K&H Bank Zrt.

CONSOLIDATED SEMI-ANNUAL REPORT

1H 2010

Budapest, 30 August 2010

CONTENT

Statement of the Issuer

K&H Bank Zrt., as the Issuer (represented by Hendrik Scheerlinck, CEO and Attila Gombás, Head of the Finance Division) hereby declare that K&H Bank Zrt.'s consolidated 2010 Semi-annual Report has been prepared in compliance with the applicable accounting laws and regulations, to the best of the Issuer's knowledge, and that the financial details contained therein reflect a true and reliable status of the assets, liabilities, financial position and profit of K&H Bank Zrt. and of the companies involved in the consolidation, and that the consolidated management report shows a true and fair picture of the position, development and performance of K&H Bank Zrt. and the companies involved in the consolidation, also including the major risks and uncertainties pertaining to the remaining six months of the financial year.

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

Budapest, August 30th, 2010

Hendrik Scheerlinck
Chief Executive Officer

Attila Gombás
Head of the Finance Division

Consolidated Statement of Financial Position, Consolidated Income Statement and Consolidated Statement of Comprehensive Income according to International Financial Reporting Standards

in million HUF **CONSOLIDATED STATEMENT OF FINANCIAL POSITION**	**Not audited** **30 June 2010**	**Audited** **31 December 2009**
ASSETS		
Cash and cash balances with central banks	61 891	147 343
Financial assets	3 166 293	2 839 742
Held for trading	213 976	117 658
Designated at fair value through profit or loss	4 559	9 145
Available for sale	985 612	1 075 978
Held to maturity	249 437	0
Loans and receivables	1 712 252	1 636 614
Hedging derivatives	457	347
Tax assets	4 882	7 018
Current tax assets	4 111	6 270
Deferred tax assets	771	748
Investments in associated companies	2 026	2 125
Property and equipment	31 242	29 268
Other intangible assets	7 907	7 796
Other assets	42 555	31 205
Total assets	**3 316 796**	**3 064 497**

in million HUF **CONSOLIDATED STATEMENT OF FINANCIAL POSITION**	**Not audited** **30 June 2010**	**Audited** **31 December 2009**
LIABILITIES AND SHAREHOLDERS' EQUITY		
Financial liabilities	2 985 996	2 767 677
Held for trading	143 074	60 400
Designated at fair value through profit or loss	198 910	155 663
Measured at amortised cost	2 641 970	2 550 137
Hedging derivatives	2 042	1 477
Tax liabilities	4 384	2 778
Current tax liabilities	2 149	136
Deferred tax liabilies	2 235	2 642
Provisions for risks and charges	36 438	41 811
Other liabilities	64 505	41 586
Total liabilities	**3 091 323**	**2 853 852**

in million HUF **CONSOLIDATED STATEMENT OF FINANCIAL POSITION**	**Not audited** **30 June 2010**	**Audited** **31 December 2009**
Share capital	73 709	73 709
Share premium	48 775	48 775
Statutory risk reserve	12 536	12 536
Available for sale reserve	-149	-2 695
Cash flow hedge reserve	-1 015	-294
Retained earnings	91 617	78 614
Total equity	**225 473**	**210 645**
Total liabilities and equity	**3 316 796**	**3 064 497**

Budapest, August 30th, 2010

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in million HUF **CONSOLIDATED INCOME STATEMENT**	**Not audited** **1st half of year 2010**	**Reclassified** **Not audited** **1st half of year 2009**
Interest income	91 275	127 084
Interest expense	-41 934	-80 835
Net interest income	**49 341**	**46 249**
Fee and commission income	23 194	21 088
Fee and commission expense (reclassified)	-7 618	-8 385
Net fee and commission income	**15 576**	**12 703**
Net gains from financial instruments at fair value through profit or loss and foreign exchange	6 453	10 183
Net realised gains from available-for-sale assets	669	219
Dividend income	2	1
Other net income (reclassified)	8 292	-1 197
Total income	**80 333**	**68 158**
Operating expenses	-33 858	-35 886
Staff expenses (reclassified)	-15 013	-15 683
General administrative expenses (reclassified)	-15 277	-16 507
Depreciation and amortisation of fixed assets (reclassified)	-3 568	-3 696
Impairment:	-17 241	-19 043
Loans and receivables	-17 141	-19 030
Other	-100	-13
Share in results of associated companies	235	276
Profit before tax	**29 469**	**13 505**
Income tax expense	-6 432	-4 784
Profit after tax	**23 037**	**8 721**

