Kereskedelmi és Hitelbank ANNUAL REPORT 2001

Kereskedelmi és Hitelbank **ANNUAL REPORT** 2001

Chairman's Letter to Shareholders

Kereskedelmi és Hitelbank had a challenging but highly successful year in 2001. In accordance with the initiative of our main shareholders, K&H merged with the Hungarian subsidiary of the ABN AMRO Group. The deal created a new, more efficient bank and one of the largest universal banking groups in Hungary. Our strategic investors, the KBC Bank and Insurance Group of Belgium and the Dutch ABN AMRO Group, combine capital strength, substantial financial experience and an international network that will provide a foundation for the future and favourably influence the prospects of our Bank.

Although the merged bank quickly established itself in the market with a uniform corporate image, the technical aspects of the merger will naturally take longer to complete. In the past year our colleagues worked on a number of integration projects, all serving the purpose for which our shareholders have expressed their support, i.e. ensuring that the merged bank, relying on its integrated systems and efficient internal processes, be able to provide coordinated, well-developed and competitive services for its customers. The Board of Directors is pleased to state that most of these integration projects were completed by the end of 2001, sooner than had been expected.

The tasks related to the merger placed a considerable additional burden on both the management and staff of the Bank. It is all the more remarkable therefore that the Bank produced good operating results both in comparison with the previous year and versus business forecasts. Activities became increasingly dynamic in the second half of the year. The Bank managed to retain, and in some areas even improve, its market positions. Our customers maintained their confidence in the Bank, which meant substantial support for our efforts.

The merger has, of course, entailed significant one-off costs. In order for these costs to have a minimal impact on profits in the coming years, the Bank made provisions against anticipated future costs related to the 2001 merger.

The Bank is currently undergoing a unique and challenging process of transformation and institutional development. For this reason, the Board of Directors devoted particular attention to human resource management and employee satisfaction in the past year and will continue to do so in the future. The measures taken in the course of the year contributed to the fact that the workforce fluctuation of 2001 decreased considerably by early 2002, stabilising at a normal level.

Looking ahead, the top strategic objective for Kereskedelmi és Hitelbank as a leading universal banking group in Hungary is to further strengthen its market position and improve its profitability. We have to succeed in the tough and competitive banking sector, by meeting the demands of our customers at the highest possible level and thus increasing their satisfaction. The successful completion of the information technology project presently in progress is one of the key elements that this effort is building on. This development will provide long-term IT support for both corporate and retail business, while also simplifying the current IT environment and creating more favourable conditions for introducing new, modern banking services. In the wake of the successful merger, we all expect further improvements in organisational activities and the development of a positive, supportive workplace and institutional culture in the Bank.

The year 2002 has begun with encouraging results, and the management of the Bank enjoys the complete confidence of shareholders as they face new challenges. I would like to express my gratitude and appreciation to the employees and management of the Bank for their outstanding performance, as well as to the members of the Board for their committed efforts toward fulfilling the objectives of the Bank.

István Szalkai

Chief Executive Officer's Message

The year 2001 was one of the most exciting and fruitful periods in the history of Kereskedelmi és Hitelbank.

Kereskedelmi és Hitelbank and ABN AMRO Magyar Bank completed a succesful merger that was smooth from both a legal and a business perspective. The quick completion of this merger was basically the result of two factors: first, the two banks were under joint management from the beginning of the year, though the legal merger only took place on 1 July. Second, we set up a special unit, the Integration Office, dedicated to merger-related tasks.

The merger process has progressed so rapidly that we are nearly eighteen months ahead of the original schedule. Ninety percent of the business-related integration projects have been finished and the remaining ones are also near completion. On the other hand, as the Bank was able to keep focusing on the market, on its customers and on realising its business objectives, it was able to achieve a much higher-than-planned operating profit in 2001.

