14,111.50)
Other bonds	1 666	0	
Shares	13	0	Concorde Ép. Rt. (0.04); Bonbon Delicatessen Rt.(0.04)
Total	22 195	28 479	

** converted into HUF at the NBH exchange rate for 29.12.2006.

II/14. Securities portfolio held by the Bank**- Securities held by the Bank (in safekeeping with KELER Rt.)**

HUF millions

Description	Par value		Book value	
	31.12.2005.	31.12.2006.	31.12.2005.	31.12.2006.
Investment units	1 654	1 153	1 632	1 239
Discounted Treasury bills	582	5 511	567	5 314
Other bonds	100	229	91	225
Mortgage notes	500	500	510	510
Interest-bearing Treasury bills	89	140	87	138
Government bonds for loan consolidation	81 455	106 155	81 345	105 215
Hungarian government bonds	118 115	141 560	118 818	137 936
NBH interest-bearing bonds	4 743	0	4 743	0
Shares	209	209	558	495
Total	207 447	255 457	208 351	251 072

- Securities held by the Bank (in safekeeping at the Bank's depository)

HUF millions

Description	Par value		Book value	
	31.12.2005.	31.12.2006.	31.12.2005.	31.12.2006.
Shares	4 034	3 238	5 946	7 912
Total	4 034	3 238	5 946	7 912

- Securities held by the Bank (in safekeeping with third parties)

HUF millions ***

Description	Par value		Book value		Comments
	31.12.2005.	31.12.2006.	31.12.2005.	31.12.2006.	
Government bonds for loan consolidation	1 300	0	1 298	0	
Hungarian government bonds	10	42	10	41	KBC Securities Hungarian branch
NBH interest-bearing bonds	5 971	5 286	6 358	5 623	European Investment Bank
Discounted Treasury bills	0	215	0	207	KBC Securities Hungarian branch
Total	7 281	5 543	7 666	5 871	

*** converted into HUF at the NBH exchange rate for 29.12.2006.

II/15. Accruals

	HUF millions	
Prepayments and accrued income	31.12.2005.	31.12.2006.
Accrued income	18 817	20 993
Accrued interest and interest-type commissions	18 024	20 426
Other accrued income	793	567
Prepaid costs and expenses	1 802	1 980
Deferred expense	0	0
Total (Balance Sheet line 96)	20 619	22 973

	HUF millions	
Accruals and deferred income	31.12.2005.	31.12.2006.
Accrued income	2 584	2 532
Accrued costs and expenses	16 567	23 815
Accrued interest	10 957	18 591
Other accrued expenses	1	1
Accrued costs	5 609	5 223
Deferred income	339	408
Total (Balance Sheet line 176)	19 490	26 755

II/16. Changes in equity

	Subscribed capital	Capital reserve	Profit reserve	General reserve	Retained earnings for the year	Total
Balance 31.12.2005.	52 507	28 070	40 153	4 916	15 950	141 596
Distribution of 2005 profits			15 950		-15 950	0
Retained earnings for the year						0
General reserve				1 202		1 202
Capital increase						0
Balance 31.12.2006.	52 507	28 070	56 103	6 118	0	142 798

HUF millions

II/17. Intangible assets by type

Description	HUF millions	
	31.12.2005.	31.12.2006.
Telephone network access fee	27	13
Internet access fee	1	1
Data transmission network access fee	72	49
Image manual	5	4
User rights to commercial	0	38
Licenses	625	1 032
Rights	730	1 137
Basic software	1 004	564
User software	6 800	6 311
Trademarks	4	4
Patents	7 808	6 879
Total	8 538	8 016

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

Description	HUF millions	
	31.12.2005.	31.12.2006.
Inventories purchased	249	263
Materials	221	237
Goods	28	26
Total (Balance Sheet line 90)	249	263

II/19. Face value of risk-free securities

Issue currency	Description	HUF millions	
		2005	2006
HUF	Government bonds for loan consolidation	6 436	106 155
HUF	Bonds issued by the NBH	2 076	0
HUF	Securities issued by the State of Hungary	17 070	141 602
HUF Total		25 582	247 757
JPY	Bonds issued by the NBH	6 358	5 286
JPY Total		6 358	5 286