in million HUF **CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME**	**Not audited** **1st half of year 2010**	**Not audited** **1st half of year 2009**
Profit after tax	**23 037**	**8 721**
Other comprehensive income		
Net change in revaluation reserve - Available for sale equity instruments	4	100
Transfer from available for sale reserve to net profit:		
gains on disposal	0	-81
deferred income tax	0	17
Net change in revaluation reserve - Available for sale debt instruments	3 073	413
Transfer from available for sale reserve to net profit:		
gains on disposal	-669	-138
deferred income tax	138	30
Net change in cash flow hedge reserve	-839	-151
Transfer from cash flow hedge reserve to net profit:		
gross amount	149	506
deferred income taxes	-31	-109
Total other comprehensive income	**1 825**	**587**
Total comprehensive income	**24 862**	**9 308**

Budapest, August 30th, 2010

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Chief Executive Officer

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Head of the Finance Division

Consolidated Management Report

1. Macroeconomic environment

In H1 2010, the growth of the Hungarian economy has slightly exceeded the analysts' previous consensus: in connection with the global economic revival, industrial production based on export sales (producing double-digit growth) offsets the continued weak domestic demand.

	2009	2010*
GDP growth	-6.3%	+0.8%
CPI (avg)	4.2%	5.0%
CPI (dec/dec)	5.6%	4.5%
State budget (deficit)	4.0%	3.8%
Balance of payments (in % of GDP)	0.2%	0.7%

* forecast (source: MNB, KSH and K&H Bank)

In the first half of 2010 international markets were experiencing a volatile investment environment: at the beginning of the year, due to its improving position of balance, the risk assessment of Hungary continued to improve. Later, the uncertainties connected to the suspension of negotiations with IMF resulted in the renewed increase of risk premiums and significant exchange rate fluctuations.
Inflation (the inflation expectations) were in line with the medium-term goals of the central bank, thus at its first four interest rate meetings the monetary council adopted a decision on a 25-25 bp reduction of the interest rate (as a result, by April the central bank rate had dropped to 5.25% from 6.25% at the end of the previous year). The unfavourable investment environment did not allow for any further reduction, and the majority of the analysts do not expect material changes in the current level until the end of the year, either.

2. Strategic objectives

K&H Bank Group is a universal bancassurer, providing banking, leasing, asset management and insurance services for individuals and corporate (focusing on SME and Mid-cap) customers.

In order to fulfil our mandate by our shareholder and our clients:
- we combine the best international practice with sound local knowledge;
- we provide our clients with a distinctively modern banking and insurance service which begins with their needs and concludes with the delivery of excellent solutions at competitive prices.

Customer strategy:
Retail: customers are served based on the different segments' special needs.
Corporate clients: focus on cross-sales, intensify new client acquisition in selected areas.

Product strategy:
Consumer:
- Innovative saving products and add-on services to keep up our market maker status.
- Growth in consumer lending, based on a good understanding of credit risk.
- Strong focus on transactional banking.

SME:
- More standard products fitting client needs with easy processes.
- Re-design of credit process.

Corporate:

- K&H Corporate is a full service provider, emphasis is on the distribution channel to provide tailored solutions to clients.

Strategy on distribution channels:
Branch-centric multi-channel distribution approach: although the diversity of channels and the role of tied agent, 3rd party and remote channels are significant, the most important channel will remain our extensive branch network.

Key differentiators of the Bank Group:

- Being close to our clients: easy access both physically (see our large branch network) and virtually (see remote channels).
- Speaking our clients language (investment to 'client-conform' communication).
- Clients' individual needs and profiles are permanently in focus (offered services always fit their real needs)
- K&H Group acts as 'one-stop-shop' for our clients (universal financial institution)

3. Characteristics of the consolidated activities of the Bank Group

In the first half of 2010 the balance sheet total of the Bank Group increased at a rate of over 8%; within this, the loan and deposit portfolios of clients grew by 5-5%, respectively, as compared to December 31, 2009. The consolidated asset portfolio of the subsidiaries remained at the closing level of last year (HUF 183 bln). Companies with significant balance sheet totals: Pannonlízing Zrt. (HUF 88 bln), K&H Autófinanszírozó Zrt. (HUF 33 bln).

