Statement of the Issuer

K&H Bank Zrt. as the Issuer (represented by: Marko Voljč, CEO and Attila Gombás, Head of the Finance and Risk Management Division) hereby declare that the Year 2008 Annual Report and the Year 2008 Consolidated Annual Report of K&H Bank Zrt. have been prepared, to the best of the Issuer's knowledge, in compliance with the applicable accounting laws and regulations, and the financial details contained therein reflect a true and reliable status of the assets, liabilities, financial position and profitability of K&H Bank Zrt. and the enterprises involved in the consolidation, and the Annual Report shows a faithful picture of the situation, development and performance of K&H Bank Zrt. and the enterprises involved in the consolidation, including the major risks and uncertainty factors.

Budapest, April 30, 2009

Marko Voljč
CEO

Attila Gombás
Head of the Finance and Risk Management Division

K&H Bank Zrt.
610.

Kereskedelmi és Hitelbank Zrt.

Annual Report

31 December 2008

10195664-6419-114-01
statistical number

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

HUF millions

No.	Description	Previous year 31.12.2007	Reporting year 31.12.2008.
a	b	c	d
01.	**1. CASH AND EQUIVALENTS**	**176 343**	**124 297**
02.	**2. GOVERNMENT SECURITIES**	**379 868**	**953 907**
03.	a) held for trading	367 527	695 220
04.	b) held for investment	12 341	258 687
05.	**2/A. VALUATION DIFFERENCE OF GOVERNMENT SECURITIES**		**4 029**
06.	**3. AMOUNTS DUE FROM CREDIT INSTITUTIONS**	**153 255**	**95 196**
07.	a) on demand	16 853	23 425
08.	b) other receivables from financial services	136 402	71 771
09.	ba) short-term	103 221	57 553
10.	of which: - from affiliated undertakings		
11.	- from other associated undertakings		
12.	- from the NBH		
13.	- from the clearing house		
14.	bb) long-term	33 181	14 218
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**	**1 545 919**	**1 764 606**
25.	a) from financial services	1 540 134	1 763 487
26.	aa) short-term	481 326	500 608
27.	of which: - from affiliated undertakings	5 163	7 004
28.	- from other associated undertakings		
29.	ab) long-term	1 058 808	1 262 879
30.	of which: - from affiliated undertakings	163 233	174 355
31.	- from other associated undertakings		
32.	b) from investment services	5 785	1 119
33.	of which: - from affiliated undertakings		
34.	- from other associated undertakings		
35.	ba) receivables from stock exchange investment services	11	
36.	bb) receivables from over-the-counter investment services		
37.	bc) amounts due from clients, arising from investment services	5 773	1 118
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**	**28 134**	**57 268**
42.	a) securities issued by local municipalities and other administrative institutions (excluding government securities)	18 882	42 811
43.	aa) held for trading		
44.	ab) held for investment	18 882	42 811
45.	b) securities issued by third-party issuers	9 252	14 457
46.	ba) held for trading	5 274	8 334
47.	of which: - issued by affiliated undertakings		
48.	- issued by other associated undertakings		
49.	- Treasury stock		14
50.	bb) held for investment	3 978	6 123
51.	of which: - issued by affiliated undertakings		
52.	- issued by other associated undertakings		
53.	**5/A. VALUATION DIFFERENCE OF DEBT SECURITIES**		**- 978**

HUF millions

No.	Description	Previous year 31.12.2007	Reporting year 31.12.2008.
a	b	c	d
54.	**6. SHARES AND OTHER VARIABLE YIELD SECURITIES**	**400**	**465**
55.	a) shares and participations held for trading		
56.	of which: - issued by affiliated undertakings		
57.	- issued by other associated undertakings		
58.	b) variable yield securities	400	465
59.	ba) held for trading	400	465
60.	bb) held for investment		
61.	**6/A. VALUATION DIFFERENCE OF SHARES AND OTHER VARIABLE YIELD SECURITIES**		**- 41**
62.	**7. SHARES AND PARTICIPATIONS HELD FOR INVESTMENT**	**1 530**	**1 775**
63.	a) shares and participations held for investment	1 530	1 775
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**	**9 171**	**16 516**
69.	a) shares and participations held for investment	9 171	16 516
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**	**7 004**	**7 203**
74.	a) intangible assets	7 004	7 203
75.	b) adjustments to the value of intangible assets		
76.	**10. TANGIBLE ASSETS**	**24 691**	**24 157**
77.	a) tangible assets used in financial and investment services	24 616	24 098
78.	aa) land and buildings	12 503	13 944
79.	ab) technical equipment, machinery and vehicles	8 972	7 806
80.	ac) capital expenditure	3 141	2 348
81.	ad) advances for capital investments		
82.	b) tangible assets not directly used in financial and investment services	75	59
83.	ba) land and buildings		
84.	bb) technical equipment, machinery and vehicles	75	59
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**	**9 596**	**16 219**
90.	a) inventories	276	178
91.	b) other receivables	9 320	16 041
92.	of which: - amounts due from affiliated undertakings	57	207
93.	- amounts due from other associated undertakings		
94.	**12/A. VALUATION DIFFERENCE OF OTHER RECEIVABLES**		
95.	**12/b. POSITIVE VALUATION DIFFERENCE OF DERIVATIVE TRANSACTIONS**		**65 364**
96.	**13. PREPAYMENTS AND ACCRUED INCOME**	**27 038**	**48 387**
97.	a) accrued income	25 056	47 988
98.	b) prepayments	1 982	399
99.	c) deferred expense		
100.	**TOTAL ASSETS**	**2 362 949**	**3 178 370**
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]**	1 166 325	1 495 614
102.	**- FIXED ASSETS [2.b)+3.bb)+4.ab)+5.ab)+5.bb)+6.bb)+7+8+9+10 + the values of Lines 2/A,3/A,4/A,5/A,6/A,7/A,12/A and 12/B related to the items above]**	1 169 586	1 634 369

Budapest, 24 March 2009

Marko Voljč Chief Executive Officer	Attila Gombás Head of the Finance and Risk Management Division

10195664-6419-114-01
statistical number

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

HUF millions

No.	Description	Previous year 31.12.2007.	Reporting year 31.12.2008.
a	b	c	d
103.	**1. AMOUNTS DUE TO CREDIT INSTITUTIONS**	**547 054**	**818 615**
104.	a) on demand	3 416	10 609
105.	b) fixed-term liabilities from financial services	543 638	808 006
106.	ba) short-term	264 567	639 900
107.	of which: - from affiliated undertakings		
108.	- from other associated undertakings		
109.	- from the NBH		
110.	- from the clearing house		
111.	bb) long-term	279 071	168 106
112.	of which: - from affiliated undertakings		
113.	- from other associated undertakings		
114.	- from the NBH		
115.	- from the clearing house		
116.	c) from investment services		
117.	of which: - from affiliated undertakings		
118.	- from other associated undertakings		
119.	- from the clearing house		
120.	**1/A. VALUATION DIFFERENCE OF AMOUNTS DUE TO CREDIT INSTITUTIONS**		
121.	**2. AMOUNTS DUE TO CLIENTS**	**1 483 352**	**1 948 432**
122.	a) savings deposits		
123.	aa) on demand		
124.	ab) short-term		
125.	ac) long-term		
126.	b) other liabilities from financial services	1 475 335	1 945 649
127.	ba) on demand	521 446	515 791
128.	of which: - from affiliated undertakings	20 792	18 994
129.	- from other associated undertakings		
130.	bb) short-term	763 400	1 049 893
131.	of which: - from affiliated undertakings	2 785	4 162
132.	- from other associated undertakings		
133.	bc) long-term	190 489	379 965
134.	of which: - from affiliated undertakings	1 233	1 438
135.	- from other associated undertakings		
136.	c) from investment services	8 017	2 783
137.	of which: - from affiliated undertakings		
138.	- from other associated undertakings		
139.	ca) liabilities from stock exchange investment services		2
140.	cb) liabilities from over-the-counter investment services		
141.	cc) amounts due to clients from investment services	8 017	2 781
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**	**5 820**	**5 094**
146.	a) bonds issued	5 519	4 802
147.	aa) short-term	1 069	
148.	of which: - from affiliated undertakings		
149.	- from other associated undertakings		
150.	ab) long-term	4 450	4 802
151.	of which: - from affiliated undertakings		
152.	- from other associated undertakings		

HUF millions

No.	Description	Previous year 31.12.2007	Reporting year 31.12.2008.
a	b	c	d
153.	b) other debt securities issued		
154.	ba) short-term		
155.	of which: - from affiliated undertakings		
156.	- from other associated undertakings		
157.	bb) long-term		
158.	of which: - from affiliated undertakings		
159.	- from other associated undertakings		
160.	c) debt instruments treated as securities for accounting purposes but not deemed securities under the Securities Act	301	292
161.	ca) short-term	301	292
162.	of which: - from affiliated undertakings		
163.	- from other associated undertakings		
164.	cb) long-term		
165.	of which: - from affiliated undertakings		
166.	- from other associated undertakings		
167.	**4. OTHER LIABILITIES**	**87 929**	**38 491**
168.	a) short-term	87 929	38 491
169.	of which: - from affiliated undertakings	54	4
170.	- from other associated undertakings		
171.	- other financial contributions made by members of co-operative credit institutions		
172.	b) long-term		
173.	of which: - from affiliated undertakings		
174.	- from other associated undertakings		
175.	**4/A. NEGATIVE VALUATION DIFFERENCE OF DERIVATIVE TRANSACTIONS**		**77 982**
176.	**5. ACCRUALS AND DEFERRED INCOME**	**32 939**	**60 370**
177.	a) accrued income	2 733	352
178.	b) accrued cost and expense	29 838	59 699
179.	c) deferred income	368	319
180.	**6. PROVISIONS**	**26 102**	**42 891**
181.	a) provisions for retirement benefits and severance pay		
182.	b) risk provisions for contingent and future liabilities	5 869	3 377
183.	c) general risk provisions	18 740	21 601
184.	d) other provisions	1 493	17 913
185.	**7. SUBORDINATED LIABILITIES**	**19 915**	**20 601**
186.	a) subordinated debt	19 915	20 601
187.	of which: - from affiliated undertakings		
188.	- from other associated undertakings		
189.	b) other financial contributions made by members of co-operative credit institutions		
190.	c) other subordinated liabilities		
191.	of which: - from affiliated undertakings		
192.	- from other associated undertakings		
193.	**8. SUBSCRIBED CAPITAL**	**66 307**	**66 307**
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**	**9 358**	**10 704**
200.	**12. PROFIT RESERVE (+/-)**	**56 103**	**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 (+/-)**	**-**	**4 710**
206.	**TOTAL LIABILITIES & EQUITY**	**2 362 949**	**3 178 370**
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]**	1 650 145	2 335 741
208.	**- LONG-TERM LIABILITIES [1.bb)+2.ac)+2.bc)+3.ab)+3.bb)+3.cb)+4.b)+7]**	493 925	573 474
209.	**- EQUITY (8-9+10+11+12+13+14+15)**	159 838	165 894

Budapest, 24 March 2009

Marko Voljč Chief Executive Officer	Attila Gombás Head of the Finance and Risk Management Division