III. NOTES TO THE PROFIT & LOSS ACCOUNT

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

HUF millions			
No.	Description	31.12.2005.	31.12.2006.
1.	Re-invoiced value of third-party services	624	790
2.	Book value of inventories sold	8	6
3.	Other services	2	
Total (Profit & Loss Account line 69)		634	796

III/2. Income from and expense on investment services

HUF millions		
Income from investment services	31.12.2005.	31.12.2006.
1. Income from custody services	388	491
2. Income from trading operations	12 214	9 805
3. Income from brokerage activities	2 636	5 224
4. Other income	213	313
Total: (Profit & Loss Account lines 20 + 39)	15 451	15 833

HUF millions		
Expense on investment activities	31.12.2005.	31.12.2006.
1. Expense on custody services	15	18
2. Expense on trading operations	7 986	12 705
3. Expense on brokerage activities	188	237
Total: (Profit & Loss Account lines 27 + 44)	8 189	12 960

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

The Bank made all the provisions prescribed by applicable regulations to cover credit, interest, investment and other risks related to its activities in 2006.

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

a) Contributions to deposit insurance and institutional protection funds

HUF millions

Description	Amount		Purpose
	2005	2006	
National Deposit Insurance Fund	144	167	Cost of other services
Investor Protection Fund	68	96	Contribution

b) Financial assistance received

HUF millions

Date	Purpose	Amount received	Grantor	Amount used in 2006	Repayable
30.09.2006.	Sinsys system implementation	61	KBC Bank N.V.	61	NO

c) Geographical breakdown of income in 2006

HUF millions

Profit & Loss Account	Geographical breakdown			Breakdown of non-EU countries				
	Domestic	EU member states	Non-EU countries	United States of America	Panama	Switzerland	Other	
1. Interest received and similar income	139 617	15 929	496	459		35	2	
3. Income from securities	1 477							
4. Fees and commissions received (receivable)	38 329	652	2				2	
6. Profit/loss from financial transactions								
a) income from other financial services	11 738							
c) income from investment services	7 454	2 273	78	3	74		1	
7. Other income from business activities	6 735	83						

III/5. Extraordinary expense and extraordinary income recognized in 2006

Extraordinary expense	Amount		Extraordinary income	Amount	
	31.12.2005.	31.12.2006.		31.12.2005.	31.12.2006.
Extraordinary expense related to the dissolution of a business association with an ownership interest	1 219	215	Extraordinary income related to the dissolution of a business association with an ownership interest	1 073	491
Extraordinary expense arising from the withdrawal of capital from a business association	1 360		Extraordinary income arising from the withdrawal of capital from a business association	80	
Extraordinary expense related to the transformation of a business association with an ownership interest		600	Extraordinary income related to the dissolution of a business association with an ownership interest		600
Extraordinary expense related to previous years	42		Extraordinary income related to previous years	5	
Amounts due from private individuals not deemed uncollectible but nevertheless cancelled	1	3			
Amounts due from enterprises not deemed uncollectible but nevertheless cancelled	248	3			
Cash assets transferred definitively		15			
Total (Profit & Loss Account line 89)	2 870	836	Total (Profit & Loss Account line 88)	1 158	1 091

HUF millions

III/6. Profit/loss from closed forwards, options and swaps in 2006

Description	HUF millions
	Amount
Profit/loss from asset swaps (hedge)	-3
Profit/loss from forwards (hedge)	-1 143
Profit/loss from forwards (non-hedge)	1 152
Profit/loss from FRAs	-212
Profit/loss from interest rate swaps (hedge)	-601
Profit/loss from interest rate swaps (non-hedge)	6 735
Profit/loss from options (hedge)	765
Profit/loss from options (non-hedge)	-98
Profit/loss from foreign currency swaps (non-hedge)	6 898

IV. ADDITIONAL INFORMATION

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

- I. Name: Marko VOLJC
Address: 1051 Brussels, Louizalaan 135. Belgium
- II. Name: Attila GOMBÁS
Address: 5008 Szolnok, Molnár F. u. 65.

IV/2. Auditing

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

IV/3. Person in charge of accounting tasks

Name: Tamás KOVALOVSKI
Registration number: 141812
Address: 2011 Budakalász, Szentendrei út 13.