In summary, we can state that from the two separate financial institutions that existed at the beginning of 2001, a single integrated, largely homogenous bank has emerged by year-end. The merger created the second largest banking group in Hungary in terms of assets, one which is the number one player in the corporate segment and ranks second in the retail market. Kereskedelmi és Hitelbank is a truly universal large bank, offering a full range of financial products and services nationwide.

In corporate banking, separate units serve large corporations, project financing and medium-sized enterprises. The retail banking division is responsible for private individuals as well as small enterprises, which require standard, high-quality services, and private banking customers, who demand unique, customised services. We offer both our retail and corporate clientele a broad array of traditional and innovative products, from simple loan-deposit packages to the full range of electronic services and the most sophisticated treasury deals. In addition, our subsidiaries take advantage of our extensive branch network to provide leasing, factoring, life insurance, capital market, fund management and asset management services all over the country.

Kereskedelmi és Hitelbank had a successful year in 2001 in terms of financial performance as well; according to International Accounting Standards (IAS) its consolidated net profit was HUF 3.8 billion. This figure does not include the six-month results of ABN AMRO Magyar Bank, since it was operating separately until 30 June, 2001. At the merger, its 2001 first-half net results were posted to the books of Kereskedelmi és Hitelbank as part of the shareholders' equity. The 2001 annual figures of the K&H Group are thus made up of the full-year figures of the former K&H Bank and the second-half figures of the amalgamated ABN AMRO. The real performance, however, is reflected in the total full-year figures of the two banks, i.e. including the first-half figures of ABN AMRO. Here the IAS-calculated consolidated profit amounts to HUF 7.4 billion. If this figure is cleared of extraordinary one-off items (merger expenses, the profit on the sales of the insurance company MÉBIT and the merger goodwill), it yields the real performance figure, a profit of HUF 4.9 billion after taxation.

We do not anticipate any significant merger costs after the year 2001, for we recognised as many such costs as possible in compliance with accounting regulations in the first year, that is in 2001, even provisioning against anticipated costs to be incurred in 2002/2003.

Our accomplishments in 2001, the work done and the commitment of our shareholders provide the right foundation for the K&H Group to remain a strong, efficient and successful player in the Hungarian financial market.

T. E. Rejtő

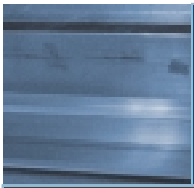
Tibor E. Rejtő

Economic Trends

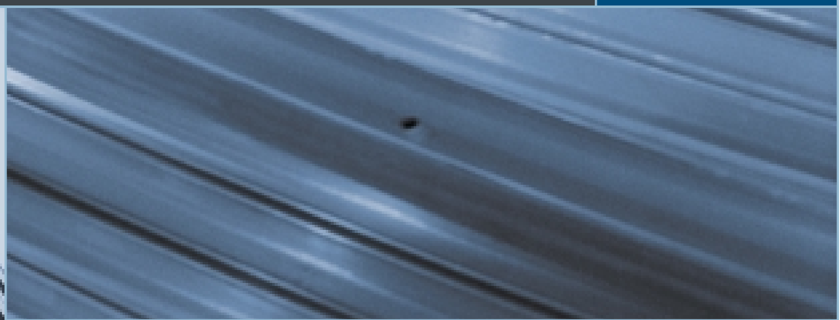
INTERNATIONAL ECONOMIC TRENDS

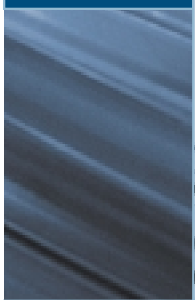
The global slowdown in 2001 was attributable primarily to the recession of the number one economy in the world, that of the United States. This, combined with the events of 11 September, had a bigger-than-expected impact on the Eurozone, whose growth rate dropped to about half of the previous year's figure. Recession deepened further in Japan, the leading economy of the South-East-Asian region, while the Turkish economy nearly collapsed early in the year, followed by Argentina in the second half. This slowdown, combined with falling energy prices, helped rein in inflation, which in turn allowed the Federal Reserve (Fed), and then the European Central Bank (ECB) to cut their benchmark interest rates several times.