10195664-6419-114-01
statistical number

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

HUF millions

No.	Description	Previous year 31.12.2007.	Reporting year 31.12.2008.
a	b	c	d
01.	**1. Interest received and similar income**	**187 364**	**235 913**
02.	a) interest received (receivable) on fixed-interest debt securities	22 252	38 210
03.	of which: - from affiliated undertakings		
04.	- from other associated undertakings		
05.	b) other interest received and similar income	165 112	197 703
06.	of which: - from affiliated undertakings	6 284	6 757
07.	- from other associated undertakings		
08.	**2. Interest paid and similar expense**	**124 586**	**176 151**
09.	of which: - from affiliated undertakings	1 629	1 839
10.	- from other associated undertakings		
11.	**NET INTEREST INCOME (1-2)**	**62 778**	**59 762**
12.	**3. Income from securities**	**4 188**	**4 211**
13.	a) income from shares and participations held for trading (dividend, minority interest)		
14.	b) income from participations in affiliated undertakings (dividend, minority interest)	4 188	4 211
15.	c) income from other participations (dividend, minority interest)		
16.	**4. Fees and commissions received (receivable)**	**40 665**	**41 663**
17.	a) income from other financial services	35 217	36 369
18.	of which: - from affiliated undertakings	217	217
19.	- from other associated undertakings		
20.	b) income from investment services (excluding income from trading operations)	5 448	5 294
21.	of which: - from affiliated undertakings	3 947	3 695
22.	- from other associated undertakings		
23.	**5. Fees and commissions paid (payable)**	**13 013**	**18 396**
24.	a) expense on other financial services	12 761	18 096
25.	of which: - from affiliated undertakings		
26.	- from other associated undertakings		
27.	b) expense on investment services (excluding expense on trading operations)	252	300
28.	of which: - from affiliated undertakings		
29.	- from other associated undertakings		
30.	**6. Profit/loss on financial transactions [6.a)-6.b)+6.c)-6.d)]**	**23 534**	**23 640**
31.	a) income from other financial services	21 772	39 156
32.	of which: - from affiliated undertakings		
33.	- from other associated undertakings		
34.	- valuation difference		
35.	b) expense on other financial services	4 364	10 670
36.	of which: - from affiliated undertakings		
37.	- from other associated undertakings		
38.	- valuation difference		
39.	c) income from investment services (income from trading operations)	15 490	121 993
40.	of which: - from affiliated undertakings		3 087
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)	9 364	126 839

45.	of which: - to affiliated undertakings		975
46.	- to other associated undertakings		
47.	- impairment on securities held for trading		
48.	- valuation difference		

HUF millions

No.	Description	Previous year 31.12.2007.	Reporting year 31.12.2008.
a	b	c	d
49.	**7. Other income from business activities**	**7 523**	**6 780**
50.	a) income from non-financial and investment services	1 593	1 673
51.	of which: - from affiliated undertakings	585	619
52.	- from other associated undertakings		
53.	b) other income	5 930	5 107
54.	of which: - from affiliated undertakings	92	161
55.	- from other associated undertakings		
56.	- writeback of impairment on inventories		
57.	**8. General and administrative expenses**	**56 562**	**59 860**
58.	a) personnel expense	27 947	28 444
59.	aa) salaries and wages	18 129	18 337
60.	ab) other personnel expense	3 179	3 446
61.	of which: - social security expense	416	469
62.	- retirement expense	383	352
63.	ac) contributions payable on salaries and wages	6 639	6 661
64.	of which: - social security expense	1 656	1 158
65.	- retirement expense	4 114	4 627
66.	b) other administrative expenses (material-type expenses)	28 615	31 416
67.	**9. Depreciation**	**7 460**	**7 582**
68.	**10. Other expenses on business activities**	**13 056**	**40 385**
69.	a) expense on non-financial and investment services	743	777
70.	of which: - to affiliated undertakings		
71.	- to other associated undertakings		
72.	b) other expense	12 313	39 608
73.	of which: - to affiliated undertakings	6	11
74.	- to other associated undertakings		
75.	- impairment on inventories		
76.	**11. Impairment on receivables and risk provisioning for contingent and future liabilities**	**20 869**	**16 031**
77.	a) impairment on receivables	15 717	15 543
78.	b) risk provisioning for contingent and future liabilities	5 152	488
79.	**12. Writeback of impairment on receivables and risk provisions used for contingent and future liabilities**	**11 438**	**19 872**
80.	a) writeback of impairment on receivables	9 997	16 889
81.	b) risk provisions used for contingent and future liabilities	1 441	2 983
82.	**12/A. Difference between general risk provisions made and used**	**- 834**	**- 2 861**
83.	**13. Impairment on debt securities held for investment and shares and participations in affiliated and other associated undertakings**	**58**	**1 051**
84.	**14. Writeback of impairment on debt securities held for investment and shares and participations in affiliated and other associated undertakings**	**847**	**8 750**
85.	**15. Profit/loss on ordinary activities**	**39 121**	**18 512**
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]**	38 271	17 616
87.	**- profit/loss on non-financial and investment services [7.a)-10.a)]**	850	896
88.	**16. Extraordinary income**	**40**	**115**
89.	**17. Extraordinary expense**	**21**	**28**
90.	**18. Extraordinary profit/loss (16-17)**	**19**	**87**
91.	**19. Pretax profit/loss (±15±18)**	**39 140**	**18 599**
92.	**20. Taxation**	**6 736**	**5 141**
93.	**21. Net profit/loss (±19-20)**	**32 404**	**13 458**
94.	**22. General provisions made/used (±)**	**- 3 240**	**- 1 346**
95.	**23. Profit reserve used for dividend and minority interest**		
96.	**24. Dividend and minority interest approved**	**29 164**	**7 402**
97.	of which: - to affiliated undertakings		

98.	- to other associated undertakings		
99.	**25. Retained earnings (±21-/+22+23-24)**	**-**	**4 710**

Budapest, 24 March 2009

Marko Voljč Chief Executive Officer	Attila Gombás Head of the Finance and Risk Management Division

Kereskedelmi és Hitelbank Zrt.

Notes to the Financial Statements

31 December 2008

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I. OVERVIEW

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

type of company: company limited by shares

method of operation: private

date of establishment: 20 February 1987

shareholders:

Shareholder	31 December 2007		31 December 2008	
	Subscribed capital (HUF m)	Stake (%)	Subscribed capital (HUF m)	Stake (%)
KBC N.V. Havenlaan 2, 1080 Brussels, Belgium	**66 307**	**100**	**66 307**	**100**
Other	**0**	**0**	**0**	**0**
Total subscribed capital	**66 307**	**100**	**66 307**	**100**

Activities:

6491 ’08 Financial leasing

6419 ’08 Other monetary intermediation — Primary activity

6622 ’08 Insurance agent and broker activities

6499 ’08 Financial mediation n.e.c.

6612 ’08 Stock and commodities market agent activities

6619 ’08 Other auxiliary financial activities

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

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

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

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

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

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

Accounting operations at the Bank’s head office and branch network units are supported primarily by product-focused IT systems, which 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 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.

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

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

The Bank uses the Hungarian language in its accounting vouchers.

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

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

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

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

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

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

The annual report consists of the following parts:

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

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

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

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

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

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

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

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

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

VALUATION PROCEDURES EMPLOYED IN THE REPORT

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

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

The key principles of valuation procedures:

I. Fair market valuation

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

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

The Bank classifies financial instruments in the following categories.

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

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

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

investments representing ownership and held not for trading purposes (shares, participations, other interest) in foreign currency and in a foreign business entity classifying as an associated enterprise, and the long-term receivables from and liabilities to such a business entity.

- Regardless of their above categorisation, all derivative transactions are reported at fair market value.

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

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

- The yield curve for government securities is defined on the basis of the yields on benchmark government securities published by the Government Debt Management Agency (ÁKK).
- The key points in the yield curve for the HUF and foreign currencies are defined on the basis of deposit yields on the market on the short term (within one year) and based on swap quotes on the long term (beyond one year).

The system basically uses the BUBOR, LIBOR, EURIBOR, BIRS and ÁKK benchmark yields in its calculations.

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

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

The Bank books the valuation differences from fair market valuation in accordance with the following:

- Financial assets
  - The Bank books the valuation difference on investments representing an ownership interest and debt securities classified under financial assets held for trading to revenues/expenditures from trading activities, under revenues/expenditures from investment services, against the valuation difference allocated to the given asset group.

- Financial obligations
  - The Bank books the valuation difference on obligations due to securities loans classified under trading liabilities to revenues/expenditures of other financial services, against the valuation difference on obligations to credit institutions or clients.

- Derivative transactions
  - On forward transactions for trading, the Bank books the valuation difference to revenues from investment services if it is profit or to expenditures on investment services if it is a loss, against the positive or negative valuation difference on derivative transactions.
  - When valuing interest arbitrage swaps or composite transactions created by combining spot and forward FX transactions (equivalent in nature to swaps):
    - the Bank reports the interest part of the fair market value of the transaction as interest revenue or expenditure under accruals
    - it treats the price difference between the swap and the spot part of the composite transaction as an accrual until the transaction is closed
    - the Bank reports the rest of the valuation difference under revenues/expenditures of investment services, against the valuation difference of derivative transactions.
  - The Bank books the valuation difference on options held for trading under revenues from investment services if a profit or under expenditures on investment services if a loss, against the positive or negative valuation difference on derivative transactions. The option fees paid constitute part of the original cost of the transaction for the buyer of the option, which are booked as a positive valuation difference on the derivative transaction and, when the transaction is closed, are accounted for as an item reducing the revenues from investment services if the transaction was for trading, and do not constitute part of the original cost of the financial asset procured under an option delivery transaction. Option fees received are booked by issuers as negative valuation differences on derivative transactions, under liabilities, parallel with the increase in liquid assets, which must be reversed, when the transaction is closed, against revenues on investment services.
  - In case of interest swaps for trading purposes, the Bank books the difference between the variable interest rate and the fixed interest rate projected on the nominal principal applicable to the settlement period and calculated pro-rata up to the valuation date as, depending on its nature, either a revenue or an expenditure on investment services, against accrued assets or accrued liabilities. At the same time, it books to investment service revenues/expenditures the valuation difference taking into account the outstanding interest differences.
  - The Bank books the valuation difference on other derivative transactions held for trading to investment service revenues if it is a profit or investment service expenditures if a loss, against the positive or negative valuation difference of derivative transactions.

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

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

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

II. Valuation of assets

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

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

Valuation of debt securities held for investment or trading

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

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

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

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

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

Under the Accounting Act, if the market value of an asset that is held for investment and represents an ownership interest significantly exceeds the book value (original cost) of such asset following a 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.

The Bank regularly rates its receivables.

It classifies its receivables into asset rating categories for individual rating or valuation groups for group rating.

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

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

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

Valuation of intangible and tangible assets

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

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

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

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

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

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

Under the Accounting Act, if the market value of a right, trademark, patent or tangible asset – except for capital investments and advances for capital investments – significantly exceeds its book value (original cost) following a 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.

III. Valuation of liabilities & equity

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

“General risk provisions” refer to provisions made by the Bank pursuant to the Credit Institutions Act for possible exposure-related losses that cannot be seen or determined in advance. General risk provisions cannot exceed 1.25 percent of the adjusted balance sheet total.