IV/4. Registered office and website

Registered office: 1051 Budapest, Vigadó tér 1.
Website: www.khb.hu

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

Key details of the K&H Bank Rt. share (HU0000075304):

type: registered, dematerialized ordinary share
basic denomination: HUF 1
amount issued: 52,507,204,412 shares
par value: HUF 52,507,204,412.00

IV/6. Entity that has an ownership interest in the Bank

Company name	Registered office	Voting rights (%)
<u>Direct control:</u> KBC Bank N.V.	B-1080 Brussels, Havenlaan 2.	99.96

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

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

IV/8. The Bank's participations**a. Participations in subsidiaries**

No.	Company name	Registered office	Stake (%)	Equity (HUF m) 31.12.2006.	Subscribed capital (HUF m) 31.12.2006.	Reserves (HUF m) 31.12.2006.	Retained earnings for the last financial year (HUF m) 31.12.2006.
1	K&H Equities ZRT.	1051 Budapest, Vigadó tér 1.	100	5 544	201	7 577	-2 234
2	K&H Pannonlizing ZRt.	1068 Budapest, Dózsa György út 84/A.	100	4 523	503	2 710	1 310
3	K&H Befektetési Alapkezelő ZRT.	1051 Budapest, Vigadó tér 1.	100	2 394	850	509	1 035
4	K&H Autófinanszírozó ZRT.	1068 Budapest, Dózsa György út 84/A.	100	724	50	563	111
5	Risk Kft. „f.a.” (in liquidation)	1087 Budapest, Könyves Kálmán krt. 76.	100	444	444	0	0
6	K&H Csoporszolgáltató Kft.	1051 Budapest, Vigadó tér 1.	100	351	60	0	291
7	K&H Lizing ZRt.	1068 Budapest, Dózsa György út 84/A.	100	328	50	280	-2
8	K&H Alkusz Kft.	1068 Budapest, Dózsa György út 84/A.	100	169	5	144	20
9	K&H Eszközfinanszírozó ZRT.	1068 Budapest, Dózsa György út 84/A.	100	122	100	79	-57
10	Kvantum KK Rt. „v.a.” (in dissolution)	1074 Budapest, Dohány u. 98.	100	83	350	-265	-2
11	K&H Lizingadminisztrációs Rt.	1068 Budapest, Dózsa György út 84/A.	100	59	20	39	0
12	K&H ITS Kft.	1051 Budapest, Vigadó tér 1.	100	46	6	38	2
13	K&H DLH Lizing Kft. „v.a.” (in dissolution)	1068 Budapest, Dózsa György út 84/A.	100	36	32	4	0
14	BST Invest Kft. „f.a.” (in liquidation)	1117 Budapest, Karinthy F. u. 17.	100	1	1	0	0
15	Fordat Kft.	1074 Budapest, Dohány u. 98.	100	-3	216	-213	-6
16	K&H Autópark Bérleti és Szolg. Kft.	1068 Budapest, Dózsa György út 84/A.	100	-16	10	-28	2
17	K&H Eszközlizing Kft.	1068 Budapest, Dózsa György út 84/A.	100	-89	50	-115	-24
18	K&H Ingatlanlizing ZRT.	1068 Budapest, Dózsa György út 84/A.	100	-141	50	27	-218
19	K&H Lizingház Rt.	1068 Budapest, Dózsa György út 84/A.	100	-221	20	-114	-127
20	GIRO Bankkártya ZRT.	1205 Budapest, Mártonffy u. 25-27.	74.58	1 294	177	242	875

The table contains data available as at 29 January 2007.

b. Participations in jointly managed undertakings

The Bank holds no ownership interest in any jointly managed undertakings.

c. Participations in affiliated undertakings

No.	Company name	Registered office	Stake (%)	Equity (HUF m) 31.12.2006.	Subscribed capital (HUF m) 31.12.2006.	Reserves (HUF m) 31.12.2006.	Retained earnings for the last financial year (HUF m) 31.12.2006.
1	Budatrend-III. ZRt.	1022 Budapest, Csopaki u. 6-8.	34.34	257	193	62	2
2	HAGE ZRt.	4181 Nádudvar, Kossuth u. 2.	25.00	6 780	2 689	3 818	273
3	GIRO Elszámolásforgalmi ZRt.	1054 Budapest, Vadász u. 31.	20.99	6 627	2 496	2 616	1 515
4	Hitelgarancia ZRt.	1053 Budapest, Szép u. 2.	13.30	n.a.	4 812	n.a.	n.a.