The US economy had a somewhat mixed year. Whereas economic growth fell significantly short of that of the preceding year, recession did not last as long as predicted earlier. Weaker overall economic performance cut corporate profits as well (by 16% versus 2000), and while retail consumption (which accounts for two-thirds of the GDP), dropped only slightly, investment activity plummeted. The economy finally took off in the last quarter, helped by the expansion of government spending and also by corporate inventory building. The Fed responded to the slowing economy by cutting benchmark rates 11 times during the year by a total of 475 basis points, as a result of which the refinancing rate fell to a 40-year historic low of 1.75% in December. The stock market was also affected by the ailing economy: the Dow Jones Industrial Average (DJIA) and the Nasdaq index lost 8% and 13% respectively in 2001, though the fourth quarter brought some upturn here as well (13% and 30%, respectively).

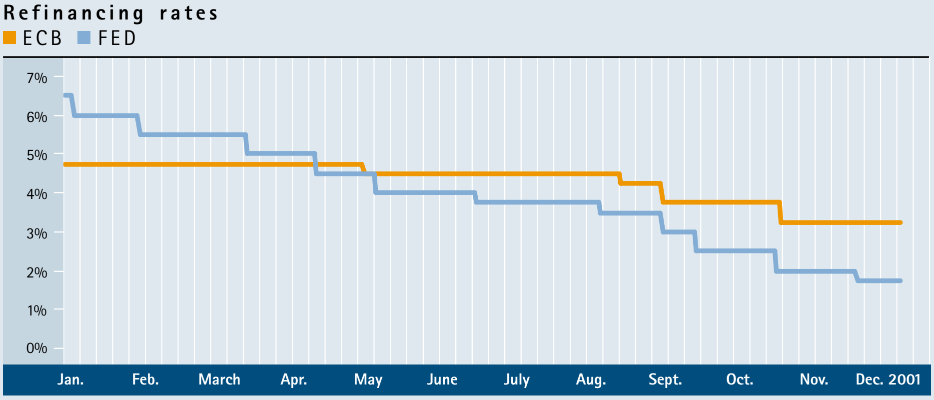


Although deteriorating external conditions slowed down the growth of the Hungarian economy perceptibly in 2001, the growth rate continued to considerably exceed the average of both EU member states and other converging economies.