II. NOTES TO THE BALANCE SHEET

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

HUF millions

Description	Balance Sheet	31 December 2007			31 December 2008		
		HUF	Foreign currency	Total	HUF	Foreign currency	Total
Cash and equivalents	Line 1	174 624	1 719	176 343	122 265	2 032	124 297
Government securities	Line 2	375 266	4 602	379 868	947 621	6 286	953 907
Valuation difference of government securities	Line 5	0	0	0	4 029	0	4 029
Amounts due from credit institutions	Line 6	41 324	111 931	153 255	29 304	65 892	95 196
Valuation difference of amounts due from credit institutions	Line 23	0	0	0	0	0	0
Amounts due from clients	Line 24	603 918	942 001	1 545 919	522 245	1 242 361	1 764 606
Valuation difference of amounts due from clients	Line 40	0	0	0	0	0	0
Debt securities, including those with a fixed interest rate	Line 41	20 327	7 807	28 134	39 799	17 469	57 268
Valuation difference of debt securities	Line 53	0	0	0	-284	-694	-978
Shares and other variable yield securities	Line 54	400	0	400	200	265	465
Valuation difference of shares and other variable yield securities	Line 61	0	0	0	-42	1	-41
Shares and participations held for investment	Line 62	1 522	8	1 530	1 527	248	1 775
Valuation difference of shares and participations	Line 67	0	0	0	0	0	0
Shares and participations in affiliated undertakings	Line 68	9 171	0	9 171	16 516	0	16 516
Intangible assets	Line 73	7 004	0	7 004	7 203	0	7 203
Tangible assets	Line 76	24 691	0	24 691	24 157	0	24 157
Treasury stock	Line 88	0	0	0	0	0	0
Other assets	Line 89	8 769	827	9 596	14 192	2 027	16 219
Valuation difference on other assets	Line 94	0	0	0	0	0	0
Positive valuation difference of derivative transactions	Line 95	0	0	0	65 203	161	65 364
Prepayments and accrued income	Line 96	20 571	6 467	27 038	43 399	4 988	48 387
Total assets		**1 287 587**	**1 075 362**	**2 362 949**	**1 837 334**	**1 341 036**	**3 178 370**

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

HUF millions

Description	Balance Sheet	31 December 2007			31 December 2008		
		HUF	Foreign currency	Total	HUF	Foreign currency	Total
Amounts due to credit institutions	Line 103	113 635	433 419	547 054	137 556	681 059	818 615
Valuation difference of amounts due to credit institutions	Line 120	0	0	0	0	0	0
Amounts due to clients	Line 121	1 181 699	301 653	1 483 352	1 263 800	684 632	1 948 432
Valuation difference of amounts due to clients	Line 144	0	0	0	0	0	0
Liabilities from securities issued	Line 145	4 088	1 732	5 820	4 074	1 020	5 094
Other liabilities	Line 167	52 881	35 048	87 929	30 469	8 022	38 491
Negative valuation difference of derivative transactions	Line 175	0	0	0	77 809	173	77 982
Accruals and deferred income	Line 176	27 459	5 480	32 939	51 324	9 046	60 370
Provisions	Line 180	25 938	164	26 102	42 812	79	42 891
Subordinated liabilities	Line 185	4 714	15 201	19 915	4 714	15 887	20 601
Subscribed capital	Line 193	66 307	0	66 307	66 307	0	66 307
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	9 358	0	9 358	10 704	0	10 704
Profit reserve (+/-)	Line 200	56 103	0	56 103	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	0	0	0	4 710	0	4 710
Total liabilities & equity		**1 570 252**	**792 697**	**2 362 949**	**1 778 452**	**1 399 918**	**3 178 370**

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

31 December 2008

HUF millions

Description	31 December 2007				
	0-3 months	3 months – 1year	1-5 years	5+ years	Total
Amounts due from credit institutions, arising from financial services (Balance Sheet line 08)	54 743	48 478	33 181	0	136 402
Amounts due from clients, arising from financial services (Balance Sheet line 25)	242 360	238 966	566 086	492 722	1 540 134
Total	**297 103**	**287 444**	**599 267**	**492 722**	**1 676 536**

HUF millions

Description	31 December 2008				
	0-3 months	3 months – 1year	1-5 years	5+ years	Total
Amounts due from credit institutions, arising from financial services (Balance Sheet line 08)	32 662	24 891	14 218	0	71 771
Amounts due from clients, arising from financial services (Balance Sheet line 25)	268 334	232 274	604 022	658 857	1 763 487
Total	**300 996**	**257 165**	**618 240**	**658 857**	**1 835 258**

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

31 December 2008

HUF millions

Description	31 December 2007				
	0-3 months	3 months – 1year	1-5 years	5+ years	Total
Amounts due to credit institutions – fixed-term liabilities from financial services (Balance Sheet line 105)	247 727	16 840	187 601	91 470	543 638
Amounts due to clients – other short-term liabilities from financial services (Balance Sheet line 130)	709 028	53 635	705	32	763 400
Amounts due to clients – other long-term liabilities from financial services (Balance Sheet line 133)	0	0	189 525	964	190 489
Subordinated liabilities (Balance Sheet line 185)	0	0	4 714	15 201	19 915
Total	**956 755**	**70 475**	**382 545**	**107 667**	**1 517 442**

HUF millions

Description	31 December 2008				
	0-3 months	3 months – 1year	1-5 years	5+ years	Total
Amounts due to credit institutions – fixed-term liabilities from financial services (Balance Sheet line 105)	549 612	90 288	87 618	80 488	808 006
Amounts due to clients – other short-term liabilities from financial services (Balance Sheet line 130)	760 434	286 400	2 914	145	1 049 893
Amounts due to clients – other long-term liabilities from financial services (Balance Sheet line 133)	0	0	379 902	63	379 965
Subordinated liabilities (Balance Sheet line 185)	0	0	0	20 601	20 601
Total	**1 310 046**	**376 688**	**470 434**	**101 297**	**2 258 465**

II/5. Gross value of intangible and tangible assets

2008

HUF millions

Description	Balance Sheet	Change in gross value					
		Opening value	**Reclassification (+/-)**	**Merger (+)***	**Increase (+)**	**Decrease (-)**	**Closing value**
Intangible assets	Line 73	**33 362**	**468**	**0**	**2 416**	**-79**	**36 167**
- rights		**2 341**	495	0	847	0	**3 683**
- trademarks and patents		**31 021**	-27	0	1 569	-79	**32 484**
Tangible assets used in financial services	Line 77	**41 197**	**-468**	**0**	**5 928**	**-2 377**	**44 280**
- land and buildings	Line 78	**18 713**	13	0	2 398	-175	**20 949**
- technical equipment, machinery	Line 79	19 343	-13	0	3 845	-2 192	20 983
- capital expenditure	Line 80	3 141	-468	0	-315	-10	2 348
- advances for capital investments	Line 81	0	0	0	0	0	0
Tangible assets not directly used in financial services	Line 82	**81**	**0**	**0**	**0**	**-12**	**69**
- land and buildings	Line 83	**0**	0	0	0	0	**0**
- technical equipment, machinery and vehicles	Line 84	**81**	0	0	0	-12	**69**
- capital expenditure	Line 85	**0**	0	0	0	0	**0**
- advances for capital investments	Line 86	**0**	0	0	0	0	**0**

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

II/6. Accumulated depreciation of intangible and tangible assets

2008

HUF millions

Description	Balance Sheet	Accumulated depreciation				
		Opening value	Reclassification (+/-)	Increase (+)	Decrease (-)	Closing value
Intangible assets	Line 73	**26 358**	**0**	**2 685**	**-79**	**28 964**
- rights		592	48	527	0	1 167
- trademarks and patents		25 766	-48	2 158	-79	27 797
Tangible assets used in financial services	Line 77	**16 581**	**0**	**4 943**	**-1 342**	**20 182**
- land and buildings	Line 78	6 210	1	849	-55	7 005
- technical equipment, machinery and vehicles	Line 79	10 371	-1	4 094	-1 287	13 177
Tangible assets not directly used in financial services	Line 82	**6**	**0**	**4**	**0**	**10**
- land and buildings	Line 83	0	0	0	0	0
- technical equipment, machinery and vehicles	Line 84	6	0	4	0	10

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

II/7. Net value of intangible and tangible assets

2008

HUF millions

Description	Balance Sheet	31.12.2007. Closing value	31.12.2008. Closing value
Intangible assets	Line 73	**7 004**	**7 203**
- rights		1 749	2 516
- trademarks and patents		5 255	4 687
Tangible assets used in financial services	Line 77	**24 616**	**24 098**
- land and buildings	Line 78	12 503	13 944
- technical equipment, machinery and vehicles	Line 79	8 972	7 806
- capital expenditure	Line 80	3 141	2 348
- advances for capital investments	Line 81	0	0
Tangible assets not directly used in financial services	Line 82	**75**	**59**
- land and buildings	Line 83	0	0
- technical equipment, machinery and vehicles	Line 84	75	59
- capital expenditure	Line 85	0	0
- advances for capital investments	Line 86	0	0

II/8. Annual depreciation of intangible and tangible assets 2008

HUF millions

Description	Ordinary	Extraordinary	Total
Intangible assets	2 626	50	2 676
Tangible assets used in financial services	4 716		4 716
- land and buildings	845		845
- technical equipment, machinery and vehicles	3 871		3 871
Tangible assets not directly used in financial services	4	0	4
- land and buildings	0	0	0
- technical equipment, machinery and vehicles	4	0	4
Depreciation of tangible assets with a value of less than HUF 100,000	97	0	97
Adjustment due to self-audit	139	0	139
Total	**7 582**	**50**	**7 632**

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

In 2008 the Bank did not change the depreciation method used with intangible and tangible assets.

II/10. Contingent and future liabilities by type

HUF millions

Description	31.12.2007.	31.12.2008.
Guarantees issued	148 156	137 969
Loans, guarantees and letters of credit	397 529	384 474
Export letters of credit	522	3 970
Import letters of credit	3 098	1 747
Liabilities from lawsuits	3 368	2 273
Liabilities from options	424 857	1 141 287
Other contingent liabilities		155
Total contingent liabilities	**977 530**	**1 671 875**

HUF millions

Description	31.12.2007.	31.12.2008.
Foreign currency swaps	1 341 934	1 429 496
Foreign currency forwards	178 541	175 752
Liabilities from the sale/purchase of securities	67 992	669
Future liabilities on payments		1 861
Other future liabilities	374	384
Total future liabilities	**1 588 841**	**1 608 161**

II/11. Impairment and risk provisioning 2008

HUF millions

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	Closing balance
Impairment recognized on receivables (amounts due from credit institutions, clients)	33 580	15 543	16 889	601	32 835
Impairment recognized on financial fixed assets	19 917	1 051	8 750	0	12 218
Impairment recognized on securities held for trading	212	0	222	10	0
Impairment recognized on operating risks	336	0	0	0	336
Impairment recognized on other receivables (operating)	406	16	100	1	323
Total impairment recognized on assets:	**54 451**	**16 610**	**25 961**	**612**	**45 712**
Risk provisions for contingent and future liabilities	5 869	488	2 983	3	3 377
Provisions for operating risks and other provisions	0	0	0	0	0
General risk provisions	18 740	2 861	0	0	21 601
Provisions for future expenses	188	0	84	0	104
Provisions for anticipated liabilities	270	17 845	306	0	17 809
Provisions for futures/forward trades	1 035	0	1 035	0	0
Total provisions:	**26 102**	**21 194**	**4 408**	**3**	**42 891**

The “Other changes” column shows the change resulting from revaluation in 2008.

II/12. Other notes to the Balance Sheet

a., Listed securities held by the Bank

- Under financial fixed assets:

HUF millions

Description	31 December 2007		31 December 2008	
	Par value	Book value	Par value	Book value
Government bonds	1 469	1 432	233 715	212 559
Total	**1 469**	**1 432**	**233 715**	**212 559**

- Under current assets:

HUF millions

Description	31 December 2007		31 December 2008	
	Par value	Book value	Par value	Book value
Government bonds	223 689	219 946	75 871	71 384
Discounted Treasury bills	1 051	1 022	189 037	179 567
Mortgage notes	500	510	0	0
Investment units	3 318	3 650	5 977	6 787
Total	**228 558**	**225 128**	**270 885**	**257 738**

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 449,392 million as at the balance sheet date.

c., As at 31 December 2008 the Bank's liabilities included subordinated debt of HUF 20,600 million (HUF 4,714 million, maturity date 22.12.2014., interest rate: same as the rate of interest on 2014/B government bonds; and EUR 60 million, maturity date 30.06.2016., interest rate: 3-month EURIBOR + 0.55%, that is, 5.692%), stated under subordinated liabilities.