HUF billion	31 Dec 2009	30 June 2010	change
Balance sheet total	3,064	3,317	+8.2%
Loans and receivables	1,637	1,712	+4.6%
Deposits	2,706	2,841	+5.0%
of which customer deposits	*1,680*	*1,597*	*-4.9%*
Equity	211	225	+7.4%

The key elements in the evolution of the consolidated balance sheet are as follows:

- In the course of the first half of the year the portfolio of *loans and receivables* increased by nearly 5%, primarily in connection with the retail lending portfolio (if we clean the figures of the impact of exchange rate movements, practically we can see a reduction in the portfolio of all business segments).
- The growth of the *total deposit portfolio* is primarily due to the increase in interbank deposits coming from the owner. The decrease in retail deposits was offset by the increase in the portfolio of investment funds managed by the Fund Manager belonging to the Bank Group (in connection therewith, the portfolio of deposits placed by the funds in the bank also increased at a significant extent). Total retail savings decreased by nearly 2% since 31 Dec 2009.
- *Equity* increased by HUF 14.8 bln, as the joint result of the following factors: dividends paid out to the owner on 2009 profit (HUF -10.0 bln in retained earnings), current profit (HUF + 23.0 bln), increase in cash flow hedge reserves and available for sale reserve (HUF + 1.8 bln).

In the first half of 2010 the Bank Group's operating profit increased by 44% (2010: 46.5 billion, 2009: 32.3 billion). Development of the main P&L components:

- *Net interest income* increased by 6.7% compared to the first half of 2009. On top of the more favourable credit margins compared to previous period, an improvement can be seen in the evolution of deposit margins as well (significant retail deposit campaigns with attractive interests in H1 2009).
- There was a considerable growth in *net fee and commission income* compared to the same period of previous year (2010: 15.6 billion, 2009: 12.7 billion) primarily due to increased business activity related to mutual funds.
- *Net gains from financial instruments at fair value* decreased significantly (2010: 6.5 billion, 2009: 10.2 billion), as a result of exceptional Treasury trading result in H1 2009.
- The growth in *other income* is primarily due to the write back / recovery related to previous years' litigations.

In the first half of 2010 the operating expenses of the Bank Group decreased by appr. 6% (2010: 33.9 billion, 2009: 35.9 billion):

- *Staff expenses* increased by HUF 0.7 billion (4.3%) compared to previous year,
- *General administration expenses* are by 7.5% lower than those in H1 2009.

Impairment on loans and receivables amounted to 17.1 billion in H1 2010 (1st half of 2009: 19.0 billion), as a consequence credit cost ratio shows improvement compared to previous period (2010: 1.84%, 2009: 1.94%). Share of non-performing loans within total loan portfolio was 7.3% at the end of the period (30 June 2009: 4.6%).

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

	H1 2009	H1 2010	change
Cost / income ratio	52.7%	42.1%	-10.6%
Commission income / total income	18.6%	19.4%	+0.8%
Credit cost ratio*	1.9%	1.8%	-0.1%
Operating income / average headcount	36.9	44.0	+19.2%
Operating costs / average headcount	19.4	18.5	-4.5%
Operating P&L / average headcount	17.5	25.5	+45.7%
Loan / deposit ratio	97.5%	91.7%	-5.8%
Capital**/total liabilities	7.6%	7.5%	-0.1%
Capital adequacy ratio (Basel II)***	10.72%	12.33%	+1.6%
ROE (based on avg equity)	8.7%	20.8%	+12.1%
ROA (based on avg balance sheet total)	0.5%	1.4%	+0.6%

* impairment / (loans + guarantees) , annualised
** in addition to equity it also includes subordinated debt capital
*** according to the rules by the Hungarian supervisory authority

In respect of the most important financial ratios, K&H Bank's performance further improved compared to previous period. The higher income along with decreasing operating expenses and lower credit losses resulted in an improving profit figure in H1.