The table contains data available as at 29 January 2007.

d. Indirect participations in affiliated undertakings

No.	Company name	Registered office	Stake (%)	Equity (HUF m) 31.12.2006.	Subscribed capital (HUF m) 31.12.2006.	Reserves (HUF m) 31.12.2006.	Retained earnings for the last financial year (HUF m) 31.12.2006.
1	Terményfeltáró Kft.	4152 Püspökladány, I. dűlő	25.00	n.a.	74	n.a.	n.a.
2	Hage Invest Kft.	4181 Nádudvar, Kossuth u. 2.	24.17	n.a.	450	n.a.	n.a.
3	BISZ ZRt.	1205 Budapest Mártonffy u. 25-27.	20.99	n.a.	167	n.a.	n.a.
4	Kabai Táp ZRt.	4183 Kaba, Daróczi major, hrsz:070/4.	15.88	n.a.	230	n.a.	n.a.
5	Gyulai Húskombinát ZRt.	5700 Gyula, Kétegyházi út 3.	14.82	n.a.	2 092	n.a.	n.a.
6	Mezőhegyesi Sertésenyésztő és Értékesítő Kft.	5820 Mezőhegyes, Kozma F. u. 30.	14.74	n.a.	390	n.a.	n.a.
7	BIG-PIG Kft.	4181 Nádudvar, Fő u. 119.	10.07	n.a.	59	n.a.	n.a.
8	NAGISZ ZRt.	4181 Nádudvar, Fő u. 119.	6.21	n.a.	5 835	n.a.	n.a.
9	Kisvállalkozás-fejlesztő Pénzügyi ZRt.	1053 Budapest Szép u. 2.	0.20	n.a.	1 700	n.a.	n.a.

The table contains data available as at 29 January 2007.

e. Participations in other associated undertakings

No.	Company name	Registered office	Stake (%)	Equity (HUF m) 31.12.2006.	Subscribed capital (HUF m) 31.12.2006.	Reserves (HUF m) 31.12.2006.	Retained earnings for the last financial year (HUF m) 31.12.2006.
1	Árpád Üzletház Egyesülés	1045 Budapest, Árpád út 112.	9.45	n.a.	2	n.a.	n.a.
2	Budapesti Értéktőzsde ZRt.	1052 Budapest, Deák F. u. 5.	2.00	n.a.	541	n.a.	n.a.
3	Golf & Country Club Máriavölgy ZRt.	1036 Budapest, Lajos u. 127.	0.02	n.a.	42	n.a.	n.a.
4	MasterCard International	1062 Budapest, Váci út 1-3. C ép. 4. em.	0.00	n.a.	n.a.	n.a.	n.a.
5	Swift SC	Belgium, Avenue Adéle 1. B-1310, La Hulde	0.00	n.a.	39 359	n.a.	n.a.

The table contains data available as at 29 January 2007.

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

Company name	Registered office	Subscribed capital (HUF m)	Voting rights
Significant interest:			
Hitelgarancia ZRt.	1053 Budapest, Szép u. 2.	4 812	13.30%
GIRO Elszámolásforgalmi ZRt.	1054 Budapest, Vadász u. 31.	2 496	20.99%
HAGE ZRt.	4181 Nádudvar, Kossuth u. 2.	2 689	25.00%
Budatrend-III. ZRt.	1022 Budapest, Csopaki u. 6-8.	193	34.34%
Controlling interest:			
GIRO Bankkártya ZRt.	1205 Budapest, Mártonffy u. 25-27.	177	74.58%
Direct control:			
K&H Pannonlízings ZRt.	1068 Budapest, Dózsa György út 84/A.	503	99.98%
K&H Alkusz Kft.	1068 Budapest, Dózsa György út 84/A.	5	100.00%
K&H ITS Kft.	1051 Budapest, Vigadó tér 1.	6	100.00%
K&H Lízingadminisztrációs Rt.	1068 Budapest, Dózsa György út 84/A.	20	100.00%
K&H Csoportszolgáltató Kft.	1051 Budapest, Vigadó tér 1.	60	100.00%
K&H Equities ZRt.	1051 Budapest, Vigadó tér 1.	201	100.00%
Kvantum KK Rt. „v.a.” (in dissolution)	1074 Budapest, Dohány u. 98.	350	100.00%
Risk Kft. „f.a.” (in liquidation)	1087 Budapest, Könyves Kálmán krt. 76.	444	100.00%
K&H Befektetési Alapkezelő ZRt.	1051 Budapest, Vigadó tér 1.	850	100.00%

IV/10. Impairment recognized on the investment in K&H Equities ZRt.