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

e., Under Act CXII of 1996 on Credit Institutions and Financial Enterprises, the Bank may make general risk provisions for up to 1.25% of the adjusted balance sheet total to cover potential losses related to risk exposure that cannot be foreseen or determined in advance. The Bank made general risk provisions of HUF 21,601 million by 31 December 2008.

f., The amount of accrued interest (including transaction interest and late interest), interest-type commission and fees receivable totaled HUF 1,230 million on 31 December 2008, versus HUF 1,278 million on 31 December 2007.

g., The HUF equivalent of receivables and liabilities arising from spot foreign exchange trades totaled HUF 26,039 million and HUF 26,042 million, respectively, at the balance sheet date, 31 December 2008.

h., On 31 December 2008, the balances of foreign currency swap sell and buy trades made in the interbank market stood at HUF 1,205,219 million and HUF 1,223,052 million, respectively, while the balances of foreign currency swap sell and buy trades made with clients were HUF 208,733 million and HUF 205,930 million, respectively. The balances of forward sell and buy trades made in the interbank market stood at HUF 35,286 million and HUF 35,039 million, respectively, while the balances of FX forward sell and buy trades made with clients were HUF 113,652 million and HUF 114,671 million, respectively. The transactions served (exchange rate) hedging as well as trading purposes.

i., Profit impact of derivative transactions as of the end of 2008

HUF millions

Product	**Profit impact**
Forward	-3 146
FX swap	-2 036
IR swap, CIRS, Asset swap	9 323
Total	**4 141**

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

HUF millions

Start date	**Maturity date**	**Security**	**Par value**	**Transaction value**
08.12.2008.	05.01.2009.	2009/D	1 930	1 928
11.12.2008.	12.01.2009.	2009/D	1 200	1 210
03.12.2008.	05.01.2009.	2010/B	1 000	941
15.12.2008.	05.01.2009.	2010/C	955	971
22.12.2008.	12.01.2009.	2010/C	1 500	1 521
11.12.2008.	12.01.2009.	2011/B	4 175	3 882
31.12.2008.	07.01.2009.	2012/C	600	554
31.12.2008.	07.01.2009.	2012/C	1 000	906
01.12.2008.	05.01.2009.	2013/D	3 000	2 697
03.12.2008.	05.01.2009.	2013/D	3 000	2 777
03.12.2008.	05.01.2009.	2015/A	4 000	3 849
31.12.2008.	07.01.2009.	2012/C	1 000	921
Active special delivery repos total			**23 360**	**22 157**

HUF millions

Start date	**Maturity date**	**Securities**	**Par value**	**Transaction value**
22.12.2008.	12.01.2009.	2011/B	1 675	1 554
30.12.2008.	30.01.2009.	2009/C	1 000	1 025
11.12.2008.	15.01.2009.	2010/B	800	777
12.12.2008.	05.01.2009.	2015/A	1 000	965
29.12.2008.	31.03.2009.	2013/C	3 600	3 610
Passive special delivery repos total			**8 075**	**7 931**

k., K&H Bank Zrt. participates, for a commission, 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 1,003 million to these funds.
The par value of investment units posted as off-balance sheet items (held on securities accounts) – expressed in Hungarian forints – totaled HUF 392,354 million at the end of the year.

l., The Bank did not have any earmarked reserves on 31 December 2008.

m., On 31 December 2008 the adjusted balance sheet total was HUF 1,728,063 million.

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

o., The Bank manages securities with a total par value of HUF 861,224 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 2,508 million as at 31 December 2008. Clients had receivables of HUF 2,675 million and payables of HUF 167 million on their client accounts at the end of the year.

p., The Bank did not provide any asset management services for insurance funds in 2008.

q., On 31 December 2008 the Bank had a total amount of HUF 5,606 million due from its parent company; at the same time, the Bank had short-term liabilities of HUF 533,054 million to its parent.
On 31 December 2008, amounts due from subsidiaries totaled HUF 181,566 million, while short-term liabilities amounted to HUF 23,160 million, and long-term liabilities to HUF 1,438 million. The Bank had no subordinated liabilities to its subsidiaries.

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

II/13. Third-party securities

- Third-party securities (in safekeeping with KELER Rt.)

HUF millions

Description	Par value		Comments
	31.12.2007.	31.12.2008.	Physical / Dematerialized
Investment units	361 353	362 438	Dematerialized
Discounted Treasury bills	40 377	62 122	Dematerialized
Other bonds	55 059	55 746	Dematerialized
Mortgage notes	4 259	4 579	Dematerialized
Compensation coupons	5	0	Physical
Interest-bearing Treasury bills	6 104	8 541	Dematerialized
Government bonds for loan consolidation	14 278	13 846	Dematerialized
Hungarian government bonds	328 059	177 706	Dematerialized
Shares	88 635	62 218	Physical / Dematerialized
Foreign government bonds	28	0	Dematerialized
NBH discounted bonds	103	7 286	Dematerialized
Municipal bonds	500	500	Dematerialized
Bonds issued by K&H Bank	5 374	4 784	Dematerialized
Total	**904 134**	**759 766**	

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

HUF millions

Description	Par value		Comments
	31.12.2007.	31.12.2008.	Physical / Dematerialized
Investment units	1	81	Physical
Other bonds	4 714	4 714	Physical
Compensation coupons	320	286	Physical
Warehouse receipts	30 991	31 951	Physical
Hungarian government bonds	0	0	Physical
Shares	34 885	33 683	Physical
Total	**70 911**	**70 715**	

- Third-party securities in safekeeping with third parties

HUF millions*

Description	Par value		Comments
	31.12.2007.	31.12.2008.	Safekeeping agent
Investment units	33 127	29 916	KBC Brussels, Clearstream Luxembourg, KBC Securities N.V., Brussels, Kredietbank S.A. Luxembourgeoise, Luxembourg
Other bonds	0	304	Clearstream Luxembourg
Shares	0*	74	KBC Securities N.V., Brussels,Clearstream Luxembourg, Concorde Értékpapír Rt
Foreign government bonds	0	1 157	Clearstream Luxembourg
Total	**33 127**	**31 451**	

* rounded figure
** converted into HUF at the NBH exchange rate for 31.12.2008.

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	
	31.12.2007.	31.12.2008.	31.12.2007.	31.12.2008.
Investment units	3 954	7 252	4 049	7 251
Discounted Treasury bills	1 051	189 037	1 022	179 567
Other bonds	5 016	7 868	4 997	7 146
Mortgage notes	500	500	510	510
Interest-bearing Treasury bills	135	147	133	143
Government bonds for loan consolidation	93 476	110 655	92 899	110 356
Hungarian government bonds	224 996	311 701	221 378	285 845
Shares	66	66	92	98
NBH discounted bonds	60 000	372 848	59 838	371 302
Municipal bonds	19 187	42 811	19 187	42 811
Bonds issued by K&H Bank	6	19	6	14
Total	**408 387**	**1 042 904**	**404 111**	**1 005 043**

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

HUF millions

Description	Par value		Book value	
	31.12.2007.	31.12.2008.	31.12.2007.	31.12.2008.
Shares	2 387	2 388	7 898	15 250
Total	**2 387**	**2 388**	**7 898**	**15 250**

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

HUF millions ***

Description	Par value		Book value		Comments
	31.12.2007.	31.12.2008.	31.12.2007.	31.12.2008.	
Hungarian government bonds	162	472	158	408	KBC Securities Hungarian Branch Office
NBH foreign currency bonds	4 239	5 791	4 602	6 286	European Investment Bank
Total	**4 401**	**6 263**	**4 760**	**6 694**	

*** converted into HUF at the NBH exchange rate for 31.12.2008.

II/15. Accruals

HUF millions

Prepayments and accrued income	**31.12.2007.**	**31.12.2008.**
Accrued income	**25 056**	**47 988**
Accrued interest and interest-type commissions	24 361	26 498
IR swaps fair market value interest accrual	0	17 502
IR arbitrage transactions interest accrual	0	3 370
Other accrued income	695	618
Prepaid costs and expenses	**1 982**	**399**
Deferred expense	**0**	**0**
Total (Balance Sheet line 96)	**27 038**	**48 387**

HUF millions

Accruals and deferred income	**31.12.2007.**	**31.12.2008.**
Accrued income	**2 733**	**352**
Accrued costs and expenses	**29 838**	**59 699**
Accrued interest	23 638	35 523
IR swaps fair market value interest accrual	0	9 730
IR arbitrage transactions interest accrual	0	4 722
Other accrued expenses	1	0
Accrued costs	6 199	9 724
Deferred income	**368**	**319**
Total (Balance Sheet line 176)	**32 939**	**60 370**

II/16. Changes in equity

HUF millions

	Subscribed capital	Capital reserve	Profit reserve	General reserve	Retained earnings for the year	Total
Balance 31.12.2007.	66 307	28 070	56 103	9 358	0	**159 838**
Retained earnings for the year					4 710	**4 710**
General reserve				1 346		**1 346**
Balance 31.12.2008.	**66 307**	**28 070**	**56 103**	**10 704**	**4 710**	**165 894**

II/17. Intangible assets by type

HUF millions

Description	31.12.2007.	31.12.2008.
Telephone network access fee	8	41
Internet access fee	0	0
Data transmission network access fee	35	34
Image manual	3	5
User rights to commercial	35	32
Network development contribution	1	2
Licences	1 667	2 402
Rights	**1 749**	**2 516**
Basic software	387	363
User software	4 865	4 321
Trademarks	3	3
Patents	**5 255**	**4 687**
Total	**7 004**	**7 203**

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

HUF millions

Description	31.12.2007.	31.12.2008.
Inventories purchased	**276**	**178**
Materials	205	152
Goods	71	26
Total (Balance Sheet line 90)	**276**	**178**

II. 19. Risk-free securities at par value

HUF millions

Issue currency	Description	2007	2008
HUF	Government bonds for loan consolidation	93 476	110 655
HUF	Bonds issued by the NBH	60 000	372 848
HUF	Securities issued by the State of Hungary	225 158	498 770
HUF Total		**378 634**	**982 273**
JPY	Bonds issued by the NBH	4 239	5 791
JPY Total		**4 239**	**5 791**

II.20. The impacts of fair market valuation

a., The impact of transition to fair market valuation

Impact on balance sheet items

HUF millions

No.	Description	31.12.2007.	31.12.2007. transition adjustments	31.12.2007. comparative figures	31.12.2008.	31.12.2008. transition adjustments	31.12.2008. comparative figures
01.	1. Cash and equivalents	176 343	0	176 343	124 297	0	124 297
02.	2. Government securities	379 868	0	379 868	953 907	0	953 907
05.	2/A. Valuation difference of government securities		-243	-243	4 029	0	4 029
06.	3. Amounts due from credit institutions	153 255	0	153 255	95 196	0	95 196
24.	4. Amounts due from clients	1 545 919	0	1 545 919	1 764 606	0	1 764 606
41.	5. Debt securities, including those with a fixed interest rate	28 134	0	28 134	57 268	0	57 268
53.	5/A. Valuation difference of debt securities		239	239	-978	0	-978
54.	6. Shares and other variable yield securities	400	0	400	465	0	465
61.	6/A. Valuation difference of shares and other variable yield securities		7	7	-41	0	-41
62.	7. Shares and participations held for investment	1 530	0	1 530	1 775	0	1 775
68.	8. Shares and participations in affiliated undertakings	9 171	0	9 171	16 516	0	16 516
73.	9. Intangible assets	7 004	0	7 004	7 203	0	7 203
76.	10. Tangible assets	24 691	0	24 691	24 157	0	24 157
88.	11. Treasury stock		0	0		0	0
89.	12. Other assets	9 596	-777	8 819	16 219	0	16 219
95.	12/B. Positive valuation difference of derivative transactions		8 243	8 243	65 364	0	65 364
96.	13. Prepayments and accrued income	27 038	5 071	32 109	48 387	0	48 387
100.	**TOTAL ASSETS**	**2 362 949**	**12 540**	**2 375 489**	**3 178 370**	**0**	**3 178 370**