3. Introduction of strategic subsidiaries

Leasing Group

Currently, the Leasing Group comprises 9 legal entities[1]. As a result of company integration and the development of an optimal scope of activities, as of April 2002 the following companies have been playing an active role in expanding the portfolio of the Leasing Group:

Name	Key profile	Asset
K&H Pannonlízing Zrt	Lending	Car, TME, Fleet
K&H Autófinanszírozó Zrt.	Financial leasing	Car, TME, Fleet
K&H Autópark Kft.	Operative leasing, fleet management (lease)	Car, TME, Fleet
K&H Eszközfinanszírozó Zrt.	Financial leasing	TME (Truck, Machinery, Equipment)
K&H Eszközlízing Kft.	Operative leasing (lease)	TME (Truck, Machinery, Equipment)
K&H Ingatlanlízing Zrt.	Financial leasing	Real estate

Insurance agency activities are performed by K&H Alkusz Kft. The biggest company within the group is K&H Pannonlízing Zrt., with a 65% weight in the portfolio.
The portfolio of the **K&H Leasing Group** had a volume of HUF 125 bln at 30 June 2010, which is 2% lower than at the end of last year.
The termination of retail car finance activities at the end of 2008 resulted in the continuous shrinking of the car finance and dealer funding portfolios.
Q1 production figures indicate that in the overall leasing market the Leasing Group acquired a 2.2% share, while its share considering the active business lines was 4.8%, with HUF 1.7 bln in new production.
Starting in 2009, the company has been focusing on Corporate and SME customers, offering corporate financing products via its Asset Finance and Fleet Finance business lines. The systems and processes were developed accordingly, with further developments undertaken also in H1 2010.

K&H Befektetési Alapkezelő Zrt.

The company has to achieve results under continuously challenging market circumstances. The situation in the money- and capital market improved to a certain extent; assets managed in investment funds increased by 15%, while total assets managed grew by 16%. The company's operating profit exceeds the pro rata budget by 34%. The strategy of innovation launched in previous years continues (several new themed products are being prepared).

The Fund Manager came out with 8 new public capital protected funds in the course of the first six months of the year. In the first half of the year, so far 4 funds have been converted into open-end funds. Partly as a result of the sales campaigns related to maturing funds, the majority of released savings continue to remain in investment funds.

In the area of institutional portfolio management the scope of clients continued to expand and cooperation with already existing clients strengthened further. In June 2010, the Fund Manager managed assets worth HUF 797 bln (HUF 686 bln at the beginning of the year), with investment funds accounting for HUF 609 bln of this (HUF 529 bln at the beginning of the year). This makes the company the second biggest player in the market of investment funds, with a market share of 19.9%. The company continues to maintain its position of market leader in the segment of guaranteed funds (46.8%).

[1] The following companies play a passive role in the operation of the Leasing Group: K&H Lízing Zrt., K&H Lízingház Zrt. These companies do not conclude new contracts any longer; their existing portfolio will either phase out over the coming years, or these Companies will be merged with an active company, or – as they are companies without an outstanding portfolio – they will be liquidated. K&H Lízingadminisztrációs Zrt. has been liquidated in 2010.

K&H Csoportszolgáltató Kft

In 2005, K&H Group – headed by K&H Bank, which is the 100% owner of a K&H Csoportszolgáltató Kft (KHCSK) – decided to establish a shared service centre, the purpose of which was to centralise and organise efficiently certain service and auxiliary service activities closely related to the intra-group core activities. Main services available for the whole banking group: facility management, logistics and bank security tasks, business administration (bookkeeping services: accounts receivable, accounts payable, fixed assets etc; tax; payroll services). Supplementary services: providing full IT infrastructure for royalty programs and sale of loyalty programs, cooperation in bankcard issuance related to loyalty programs of the bank's clients.

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

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 to limit them as best as possible. The system fits into to the risk management system of KBC Group (the shareholder, both in terms of methodology and organisation.