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

The Bank implemented a HUF 5 billion capital increase in the investment company on 7 August 2006.

As at 31.12.2006. the impairment recognized by the Bank on its investment totalled HUF 19.5 billion, of which HUF 2.2 billion was recognized in 2006.

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

In 2003 the Bank agreed to guarantee that the equity of K&H Equities ZRt. would comply with applicable regulations. At the same time the Bank's owner agreed to guarantee the Bank's equity in compliance with applicable regulations.

In 2006 the Bank entered into a compensation agreement with ABN AMRO Bank N.V. – its former owner – whereby ABN AMRO will pay compensation, to an extent approximating its former stake (40%), to reimburse the Bank for claims awarded in court proceedings as a result of the fraudulent practices that had occurred at K&H Equities ZRt. before 2003.

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

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

Employees by category	Average statistical number of employees		Salaries and wages (HUF millions)	
	2005	2006	2005	2006
Full-time	3 457	3 336	16 768	17 510
Part-time	42	41	84	113
Retired	15	16	88	84
Not on payroll			37	31
Total (Profit & Loss Account line 59)	3 514	3 393	16 977	17 738

IV/12. Other personnel expenses

Description	HUF millions	
	31.12.2005.	31.12.2006.
Housing allowance	11	8
Per diem allowance – in Hungary	6	6
Per diem allowance – abroad	4	7
Scholarships	7	0
Cost of benefits paid to temporarily disabled employees	196	179
Daily travel allowance (for travelling to work)	64	72
Life insurance contribution	47	50
Vacation allowance	74	104
Clothing allowance	166	111
Food allowance	172	186
Fringe benefits	140	232
Personal income tax (44%)	306	395
Pension fund contribution	380	388
Health fund contribution	302	276
Severance pay	11	3
Other personnel expense	512	692
Total (Profit & Loss Account line 60)	2 398	2 709

IV/13. Remuneration paid to members of the Board of Directors, Executive Management and the Supervisory Board for the business year

HUF millions

Description	Number of persons receiving remuneration		Remuneration	
	31.12.2005.	31.12.2006.	31.12.2005.	31.12.2006.
Board of Directors	5	5	272	269
Executive Management	30	31	680	932
Supervisory Board	1	0	1	0
Total:	36	36	953	1 201

IV/14. Loans granted to members of the Board of Directors, Executive Management and the Supervisory Board

31 December 2006

The Bank granted internal loans in the amount of HUF 23 million.

IV/15. Adjustments to the Bank's taxable income
31 December 2006

		HUF millions	
Items decreasing taxable income	Amount	Items increasing taxable income	Amount
Income from the use of provisions	779	Expense arising from provisioning	240
Depreciation according to the Corporation Tax Act	7 368	Depreciation according to the Accounting Act	7 088
Book value of tangible assets removed from the books	578	Book value of tangible assets removed from the books	366
Dividends received	1 477	Extraordinary depreciation	142
Local trade tax	2 406	Fines	106
Donations	99	Receivables not deemed uncollectible but cancelled in the fiscal year	36
		Cash and equivalents transferred definitively	362
		Other items increasing taxable income	198
		Expenses related to previous years	270
		Book value of missing assets	18
Total	12 707	Total	8 826

IV/16. Cash Flow Statement (presenting the sources and use of the Bank's funds)