HUF millions

No.	Description	31.12.2007.	31.12.2007. transition adjustments	31.12.2007. comparative figures	31.12.2008.	31.12.2008. transition adjustments	31.12.2008. comparative figures
103.	1. Amounts due to credit institutions	547 054	0	547 054	818 615	0	818 615
121.	2. Amounts due to clients	1 483 352	0	1 483 352	1 948 432	0	1 948 432
145.	3. Liabilities from securities issued	5 820	0	5 820	5 094	0	5 094
167.	4. Other liabilities	87 929	0	87 929	38 491	0	38 491
175.	4/A. Negative valuation difference of derivative transactions		9 883	9 883	77 982	0	77 982
176.	5. Accruals and deferred income	32 939	46	32 985	60 370	0	60 370
180.	6. Provisions	26 102	-1 034	25 068	42 891	0	42 891
185.	7. Subordinated liabilities	19 915	0	19 915	20 601	0	20 601
193.	8. Subscribed capital	66 307	0	66 307	66 307	0	66 307
195.	9. Subscribed capital unpaid (-)		0	0		0	0
196.	10. Capital reserve	28 070	0	28 070	28 070	0	28 070
199.	11. General reserve	9 358	0	9 358	10 704	0	10 704
200.	12. Profit reserve (+/-)	56 103	5 245	61 348	56 103	3 644	59 747
201.	13. Earmarked reserve		0	0		0	0
202.	14. Valuation reserve		0	0		0	0
205.	15. Retained earnings (+/-)	0	-1 600	-1 600	4 710	-3 644	1 066
206.	**TOTAL LIABILITIES & EQUITY**	**2 362 949**	**12 540**	**2 375 489**	**3 178 370**	**0**	**3 178 370**

Impact on profit & loss account rows

HUF millions

No.	Description	31.12.2007.	31.12.2007. transition adjustments	31.12.2007. comparative figures	31.12.2008.	31.12.2008. adjustments	31.12.2008. comparative figures
01.	1. Interest received and similar income	187 364	0	187 364	235 913	0	235 913
08.	2. Interest paid and similar expense	124 586	0	124 586	176 151	0	176 151
11.	NET INTEREST INCOME (1-2)	62 778	0	62 778	59 762	0	59 762
12.	3. Income from securities	4 188	0	4 188	4 211	0	4 211
16.	4. Fees and commissions received (receivable)	40 665	0	40 665	41 663	0	41 663
23.	5. Fees and commissions paid (payable)	13 013	0	13 013	18 396	0	18 396
30.	6. Profit/loss on financial transactions [6.a)-6.b)+6.c)-6.d)]	23 534	-416	23 118	23 640	-3 388	20 252
49.	7. Other income from business activities	7 523	-1 594	5 929	6 780	-1 034	5 746
57.	8. General and administrative expenses	56 562	0	56 562	59 860	0	59 860
67.	9. Depreciation	7 460	0	7 460	7 582	0	7 582
68.	10. Other expenses on business activities	13 056	-10	13 046	40 385	-78	40 307
76.	11. Impairment on receivables and risk provisioning for contingent and future liabilities	20 869	0	20 869	16 031	0	16 031
79.	12. Writeback of impairment on receivables and risk provisions used for contingent and future liabilities	11 438	0	11 438	19 872	0	19 872
82.	12/A. Difference between general risk provisions made and used	-834	0	-834	-2 861	0	-2 861
83.	13. Impairment on debt securities held for investment and shares and participations in affiliated and other associated undertakings	58	0	58	1 051	0	1 051
84.	14. Writeback of impairment on debt securities held for investment and shares and participations in affiliated and other associated undertakings	847	0	847	8 750	0	8 750
85.	15. Profit/loss on ordinary activities	39 121	-2 000	37 121	18 512	-4 344	14 168
88.	16. Extraordinary income	40	0	40	115	0	115
89.	17. Extraordinary expense	21	0	21	28	0	28
90.	18. Extraordinary profit/loss (16-17)	19	0	19	87	0	87
91.	19. Pretax profit/loss (±15±18)	39 140	-2 000	37 140	18 599	-4 344	14 255
92.	20. Taxation	6 736	-400	6 336	5 141	-700	4 441
93.	21. Net profit/loss (±19-20)	32 404	-1 600	30 804	13 458	-3 644	9 814
94.	22. General provisions made/used (±)	-3 240	0	-3 240	-1 346	0	-1 346
95.	23. Profit reserve used for dividend and minority interest		0	0		0	0
96.	24. Dividend and minority interest approved	29 164	0	29 164	7 402	0	7 402
99.	**25. Retained earnings (±21-/+22+23-24)**	**0**	**-1 600**	**-1 600**	4 710	**-3 644**	**1 066**

b., Derivative transactions

HUF millions

Derivative transaction	Positive fair market value	Negative fair market value	Future cash-flow
	2008	2008	2008
Asset swap		-2 730	-1 763
Currency IR swap	10 951	-26 411	-6 573
Forward	4 574	-1 574	-775
FRA	1 689	-1 574	115
Interest rate swap	13 587	-12 492	2 622
Option	31 424	-31 565	0
FX swap	3 139	-1 636	-1 038
Total	**65 364**	**-77 982**	**-7 412**

Accruals related to fair market valuation of derivative transactions amounted to HUF 20 872 million in interest income and HUF 14,452 million in interest expense.
The HUF 2,031 million price difference on the spot part of interest arbitrage type transactions is reported under other assets.

c., Securities

HUF millions

Securities held for trading	Book value	Fair market value	Valuation difference
	31.12.2008.	31.12.2008.	31.12.2008.
Government bonds	515 509	518 112	2 603
of which reclassified from securities held for investment and maturing in 2009	70 514	70 514	0
Government bonds for loan consolidation	1	1	0
Treasury bills	179 710	181 136	1 426
Total government securities:	**695 220**	**699 249**	**4 029**
Closed-end investment units	6 787	7 309	522
Bonds	1 547	47	-1 500
Total debt securities:	**8 334**	**7 356**	**-978**
Open-end investment units	465	424	-41
Total shares and other variable yield securities:	**465**	**424**	**-41**

d., Fair market value of financial instruments tracked at original cost

The fair market value of securities held until maturity and classified as available for sale (balance prior to reclassification of securities maturing in the year 2009) amounted to HUF 378,647 million as of 31 December 2008.
The fair market value of loans granted by and other receivables of the Bank and of other financial obligations was approximately equal to their book value. Exceptions to this rule are certain liabilities whose fair market value is below book value by a total of HUF 5,369 million.

III. NOTES TO THE PROFIT & LOSS ACCOUNT

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

HUF millions

No.	Description	31.12.2007.	31.12.2008.
1.	Re-invoiced value of third-party services	739	764
2.	Book value of inventories sold	4	13
Total (Profit & Loss Account line 69)		**743**	**777**

III/2. Income from and expense on investment services

HUF millions

Income from investment services	31.12.2007.	31.12.2008.
1. Income from custody services	526	603
2. Income from trading operations	15 490	121 993
3. Income from brokerage activities	4 537	4 280
4. Other income	385	411
Total (Profit & Loss Account lines 20 + 39)	**20 938**	**127 287**

HUF millions

Expense on investment services	31.12.2007.	31.12.2008.
1. Expense on custody services	10	10
2. Expense on trading operations	9 364	126 839
3. Expense on brokerage activities	242	290
Total (Profit & Loss Account lines 27 + 44)	**9 616**	**127 139**

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 2008.

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

a) Contributions to deposit insurance and institutional protection funds

HUF millions

Description	Amount		Purpose
	2007	2008	
National Deposit Insurance Fund	156	93	Cost of other services
Investor Protection Fund	149	156	Contribution

b) Financial assistance received

The Bank did not receive any financial assistance in 2008.

c) Geographical breakdown of income in 2008

HUF millions

Profit & Loss Account	Geographical breakdown			Breakdown of non-EU countries			
	Domestic	EU member states	Non-EU countries	United States of America	Jersey, Channel Islands	Switzerland	Other
1. Interest received and similar income	182 469	47 722	5 722	2 134	302	3 279	7
3. Income from securities	3 255	954	2	2			
4. Fees and commissions received (receivable)	41 496	162	5			1	4
6. Profit/loss from financial transactions							
a) income from other financial services	39 156						
c) income from investment services	78 476	42 807	710	612		98	
7. Other income from business activities	6 593	187					

III/5. Extraordinary expense and extraordinary income recognized in 2008

HUF millions

Extraordinary expense	Amount		Extraordinary income	Amount	
	31.12.2007.	31.12.2008.		31.12.2007.	31.12.2008.
Extraordinary expense related to the dissolution of a business association with an ownership interest		3	Extraordinary income related to the dissolution of a business association with an ownership interest		42
Amounts due from private individuals not deemed uncollectible but nevertheless cancelled	1		Financial assistance received definitively for development purposes	40	49
Amounts due from enterprises not deemed uncollectible but nevertheless cancelled	3	7	Lapsed liabilities		24
Cash assets transferred definitively	17	18			
Total (Profit & Loss Account line 89)	**21**	**28**	**Total (Profit & Loss Account line 88)**	**40**	**115**

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

HUF millions

Description	2007	2008
Profit/loss from asset swaps (hedge)	-17	-68
Profit/loss from forwards (hedge)	-226	-554
Profit/loss from forwards (non-hedge)	-846	267
Profit/loss from FRAs	126	-887
Profit/loss from interest rate swaps (hedge)	209	
Profit/loss from interest rate swaps (non-hedge)	9 104	-18 982
Profit/loss from options	971	2 838
Profit/loss from index swaps	1	3
Profit/loss from foreign currency swaps	13 230	12 966

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

HUF millions

Profit/loss	Parent	Affiliate
Interest difference	-9 886	4 917
Fees and commissions	-447	3 912
Profit/loss from financial transactions	na.	2 112
Other	-136	770
Extraordinary	49	0

III/8. Reclassified expenses

In 2008 the Bank reclassified certain expenses previously booked under Other administrative expenses to Fees and commissions paid (payable) on other financial services. Under the relevant titles, HUF 1,456 million was booked in 2007 and HUF 2,407 million in 2008.

IV. ADDITIONAL INFORMATION

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

I.	Name:	Marko Voljč
	Address:	1095 Budapest, Lechner Ödön sétány 1/A.
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.

a., Auditor

Auditor's name: Ernst & Young Kft.

Auditor's address: 1132 Budapest, Váci út 20.

Authorized signatory: Gergely Szabó

b., Fees charged by the auditors in 2008

HUF millions

Description	**Amount**
Auditing	98
Other certification services	1
Tax consulting services	
Other, non-auditor services	
Total	**99**

IV/3. Person in charge of accounting tasks

Name: Tamás Kovalovszki

Registration number: 141812

Address: 2011 Budakalász, Szentendrei út 13.