Credit risk refers to the possibility of a loss that the Bank sustains if its client becomes insolvent or is unable to meet its payment obligation on time. Credit risks are managed using risk mitigation techniques approved by the Bank's Board of Directors. The applicable regulations cover the entire lending process. The Bank is continuously monitoring its loan portfolio; this monitoring activity serves as basis for the reports prepared for the Bank's senior management.
The Forint exchange rate and the increasing unemployment ratio during the period under review significantly increased the portfolio of delinquent loans in the case of retail loans. The future evolution of these ratios may have a significant influence on the quality of the loan portfolio.
In order to quantify credit risks, the Group has developed various rating models, both for the purpose of determining how creditworthy borrowers are and to estimate the expected loss of various types of transactions. These models support credit risk management in such areas as pricing, the credit process (acceptance and monitoring) and determining portfolio-based impairment. A number of models are uniform throughout the entire KBC Group (for instance, the models for governments, banks, large companies and project finance), while others have been designed for specific geographic markets (SMEs, private individuals, etc.). The same internal rating scale is used throughout the KBC Group.
Starting from 2011, these models are also planned to form the building blocks for calculating the regulatory capital requirements for credit risk. The Bank is in other words opting to use the Internal Rating Based (IRB) Approach. Initially, the Bank will use the IRB 'Foundation' Approach, but a switch to the 'Advanced' approach is envisaged in 2013 (both are subject to regulatory approval).
The switch to the Basel II IRB Foundation approach is taking place in stages, with the Bank planning to switch over in 2011, while main subsidiary (K&H Leasing Group) is planning to adopt the IRB Advanced approach in 2013 directly from being under Standardised approach since 2008 (subject to regulatory approval).
In the first half of 2010, the local regulatory investigation (as part of the authorization procedure) was completed, where of the results will become available in the second half of the year. In 2008 the implementation of the capital calculation software (Fermat), selected at group level – built on the foundation of the data warehouse and the credit risk database realised within the first – was completed; this system is able to handle the Hungarian national discretions, thereby facilitating the

calculation of capital requirements in accordance with the domestic legal regulations. The Bank has conducted numerous developments in 2009 and 2010 with the scope of achieving a higher level of swiftness, trustworthiness and precision within this process.

Market risk is the possibility of loss arising from the unexpected change in the value of the Bank's currency and interest rate positions. Interest rate and exchange rate risks, as well as the financial instruments are supervised by the Asset-Liability Committee (ALCO). The members of ALCO are the Bank's senior executives and the representatives of Treasury and Risk Management.
The Bank's asset-liability management is based on the methodology applied by its shareholder, KBC Group. Accordingly, ALCO is continuously monitoring the risk exposure of the banking and trading books and controls it by setting up limits (in line with KBC's 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 meet its net financing requirements. Liquidity risk may result from market disturbances or credit downgrading, which can cause certain financing resources to dry up or to become much more expensive. In order to prevent this risk the management has diversified the financing sources and manages assets with a focus on liquidity, maintaining a sound balance of cash, liquid assets and marketable securities. A new indicator to measure and manage short-term liquidity risk was introduced in 2008 for the entire 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 system or procedures, human errors or external events. Improving the management of operating risks is a key element in the preparation 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, categorise and analyse the operating loss events. In December 2007 the Bank received the permission from HFSA to use the standard method of capital requirement calculated for operating risks as of 1 January 2008.

6. The Banks' operating conditions

The most important IT developments of H1 of 2010 were the following:

- The new system performing the retail lending process called Retail Loans Front-End System (in Hungarian: LHFE) was successfully implemented.
- The internally developed system performing the electronic receipt of and reply to collection (execution) orders started live operation at the Bank on February 4, 2010.
- The expansion of the retail CRM system's functionality was completed (in the meantime, in order to support the corporate segment's client management processes, we have started the implementation of the corporate CRM system).

Capital investment in branches:

In H1 of 2010, 52 bank branches were established, partly or fully reconstructed, or are now being renovated, as follows:

- 1 new bank branch was finished and opened and another is now being built.
- 4 branches were fully or partially rebuilt, and the rebuilding/expansion of 6 branches was in progress at the end of the period.
- In 40 branches, we carried out small or large reconstruction works as part of the Gemini project.

The number of bank branches was 242 as of 30 June 2010.
In connection with the (re)construction of branches and under the umbrella of the ATM project, 1 machine was built in at a new location (branch), and approx. 10 machines were installed at external locations, independently of the branches. 470 ATMs are available for our customers on 30 June 2010.

The branch network is now being made handicapped accessible, in parallel with the construction and rebuilding works. 225 out of 242 branches are handicapped accessible at present.

We have started to take measures that ensure our compliance with environmental protection laws and regulations (elimination of freon), and in some cases, we have carried out specific modernisation of the machinery at the same time or under the umbrella of a separate programme. At the moment 190 branches were made completely free from freon or were initially built with a freon-free technology.

Budapest, August 30th, 2010

Hendrik Scheerlinck
Chief Executive Officer

Attila Gombás
Head of the Finance Division