HUF millions			
No.	Description	Previous year	Reporting year
A.			
01.	+ Interest income	133 704	156 042
02.	+ Income from other financial services (excluding writeback of impairment on securities)	38 031	44 693
03.	+ Other income (excluding use of provisions, writeback of surplus provisions, writeback of impairment on inventories and writeback of extraordinary depreciation)	3 007	3 962
04.	+ Income from investment services (excluding writeback of impairment on securities)	15 451	15 833
05.	+ Income from non-financial and investment services	804	1 799
06.	+ Dividend income	652	1 477
07.	+ Extraordinary income	1 158	1 091
08.	- Interest expense	75 446	95 907
09.	- Expense on other financial services (excluding impairment on securities)	8 862	11 272
10.	- Other expense (excluding provisioning, impairment on inventories and extraordinary depreciation)	7 477	14 110
11.	- Expense on investment services (excluding impairment on securities)	8 189	12 960
12.	- Expense on non-financial and investment services	634	796
13.	- General and administrative expense	48 832	52 304
14.	- Extraordinary expense (excluding corporation tax liability for the year)	2 870	836
15.	- Corporation tax liability for the year	5 337	3 156
16.	- Dividend paid	0	10 823
17.	CASH FLOW FROM OPERATIONS (lines 01-16)	35 160	22 733
18.	Change in liabilities (+ if increase, - if decrease)	260 427	197 650
19.	Change in receivables (- if increase, + if decrease)	-169 329	-152 937
20.	Change in inventories (- if increase, + if decrease)	52	-14
21.	Change in securities stated under current assets (- if increase, + if decrease)	-87 787	-49 027
22.	Change in securities stated under fixed assets (- if increase, + if decrease)	16 816	3 850
23.	Change in capital expenditure (including advances) (- if increase, + if decrease)	-415	-1 879
24.	Change in intangible assets (- if increase, + if decrease)	-2 498	-2 650
25.	Change in tangible assets (excluding capital expenditure and advances for capital investments) (- if increase, + if decrease)	-4 258	-4 497
26.	Change in prepayments and accrued income (- if increase, + if decrease)	1 703	-2 354
27.	Change in accruals and deferred income (+ if increase, - if decrease)	-555	7 265
28.	Share offering at sale price	0	0
29.	Cash and equivalents received definitively under applicable law	0	0
30.	Cash and equivalents transferred definitively under applicable law	-236	-362
31.	Par value of Treasury stock and equity bonds retired	0	0
32.	NET CASH FLOW (lines 17-34)	49 080	17 778
33.	of which: - change in cash (HUF and foreign currency cash and checks)	1 661	2 758
34.	- change in account balances (short-term, HUF and foreign currency technical and deposit accounts maintained with the NBH, and HUF transaction accounts maintained with other credit institutions under separate laws)	47 419	15 020

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

The 2006 activities and financial operations of K&H Bank were characterized by the following:

- The Bank retained its role and presence in the market, and even managed to strengthen its positions in certain – mainly retail – segments.
- Financial results – apart from certain one-off, extraordinary items – continued to improve.
- The implementation of the integrated banking system was completed.

2006 business activities and the conditions and results of financial operations are summarized below.

1. Balance Sheet and Profit & Loss Account

1.1. Balance Sheet

HUF billions	2005	2006	Change
Balance sheet total (total assets)	1 888	2 099	11%
Amounts due from clients	1 348	1 459	8%

In 2006 K&H Bank posted an 11.1% (HUF 210.4 billion) year-on-year increase in total assets, which thus amounted to HUF 2,098.7 billion on 31 December. On the asset side, the expansion was mainly linked to loans to clients, which was accompanied by similar growth in funds received from clients.

The Bank's **loan portfolio** remains characterized by the dynamic expansion of retail loans: after the 42.6% seen in 2005, retail lending volume grew by 25.4% in 2006 (as a result of which the relative weight of retail loans within the total loan portfolio increased to 31% from the year-earlier 27%). Similarly to the banking sector as a whole, foreign currency-based home and personal loans continued to gain ground (as at 31 December these products already accounted for approximately 67% of the K&H retail loan portfolio, versus 57% in 2005). The growth in corporate loans in 2006 was mainly driven by the SME and large corporate segments.

HUF billions	2005	2006	Change
Amounts due to clients	1 251	1 338	7%
Equity	142	143	1%

Under **liabilities & equity**, the amounts due to clients rose by HUF 87.7 billion in total, their weight within total liabilities dropping to 63.8% (versus 66.2% in 2005).

In the corporate division, growth was mainly driven by the deposits of large corporations in 2006. As for raising funds from retail clients, the Bank posted impressive results in 2006: the amount of deposits and the assets managed in the funds of K&H Befektetési Alapkezelő, the Bank's fund management subsidiary, increased by more than HUF 117 billion during the year (which, in turn, resulted in substantial growth in the deposits placed by these funds with the Bank), boosting the Bank's market share further.

Equity: as KBC Bank N.V., which holds 99.96% of K&H Bank Nyrt., decided to take the maximum dividends allowed by applicable law on the Bank's 2006 profits, the Bank's equity growth – as compared to the end of 2005 – was related to the general reserve, which equalled 10% of the annual profit (HUF 12 billion).