IV/4. Registered office and website

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

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

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

type: registered, dematerialized ordinary share

basic denomination: HUF 1

amount issued: 66,307,204,412 shares

par value: HUF 66,307,204,412.00

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

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

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

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

IV/8. The Bank's participations

a, Participations in subsidiaries

No.	Company name	Registered office	Stake (%)	Equity (HUF m) 31.12.2008.	Subscribed capital (HUF m) 31.12.2008.	Reserves (HUF m) 31.12.2008.	Retained earnings for the last financial year (HUF m)* 31.12.2008.
1	K&H Equities Zrt.	1051 Budapest, Vigadó tér 1.	100	14 168	201	5 354	8 613
2	K&H Befektetési Alapkezelő Zrt.	1051 Budapest, Vigadó tér 1.	100	1 795	850	151	794
3	K&H Pannonlízing Zrt.	1068 Budapest, Dózsa György út 84/A.	100	875	503	1 046	-674
4	K&H Autófinanszírozó Zrt.	1068 Budapest, Dózsa György út 84/A.	100	527	50	474	3
5	K&H Ingatlanlízing Zrt.	1068 Budapest, Dózsa György út 84/A.	100	338	50	48	240
6	K&H Lízing Zrt.	1068 Budapest, Dózsa György út 84/A.	100	310	50	264	-4
7	K&H Csoportszolgáltató Kft.	1051 Budapest, Vigadó tér 1.	100	145	60	177	-92
8	Kvantum KK Rt. v.a. (in dissolution)	1074 Budapest, Dohány u. 98.	100	80	350	-260	-10
9	K&H Alkusz Kft.	1068 Budapest, Dózsa György út 84/A.	100	73	5	18	51
10	K&H Lízingadminisztrációs Zrt.	1068 Budapest, Dózsa György út 84/A.	100	18	20	6	-8
11	K&H Eszközfinanszírozó Zrt.	1068 Budapest, Dózsa György út 84/A.	100	-40	100	29	-169
12	K&H Lízingház Zrt.	1068 Budapest, Dózsa György út 84/A.	100	-54	20	-28	-46
13	K&H Eszközlízing Kft.	1068 Budapest, Dózsa György út 84/A.	100	-77	50	-53	-74
14	K&H Autópark Kft.	1068 Budapest, Dózsa György út 84/A.	100	-789	10	181	-980
15	Risk Kft. f.a. (in liquidation)	1087 Budapest, Könyves Kálmán krt. 76.	100	N/A	444	N/A	N/A

* Not audited

b, Participations in jointly managed undertakings

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

c, Participations in affiliated undertakings

No.	Company name	Registered office	Stake (%)	Equity (HUF m) 31.12.2008.	Subscribed capital (HUF m) 31.12.2008.	Reserves (HUF m) 31.12.2008.	Retained earnings for the last financial year (HUF m)* 31.12.2008.
1	Budatrend-III. Zrt.	1073 Budapest, Erzsébet körút 21. 1. em. 8.	34,34	285	193	87	5
2	HAGE Zrt.	4181 Nádudvar, Kossuth u. 2.	25,00	6 547	2 689	3 823	35
3	GIRO Elszámolásforgalmi Zrt.	1054 Budapest, Vadász u. 31.	20,99	7 490	2 496	3 076	1 918

d, Indirect participations in affiliated undertakings

No.	Company name	Registered office	Stake (%)	Equity (HUF m) 31.12.2008.	Subscribed capital (HUF m) 31.12.2008.	Reserves (HUF m) 31.12.2008.	Retained earnings for the last financial year (HUF m)* 31.12.2008.
1	Mezőhegyesi Sertéstenyésztő és Értékesítő Kft.	5820 Mezőhegyes, Kozma F. u. 30.	25,00	N/A	230	N/A	N/A
2	Terményfeltáró Kft.	4152 Püspökladány, I. dűlő	25,00	N/A	74	N/A	N/A
3	HAGE-INVEST Kft.	4181 Nádudvar, Kossuth u. 2.	24,17	N/A	450	N/A	N/A
4	BISZ Zrt.	1205 Budapest Mártonffy u. 25-27.	20,99	N/A	167	N/A	N/A
5	Gyulai Húskombinát Zrt.	5700 Gyula, Kétegyházi út 3.	16,96	N/A	2 092	N/A	N/A
6	Nádudvari Élelmiszer Kft.	4181 Nádudvar, Gutenber u. 1.	15,23	N/A	1 458	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	Pannon Lúd Kft.	5800 Mezőkovácsháza Battonyai út 4/1.	1,07	N/A	2 342	N/A	N/A
10	Kisvállalkozás-fejlesztő Pénzügyi Zrt.	1053 Budapest Szép u. 2.	0,20	N/A	1 700	N/A	N/A

e, Participations in other associated undertakings

No.	Company name	Registered office	Stake (%)	Equity (HUF m) 31.12.2008.	Subscribed capital (HUF m) 31.12.2008.	Reserves (HUF m) 31.12.2008.	Retained earnings for the last financial year (HUF m)* 31.12. 2008.
1	Árpád Üzletház Egyesülés	1045 Budapest, Árpád út 112.	7,52	N/A	3	N/A	N/A
2	VISA Europe Limited	London, W2 6TT, Sheldon square 1	0,88	N/A	N/A	N/A	N/A
3	Swift SC	Belgium, B-1310 La Hulpe, Avenue Adele 1.	0,04	N/A	3 704	N/A	N/A
4	VISA Inc.	USA	0,00	N/A	N/A	N/A	N/A
5	MasterCard International	USA 2000 Purchase Street, Purchase New York 10577	0,00	N/A	622	N/A	N/A
6	Garantiqua Hitelgarancia Zrt.	1053 Budapest, Szép u. 2.	13,30	26 981	4 812	21 215	954

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

Company name	Registered office	Subscribed capital (HUF m)	Voting rights
Controlling interest:			
-	-	-	-
Qualified controlling interest:			
K&H Befektetési Alapkezelő Zrt.	1051 Budapest, Vigadó tér 1.	850	100.00%
K&H Pannonlízing Zrt.	1068 Budapest, Dózsa György út 84/A.	503	100.00%
Risk Kft. f.a.	1087 Budapest, Könyves Kálmán krt. 76.	444	100.00%
Kvantum KK Rt. v.a.	1074 Budapest, Dohány u. 98.	350	100.00%
K&H Equities Zrt.	1051 Budapest, Vigadó tér 1.	201	100.00%
K&H Eszközfinanszírozó Zrt.	1068 Budapest, Dózsa György út 84/A.	100	100.00%
K&H Csoportszolgáltató Kft.	1051 Budapest, Vigadó tér 1.	60	100.00%
K&H Autófinanszírozó Zrt.	1068 Budapest, Dózsa György út 84/A.	50	100.00%
K&H Ingatlanlízing Zrt.	1068 Budapest, Dózsa György út 84/A.	50	100.00%
K&H Lízing Zrt.	1068 Budapest, Dózsa György út 84/A.	50	100.00%
K&H Eszközlízing Kft.	1068 Budapest, Dózsa György út 84/A.	50	100.00%
K&H Lízingadminisztrációs Zrt.	1068 Budapest, Dózsa György út 84/A.	20	100.00%
K&H Lízingház Zrt.	1068 Budapest, Dózsa György út 84/A.	20	100.00%
K&H Autópark Kft.	1068 Budapest, Dózsa György út 84/A.	10	100.00%
K&H Alkusz Kft.	1068 Budapest, Dózsa György út 84/A.	5	100.00%

IV/10. Other events significantly impacting the financial standing of the Company

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

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

The Bank did not implement any capital increase in the investment company in 2008.

As at 31.12.2008. the impairment recognized by the Bank on its investment totaled HUF 11.4 billion, after a decrease of HUF 7.3 billion in 2008.

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. in 2003 and the years before.

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

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

b., Miscellaneous

Provisions for expected liabilities grew by HUF 17,845 million mostly as a result of provisioning for regulatory purposes and for legal cases related to the Bank's trading operations. The outcome of these lawsuits is uncertain, but the management is of the opinion that the provisions raised are sufficient to cover the potential losses.

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)	
	2007	2008	2007	2008
Full-time	3 420	3 398	17 814	18 000
Part-time	44	45	117	144
Retired	26	25	167	190
Not on payroll	0*	0*	31	3
Total Profit & Loss Account (line 59)	**3 490**	**3 468**	**18 129**	**18 337**

* rounded figure

IV/12. Other personnel expenses

HUF millions

Description	Amount	
	31.12.2007.	31.12.2008.
Housing allowance	5	5
Per diem allowance – in Hungary	5	4
Per diem allowance – abroad	7	7
Scholarships	0	0
Cost of benefits paid to temporarily disabled employees	202	216
Daily travel allowance (for travelling to work)	78	81
Life insurance contribution	53	53
Vacation allowance	171	208
Clothing allowance	98	43
Food allowance	279	278
Fringe benefits	309	438
Personal income tax (44%)	659	623
Pension fund contribution	383	352
Health fund contribution	214	253
Severance pay	7	5
Other personnel expense	709	880
Total (Profit & Loss Account line 60)	**3 179**	**3 446**

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	
	31.12.2007.	**31.12.2008.**	**31.12.2007.**	**31.12.2008.**
Board of Directors	4	3	246	202
Executive Management	28	26	777	953
Supervisory Board	0	0	0	0
Total	**32**	**29**	**1 023**	**1 155**

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

31 December 2008

Members of the Board, the executive management and the Supervisory Board have a total debt of HUF 300 million to the Bank in loans and interest/charges.

IV/15. Adjustments to the Bank's taxable income
31 December 2008

HUF millions

Items decreasing taxable income	Amount	Items increasing taxable income	Amount
Income from the use of provisions	390	Expense arising from provisioning	13 641
Depreciation according to the Corporation Tax Act	7 573	Depreciation according to the Accounting Act	7 443
Book value of tangible assets removed from the books	899	Book value of tangible assets removed from the books	1 039
Dividends received	4 211	Extraordinary depreciation	50
Local trade tax	3 537	Fines	1
Donations	249	Receivables not deemed uncollectible but nevertheless cancelled in the fiscal year	7
Impairment writeback	102	Impairment	18
Other	40	Cash assets transferred definitively	345
		Other items increasing taxable income	939
		Expenses related to previous years	286
Total	**17 001**	**Total**	**23 769**

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	187 364	235 913
02.	+ Income from other financial services (excluding writeback of impairment on securities)	56 989	75 525
03.	+ Other income (excluding use of provisions, writeback of surplus provisions, writeback of impairment on inventories and writeback of extraordinary depreciation)	3 684	3 582
04.	+ Income from investment services (excluding writeback of impairment on securities)	20 938	37 995
05.	+ Income from non-financial and investment services	1 593	1 673
06.	+ Dividend income	4 188	4 211
07.	+ Extraordinary income	40	115
08.	- Interest expense	124 586	176 151
09.	- Expense on other financial services (excluding impairment on securities)	17 125	28 766
10.	- Other expense (excluding provisioning, impairment on inventories and extraordinary depreciation)	10 227	20 295
11.	- Expense on investment services (excluding impairment on securities)	9 404	36 232
12.	- Expense on non-financial and investment services	743	777
13.	- General and administrative expense	56 562	59 860
14.	- Extraordinary expense (excluding corporation tax liability for the year)	21	28
15.	- Corporation tax liability for the year	6 736	5 141
16.	- Dividend paid	29 164	7 402
17.	**CASH FLOW FROM OPERATIONS (lines 01-16)**	**20 228**	**24 362**
18.	Change in liabilities (+ if increase, - if decrease)	238 399	687 166
19.	Change in receivables (- if increase, + if decrease)	-82 419	-165 919
20.	Change in inventories (- if increase, + if decrease)	-13	98
21.	Change in securities stated under current assets (- if increase, + if decrease)	-129 691	-330 596
22.	Change in securities stated under fixed assets (- if increase, + if decrease)	-22 055	-272 311
23.	Change in capital expenditure (including advances) (- if increase, + if decrease)	589	783
24.	Change in intangible assets (- if increase, + if decrease)	-1 999	-2 875
25.	Change in tangible assets (excluding capital expenditure and advances for capital investments) (- if increase, + if decrease)	-8 407	-6 262
26.	Change in prepayments and accrued income (- if increase, + if decrease)	-4 065	-3 847
27.	Change in accruals and deferred income (+ if increase, - if decrease)	6 184	17 700
28.	Share offering at sale price	13 800	0
29.	Cash and equivalents received definitively under applicable law	0	0
30.	Cash and equivalents transferred definitively under applicable law	-295	-345
31.	Par value of Treasury stock and equity bonds retired	0	0
32.	**NET CASH FLOW (lines 17-34)**	**30 256**	**-52 046**
33.	of which: - change in cash (HUF and foreign currency cash and checks)	-82	5 490
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)	30 338	-57 536

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

1. Balance Sheet and Profit & Loss Account

1.1. Balance Sheet

HUF billions	2007	2008	Change
Balance sheet total (total assets)	2 363	3 178	35%
Amounts due from clients	1 546	1 765	14%

As of 31 December 2008 K&H Bank Zrt. had HUF 3,178 bln total assets. This represented cca. 34.5% (HUF 815.4 bln) growth over the end of the preceding year, and was related to client lending and government securities on the asset side. Under liabilities, the key growth headings were liabilities to clients and credit institutions (31% and 50%, respectively, compared to December 2007).

Similarly to the banking sector as a whole, the Bank's **receivables from clients** increased mostly thanks to retail lending in 2008 as well: following a 18.2% rate of growth in 2007, the retail loan portfolio expanded by 32.9% during the reporting year (of which 15% was due to exchange rate changes), raising the weight of retail loans to 40% within total client lending (2007: 34%). Similarly to prior years, the expansion in retail lending was dominated by currency-denominated housing and consumer loans (these products now amount to cca. 81% of the retail loan portfolio). Corporate lending increased by 4% in 2008 thanks to the currency-denominated loans offered to the medium corporate segment. The change in *debt securities* was connected to securities issued by municipalities.

HUF billions	2007	2008	Change
Amounts due to clients	1 483	1 948	31%
Equity	160	166	4%

Under **liabilities & equity**, the amounts due to clients rose by HUF 465 billion in total in 2008, driven by the increase in long-term liabilities.

The changed macroeconomic environment had a palpable impact on deposit collection, as unprecedentedly tight competition for client deposits spread through the banking sector during the year: K&H Bank successfully stood its ground in the race and its deposit collection campaigns especially in the second half of the year helped it to further increase its retail deposit portfolio and thereby to strengthen its position in the deposit market. In addition to retail deposit collection, growth was seen in 2008 primarily in deposits placed by investment funds managed by KBC Asset Management, an affiliate of K&H shareholder KBC Bank, while in addition to the corporate business line, the small business deposit portfolio also recorded significant growth during the year.

Equity: the dividends paid by the Bank on its profits for 2008 (HUF 13.5 bln) amount to HUF 7.4 bln. Equity grew by 4% as a result of booking the year's profits less dividends (HUF 6.1 bln) to reserves.

	2007	2008
Regulatory capital (HUF billions)	182.6	188.0
Capital adequacy ratio	12.18%	9.87%

Capital adequacy ratio: as from 1 January 2008 the Bank has employed the Basel II standard method for calculating its capital adequacy ratio (including capital requirements for lending, market risks and operating risks).

1.2. Profit & Loss Account

The Bank achieved after-tax profits of HUF 13.5 bln in 2008. This was lower than in the previous year due primarily to certain individual items (such as e.g. the HUF +8.9 bln pre-tax profit impact of the sale of the Bank's share in GIRO Bankkártya Zrt. in the year 2007), although revenues from core banking operations (interest, commissions) also remained below their 2008 levels.

HUF billions	2007	2008
Profit/loss on ordinary activities	39.1	18.5
Net profit	32.4	13.5

The following factors played a key role in income growth:

- *Net interest and interest-type profits* decreased by 4.8% compared to 2007 (2008: HUF 59.8 bln, 2007: HUF 62.8 bln), primarily due to the continued contraction of credit/deposit spreads on client portfolios (especially as a consequence of the deposit campaigns conducted in the second half of the year).
- *Commission income* decreased (2008: HUF 23.3 bln, 2007: HUF 27.7 bln) partly due to a technical item (in 2008 the Bank reclassified certain expenditures to commissions paid, against other expenditures). A decrease due to business reasons was registered in *fee income from credit and guarantee fees and securities services* (mostly because of the retail lending campaign and as lower subscriptions remained below previous levels), which was partly offset by a 12% increase in card fee income.
- The Bank's *operating costs* rose by HUF 3.4 billion, or 5.3 %, year on year (FY2008: HUF 6724 billion; FY2007: HUF 64.0 billion). Total costs were reduced by the fact that, unlike in prior years, turnover-linked other administrative expenses (mostly IT costs) were booked to expenditures. he cost structure changed as a result of outsourcing the IT function to a new company (KBC GSH) as of 1 May 2008, with the concomitant expenses shifting from personnel and operating headings to IT, in the form of fees charged by the new company for the IT services:
  - Personnel expenses rose by HUF 0.5 bln, or 1.8 %, as the cost implications of the salary increase were partly offset by the headcount changes.
  - Other costs increased by HUF 2.8 billion (9.8%). Key factors in the increase: premises, property rental fees in the expanding branch network (HUF +1.1 bln), vehicle costs, transportation (HUF + 0.6 bln), IT expenses (HUF + 0.9 bln), consulting fees (HUF + 0.2 bln).

2. Risk Management

Banking operations are exposed to several risks. K&H Bank has a system in place to measure these risks accurately, manage them properly and limit them as best as possible. The system fits into the risk management system of the KBC Group, the majority shareholder, in terms of both methodology and organization.

- **Credit risk** refers to the possibility of a loss that the Bank sustains if its client becomes insolvent or cannot perform its payment obligations in time. Credit risks are managed using risk mitigation techniques approved by the Bank's Board of Directors. The applicable policies cover the lending process as a whole.
  The Bank continuously monitors its loan portfolio; this monitoring activity forms the basis for the reports prepared for the Bank's senior management.
  In 2002 the Bank launched a program to develop a method for measuring credit risks more accurately, on a quantitative basis. The program is part of the group-level preparations of KBC and is aimed at measuring lending risks more accurately, in compliance with Basle II requirements, increasing the efficiency of lending processes and controlling credit risks more

effectively through the use of modern statistical methods. The program involves several, completed or still ongoing, major IT development projects to support the lending process and improve its efficiency. The quantitative methods developed as part of the program are available throughout the entire lending process today and play an increasingly important role.

- **Market risk** is the possibility of a loss arising from an unexpected change in the value of the Bank's currency and interest rate positions. Interest rate and exchange rate risks and financial instruments are monitored by the Asset Liability Committee (ALCO), which is made up of the Bank's senior executives and the representatives of the Treasury and Risk Management functions.
  The Bank's asset-liability management is based on the methodology used by its majority shareholder, the KBC Group. Accordingly, the ALCO continuously monitors the risk exposure of the banking book and controls it by setting up limits (in harmony with the KBC limit policy). Interest rate risk is measured and controlled using a combination of various methods and limits (gap analysis, interest sensitivity, duration, BPV).
- **Liquidity risk** refers to the risk that a financial institution is unable to comply with the applicable net financing requirements. Liquidity risk may result from market disturbances or credit rating downgrades, which can cause certain sources of financing to dry up immediately. In order to prevent this risk, the management has diversified the sources of financing, and manages assets with a focus on liquidity, maintaining a healthy balance of cash, cash equivalents and immediately marketable securities. A new indicator to measure and manage short-term liquidity risk was introduced in 2008 for the whole of the KBC Group. The operating liquidity limit measures whether the 30-day accumulated liquidity gap cover is sufficient. The Risk Management Directorate submits regular reports to K&H Bank's executive bodies and competent committees on the various liquidity ratios and limits.
- **Operating risk** refers to the possibility that the Bank sustains a loss as a result of inadequate systems or procedures, human error or external events. Improving the management of operating risks is a key element in the preparations of the KBC Group for the Basel II Capital Accord. In order to measure operating risks accurately and in detail, a data collection system covering the entire K&H Bank Group has been put in place, which allows the Bank to monitor, categorize and analyze all operating loss events. In December 2007 the Bank received permission from the HFSA to use the standard method of capital requirement calculated for operating risks as of 1 January 2008.

3. The Bank's operating conditions

Capital investments in branches:

70 branches were opened, altered or completely reconstructed in 2008, as follows:

- 36 new branches / sub-branches were completed and opened, and an additional 8 were under reconstruction or completed and awaiting opening.
- 7 branches moved to new locations and 3 branches completed their technical preparations for relocation scheduled in 2009.
- 13 branches underwent comprehensive or partial reconstruction and 3 branches were in the process of reconstruction/extension at the end of the year.

In relation to the construction of branches and also as part of the ATM project, 44 machines were installed at new locations (branches), another 24 were replaced with more modern equipment and 42 were installed at external, non-branch locations. A new program involved installing 25 Cash- and Non-Cash terminals, as an innovative solution to increase service levels. Accessibility work in the network is ongoing, in line with construction and reconstruction projects; currently, 200 out of the 231 branches classify as accessible for those living with disabilities.

We have started environmental compliance work (Freon removal) to comply with legislative requirements, both as a part of certain building engineering reconstruction projects and under separate programs. At the moment we have cca. 160 branches that have been fully decontaminated of Freon or were originally built using Freon-free technologies.

As a pilot, we built 2 units in 2008 in the form of so-called "green branches": these units do not use any direct fossil fuels (Ócsa, Vác,Köztársaság u.). Also as a trial, we introduced a new type of branch in the West-End shopping centre. This is a so-called "E Zone", with small floorspace, Cash and Non-cash terminal, ATM, and practically no branch staff. (We have included it in the above calculation of new branches.)

In information technology, the most significant developments of 2008 were as follows:

- Development work under the Bank's data warehouse project has been completed; further development of the data warehouse is carried out for compliance with Basel II guidelines.
- The system managing retail client relationships has been introduced throughout the entire branch network.
- The merchant POS turnover under card acquiring operations has been migrated to Sinsys.
- We have completed the go-live of the e-zone terminal.
- We have introduced the corporate collection system and the loan administration system.
- In addition to the above, a comprehensive development program was launched to achieve compliance with Basel II FIRB.

The number of the Bank's employees decreased by 152 during the year and was 3,392 at the end of 2008. The decrease was due to outsourcing IT to KBC Global Services (-273 persons), but the staffing requirement of the expanding branch network (36 new branches were opened in 2008) meant that the number of employees in the retail branch network increased by 77.

Budapest, 24 March 2009

Marko Voljč Chief Executive Officer	Attila Gombás Head of the Finance and Risk Management Division

Kereskedelmi és Hitelbank Zrt.

Business Report

31 December 2008

The Bank's 2008 business activities and operating conditions are summarized below.

1. Economic environment

The factors determining the performance of the *Hungarian economy* in 2008 included the austerity measures of the government and, especially in the second half of the year, the arrival of the impacts of the global property market crisis; deteriorating international trends drove the GDP growth rate downward during the year (H1: +2%, Q3: +1%, Q4: -2%).
Following an increase of 8.2% a year previously, *industrial output* volumes decreased by 1.1% as export markets shrank. The construction industry continued the decline that started in 2006; having fallen by 15% in 2007, the sector contracted by 5% in 2008. After three consecutive years of decline, *agricultural output* increased significantly in 2008; preliminary figures suggest it grew by 27%, reaching the highest level so far in this decade, measured in 2004.
The unfavourable international macroeconomic conditions influenced foreign trade as well: after double-digit growth in prior years, exports expanded by 5.5% and imports by 5.2% in 2008 (at the same time, the balance of trade at year-end 2008 recorded a modest surplus for the first time in years).
In line with the government's plans, the consolidated deficit of the Budget on a cash-flow basis continued to improve (the primary balance was positive again for the first time since 2001, as a result of which the total Budget debt remained essentially level, accounting for 66% of GDP at the end of the period).