The **capital adequacy ratio (CAR)** measures the Bank's capital in comparison with its external funds and risk-weighted assets. The Bank's CAR, calculated pursuant to applicable Hungarian regulations,

was 11.44% at the end of 2006 (versus 11.19% a year earlier). Hungarian regulations require a minimum CAR of 8.0%.

1.2. Profit & Loss Account

The drop in the Bank's net profit and its profit from ordinary activities was mainly due to certain one-off items in 2006. The comprehensive review of the loan portfolio resulted in increased provisions in respect of client loans that were adversely affected by deteriorating macroeconomic conditions combined with some other, specific factors.

HUF billions	2005	2006
Profit from ordinary activities	24.8	14.9
Net profit	17.7	12.0

The following factors played a key role in income growth:

- *Net interest and similar income* rose by 3.2% as compared to 2005. The 40-bp improvement in the interest spread linked to client loans-deposits was mainly driven by retail portfolios, where – similarly to the banking sector as a whole – the decrease in loan interest rates fell short of that in deposit interest rates, which were in line with market interest rates.
- *Net commission income* came to HUF 27.6 billion in 2006 (a 12% increase). The substantial income growth was primarily driven by the profit from investment services, which rose considerably as a result of the commission income linked to the distribution of new guaranteed funds launched by K&H Értékpapír Befektetési Alapkezelő. The commission income from bankcard and insurance activities also showed outstanding growth.
- The Bank's operating costs rose by HUF 3.8 billion, or 6.8%, year on year (FY2006: HUF 59.4 billion; FY2005: HUF 55.6 billion). The Bank's costs and its cost structure were fundamentally influenced by the fact that certain tasks in operations and maintenance, finance and accounting and administration are no longer performed by the Bank, but by the Bank Group's Support Centre:
 - *Personnel expense* rose by HUF 1.4 billion, or 5.3%, mainly in relation to the salary increase, though the rise was somewhat offset by the cost cuts resulting from employees being transferred to the Support Centre.
 - *Other costs* increased by HUF 2.1 billion (9.1%). The fees paid for the services referred to above contributed HUF 1.1 billion to the increase. The other key growth factors were placement costs (+0.3 billion), marketing costs (+0.2 billion) and administrative expenses (+0.5 billion).
 - *Depreciation* rose by HUF 0.3 billion (4.4%).

2. The Bank's operating conditions

Capital investments in branches:

- 32 branches were opened, altered or completely reconstructed in 2006, as follows: the Bank opened 10 new branches, 6 branches were relocated, the partial or total reconstruction of another 14 branches was completed, and the construction of 2 branches was in progress at the end of the year.
- The three-year HVAC (heating, ventilation and air-conditioning) modernization program of branches was completed in 2006.
- In connection with the construction of branches and under the aegis of the ATM project the Bank installed 66 machines at new locations, and replaced another 97 with more modern equipment.
- The Bank also continued the accessibility project – at present 95 of the 168 K&H branches are accessible to disabled people.

In information technology, the most important tasks of 2006 were as follows:

- Completing the implementation of the Equation/EBA integrated system and archiving the systems replaced.
- Implementing developments in line with business objectives, providing support for product development and service expansion.

The most significant developments carried out in 2006 were as follows:

- The migration of corporate and premium clients and products was completed.
- A major project was completed with the implementation of the W1SE2 global corporate e-banking system, which allows clients to access their K&H accounts via a web interface, and even to place orders in respect of their accounts with other banks.
- The Collections Unit received a new application called Collection Assistant, which supports the work of the internal organization, and also offers a web interface where contract partners can receive assistance.
- The developments required for the administration of interest tax were completed.
- The development of the system designed to manage agency commissions was also completed – the new system will calculate the commissions payable by the Bank to external agents in respect of loan products, guaranteed funds and the products of insurance and health funds.
- The client, account master and exchange rate replications were completed within the framework of the Finforce project, designed to handle international foreign currency payments at Group level.
- The development of the automated monitoring system (AMR) for risk management was completed.

The number of the Bank's employees was reduced by 65 during the year to 3,390. One of the most important contributing factors was the establishment of the Support Centre, as the Bank was able to transfer several tasks (ILBI - Real Estate, Logistics & Bank Security, payroll accounting and finance) – and the organizational units responsible for them – to the new entity.