	2007	2008*
GDP growth	1.1%	0.6%
CPI	8.0%	6.1%
Public finance deficit	5.0%	3.4%
Current account deficit (as a % of GDP)	6.4%	7.9%
Unemployment rate	7.4%	7.9%

* preliminary figures
Source: NBH, Central Statistics Office, GKI Economic Research

2. Monetary trends

The change in global investor sentiment (risk aversion) caused extreme volatility in exchange rates and prices on the money and capital markets of the Central and Eastern European region. Economic contraction and higher external indebtedness resulted in an added risk premium on Hungarian investments (right at a time when the balance of the Budget and inflationary expectations had considerably improved compared to the previous year).
In its drive to achieve the Central Bank's inflation objectives, the Monetary Council abolished the HUF intervention band against the EUR and introduced a floating exchange rate regime in February 2008, which, together with the gradual base rate increase during the spring, totalling at 100 bps, resulted in a substantial temporary strengthening of the HUF against the EUR. Starting in October 2008 the risk assessments of this region changed considerably, therefore the Central Bank convened an extraordinary session and raised the interest rate by 300 bps to protect the Hungarian currency. This was then followed by a series of rate cuts in Hungary, surprising the investors but coordinated with the other central banks in the region (the NBH executed a total of 200 bps monetary easing in the period between November and the end of January), which signalled that the Central Bank was willing, under the changed circumstances, to tolerate a weaker exchange rate, with inflation expectations still good.
There was a shift in the monetary measures employed in the second half of the year, as the Central Bank wished to focus on facilitating the smooth operation of the markets in Hungary and on handling the liquidity problems of the banking sector (reducing the mandatory reserve ratio, expanding the range of assets accepted by the Central Bank as collateral, FX swap tenders, etc.).

3. The Bank's market position

	2007	2008
Total assets	9.7%	10.9%
Corporate loans	10.2%	10.1%
Retail loans	9.2%	9.3%
Corporate deposits	10.0%	10.3%
Retail deposits and investment funds	11.1%	10.9%

* preliminary figures
Source: NBH

In 2008 the total assets of the banking sector continued to grow at a rate (20%) higher than the real economy, but this was coupled with a reduction in profitability in the banking sector. The financial crisis left its mark on the business activities of Hungarian banks too, as lending shrank spectacularly during the year and the major players ran essentially constant deposit collection campaigns from the second half of the year onwards. The growth in retail borrowing also weakened considerably in the last quarter of the year (with EUR-denominated loans gaining ground at the expense of CHF lending, which had dominated recent years).
As regards its market share, the Bank looks back on an ambivalent year: in terms of total assets, it regained its second position, but it failed to achieve the planned growth in the investments market. It essentially retained its earlier position in both retail and corporate lending.
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4. Balance Sheet and Profit & Loss Account

4.1. Balance Sheet

HUF billions	2007	2008	Change
Total assets	2 363	3 178	35%
Amounts due from clients	1 546	1 765	14%

On 31 December 2008 K&H Bank Zrt. had total assets of HUF 3,178 bln. This represented cca. 34.5% (HUF 815.4 bln) growth over the end of the preceding year, and was related to client lending and government securities on the asset side. Under liabilities, the key growth headings were liabilities to clients and credit institutions (31% and 50%, respectively, compared to December 2007).
Similarly to the banking sector as a whole, the Bank's **receivables from clients** increased mostly thanks to retail lending in 2008 as well: following a 18.2% rate of growth in 2007, the retail loan portfolio expanded by 32.9% during the reporting year (of which 15% was due to exchange rate changes), raising the weight of retail loans to 40% within total client lending (2007: 34%). Similarly to prior years, the expansion in retail lending was dominated by currency-denominated housing and consumer loans (these products now amount to cca. 81% of the retail loan portfolio). Corporate lending increased by 4% in 2008 thanks to the currency-denominated loans offered to the medium corporate segment. The change in *debt securities* was connected to securities issued by municipalities.

HUF billions	2007	2008	Change
Amounts due to clients	1 483	1 948	31%
Equity	160	166	4%

Under **liabilities & equity**, the amounts due to clients rose by HUF 465 billion in total in 2008, mainly driven by the increase in long-term liabilities.
The changed macroeconomic environment had a palpable impact on deposit collection, as unprecedentedly tight competition for client deposits spread through the banking sector during the year: K&H Bank successfully stood its ground in the race and its deposit collection campaigns especially in the second half of the year helped it to further increase its retail deposit portfolio and thereby to strengthen its position in the deposit market. In addition to retail deposit collection, growth was seen in 2008 primarily in deposits placed by investment funds managed by KBC Asset Management, an affiliate of K&H shareholder KBC Bank, while in addition to the corporate business line, the small business deposit portfolio also recorded significant growth during the year.

Equity: the dividends paid by the Bank on its profits for 2008 (HUF 13.5 bln) amount to HUF 7.4 bln. Equity grew by 4% as a result of booking the year's profits less dividends (HUF 6.1 bln) to reserves.

	2007	2008
Regulatory capital (HUF billions)	182.6	188.0
Capital adequacy ratio	12.18%	9.87%

Capital adequacy ratio: as from 1 January 2008 the Bank has employed the Basel II standard method for calculating its capital adequacy ratio (including capital requirements for lending, market risks and operating risks).

4.2. Profit & Loss Account

The Bank achieved after-tax profits of HUF 13.5 bln in 2008. This was lower than in the previous year due primarily to certain individual items (such as e.g. the HUF +8.9 bln pre-tax profit impact of the sale of the Bank's share in GIRO Bankkártya Zrt. in the year 2007), although revenues from core banking operations (interest, commissions) also remained below their 2008 levels.

HUF billions	2007	2008
Profit from ordinary activities	39.1	18.5
Net profit	32.4	13.5

The following factors played a key role in income growth:

- *Net interest and interest-type profits* decreased by 4.8% compared to 2007 (2008: HUF 59.8 bln, 2007: HUF 62.8 bln), primarily due to the continued contraction of credit/deposit spreads on client portfolios (especially as a consequence of the deposit campaigns conducted in the second half of the year).
- *Commission income* decreased (2008: HUF 23.3 bln, 2007: HUF 27.7 bln) partly due to a technical item (in 2008 the Bank reclassified certain expenditures to commissions paid, against other expenditures). A decrease due to business reasons was registered in *fee income from credit and guarantee fees and securities services* (mostly because of the retail lending campaign and as lower subscriptions remained below previous levels), which was partly offset by a 12% increase in card fee income.
- The Bank's operating costs rose by HUF 3.4 billion, or 5.3 %, year on year (FY2008: HUF 67.4 billion; FY2007: HUF 64.0 billion). Total costs were reduced by the fact that, unlike in prior years, turnover-linked other administrative expenses (mostly IT costs) were booked to expenditures. The cost structure changed as a result of outsourcing the IT function to a new company (KBC GSH) as of 1 May 2008, with the concomitant expenses shifting from personnel and operating headings to IT, in the form of fees charged by the new company for the IT services:
    - Personnel expenses rose by HUF 0.5 bln, or 1.8 %, as the cost implications of the salary increase were partly offset by the headcount changes,
    - Other costs increased by HUF 2.8 billion (9.8%). Key factors in the increase: premises, property rental fees in the expanding branch network (HUF +1.1 bln), vehicle costs, transportation (HUF + 0.6 bln), IT expenses (HUF + 0.9 bln), consulting fees (HUF + 0.2 bln).

5. RISK MANAGEMENT

Banking operations are exposed to several risks. K&H Bank has a system in place to measure these risks accurately, manage them properly and limit them as best as possible. The system fits into the risk management system of the KBC Group, the majority shareholder, in terms of both methodology and organization.

- **Credit risk** refers to the possibility of a loss that the Bank sustains if its client becomes insolvent or cannot perform its payment obligations in time. Credit risks are managed using risk mitigation techniques approved by the Bank's Board of Directors. The applicable policies cover the lending process as a whole.
  The Bank continuously monitors its loan portfolio; this monitoring activity forms the basis for the reports prepared for the Bank's senior management.
  In 2002 the Bank launched a program to develop a method for measuring credit risks more accurately, on a quantitative basis. The program is part of the group-level preparations of KBC and is aimed at measuring lending risks more accurately, in compliance with Basle II requirements, increasing the efficiency of lending processes and controlling credit risks more effectively through the use of modern statistical methods. The program involves several, completed or still ongoing, major IT development projects to support the lending process and improve its efficiency. The quantitative methods developed as part of the program are available throughout the entire lending process today and play an increasingly important role.
- **Market risk** is the possibility of a loss arising from an unexpected change in the value of the Bank's currency and interest rate positions. Interest rate and exchange rate risks and financial instruments are monitored by the Asset Liability Committee (ALCO), which is made up of the Bank's senior executives and the representatives of the Treasury and Risk Management functions.
  The Bank's asset-liability management is based on the methodology used by its majority shareholder, the KBC Group. Accordingly, the ALCO continuously monitors the risk exposure of the banking book and controls it by setting up limits (in harmony with the KBC limit policy). Interest rate risk is measured and controlled using a combination of various methods and limits (gap analysis, interest sensitivity, duration, BPV).
- **Liquidity risk** refers to the risk that a financial institution is unable to comply with the applicable net financing requirements. Liquidity risk may result from market disturbances or credit rating downgrades, which can cause certain sources of financing to dry up immediately. In order to prevent this risk, the management has diversified the sources of financing, and manages assets with a focus on liquidity, maintaining a healthy balance of cash, cash equivalents and immediately marketable securities. A new indicator to measure and manage short-term liquidity risk was introduced in 2008 for the whole of the KBC Group. The operating liquidity limit measures whether the 30-day accumulated liquidity gap cover is sufficient. The Risk Management Directorate submits regular reports to K&H Bank's executive bodies and competent committees on the various liquidity ratios and limits.
- **Operating risk** refers to the possibility that the Bank sustains a loss as a result of inadequate systems or procedures, human error or external events. Improving the management of operating risks is a key element in the preparations of the KBC Group for the Basle II Capital Accord. In order to measure operating risks accurately and in detail, a data collection system covering the entire K&H Bank Group has been put in place, which allows the Bank to monitor, categorize and analyze all operating loss events. In December 2007 the Bank received permission from the HFSA to use the standard method of capital requirement calculated for operating risks as of 1 January 2008.

6. THE BANK'S OPERATING CONDITIONS

Capital investments in branches:

70 branches were opened, altered or completely reconstructed in 2008, as follows:

- 36 new branches / sub-branches were completed and opened, and an additional 8 were under reconstruction or completed and awaiting opening.
- 7 branches moved to new locations and 3 branches completed their technical preparations for relocation scheduled in 2009.
- 13 branches underwent comprehensive or partial reconstruction and 3 branches were in the process of reconstruction/extension at the end of the year.

In relation to the construction of branches and also as part of the ATM project, 44 machines were installed at new locations (branches), another 24 were replaced with more modern equipment and 42 were installed at external, non-branch locations. A new program involved installing 25 Cash- and Non-Cash terminals, as an innovative solution to increase service levels. Accessibility work in the network is ongoing, in line with construction and reconstruction projects; currently, 200 out of the 231 branches classify as accessible for those living with disabilities.

We have started environmental compliance work (Freon removal) to comply with legislative requirements, both as a part of certain building engineering reconstruction projects and under separate programs. At the moment we have cca. 160 branches that have been fully decontaminated of Freon or were originally built using Freon-free technologies.

As a pilot, we built 2 units in 2008 in the form of so-called "green branches": these units do not use any direct fossil fuels (Ócsa, Vác, Köztársaság u.). Also as a trial, we introduced a new type of branch in the West-End shopping centre. This is a so-called "E Zone", with small floorspace, Cash and Non-cash terminal, ATM, and practically no branch staff. (We have included it in the above calculation of new branches.)

In information technology, the most significant developments of 2008 were as follows:

- Development work under the Bank's data warehouse project has been completed; further development of the data warehouse is carried out for compliance with Basel II guidelines.
- The system managing retail client relationships has been introduced throughout the entire branch network.
- The outsourcing of card processing operations has been completed. The merchant POS turnover under card acquiring operations has been migrated to Sinsys.
- We have completed the go-live of the e-zone terminal.
- We have introduced the corporate collection system and the loan administration system.
- In addition to the above, a comprehensive development program was launched to achieve compliance with Basel II FIRB.

The number of the Bank's employees decreased by 152 during the year and reached 3,392 at the end of 2008. The decrease was due to outsourcing IT to KBC Global Services (-273 persons), but the staffing requirement of the expanding branch network (36 new branches were opened in 2008) meant that the number of employees in the retail branch network increased by 77.

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