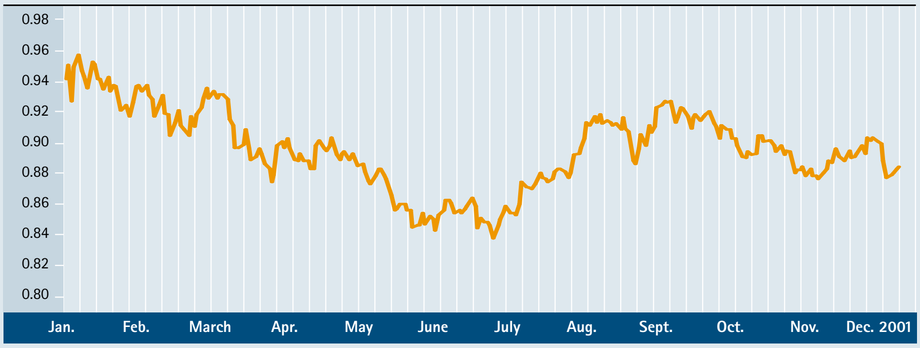
Refinancing rates



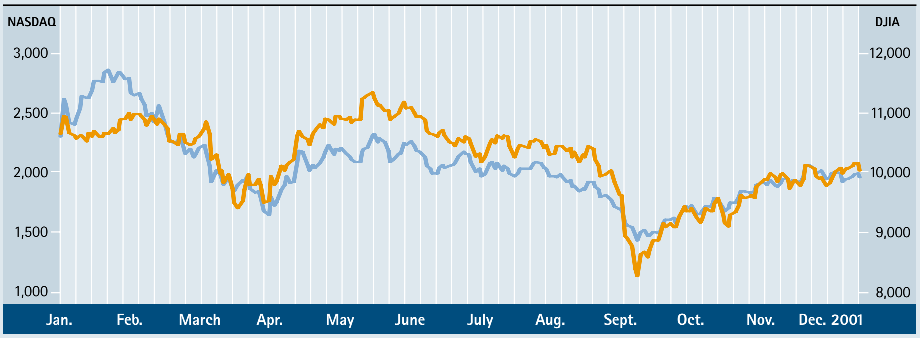
In addition to preparations for the introduction of the common European currency, the year 2001 was marked by efforts aimed at revitalising the economy for the ECB as well. After the May peak at 3.4%, the inflation rate decreased gradually in the Eurozone. The euro continued to depreciate against the dollar, hitting an annual low in July at 0.84. Apart from the third quarter, the euro was sliding continuously all year long, due in part to projections that the region will see slower economic growth than the US in the coming period.

The economic performance of Central and Eastern Europe (CEE) was basically driven by the slowdown in the European Union. The fall in economic growth, however, was less pronounced in these countries as declining exports were offset by stepped-up domestic demand. While EU accession talks progressed with several states, many countries of the region are still plagued by aborted or delayed structural reforms.

USD/EUR exchange rate



Stock exchange indexes
NASDAQ/ DJIA



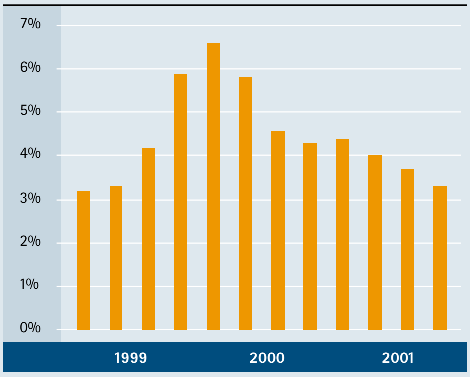
ECONOMIC TRENDS IN HUNGARY

Although deteriorating external conditions slowed down the growth of the Hungarian economy perceptibly in 2001, the growth rate continued to considerably exceed the average of both EU member states and other converging economies. Due to less favourable sales opportunities abroad, there was a perceptible slowdown of the traditionally impressive industrial growth (4% in 2001 from 18% in 2000). Meanwhile exports also posted weaker-than-expected results. These negative phenomena, however, were offset by domestic consumption, which rose 4.1% on the back of a bigger-than-usual increase in incomes. Capital investment growth slowed to roughly half of previous year's level at 3.5%, thus falling short of GDP growth at 3.8%. Foreign trade experienced some deceleration as well and the trade deficit shrank by almost EUR 1 billion to EUR 3.6 billion. Unemployment rate continued to decrease – from 6.4% to 5.7% – which was not, however, accompanied any real rise in employment.

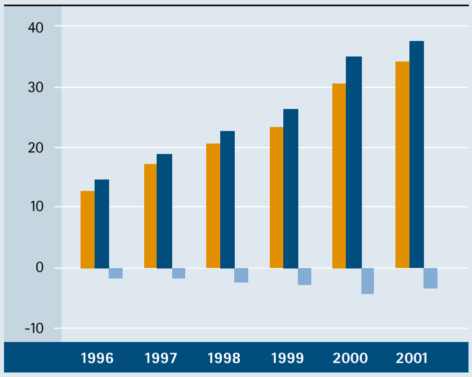
As the economy continued to expand, both the external and internal equilibrium improved: the current account deficit decreased by EUR 186 million to EUR 1,248 million, of which EUR 813 million was financed from non-debt-generating funds (working capital inflow and portfolio investments). The external financing requirement of the national economy showed a drop as well: household consumption rose less than disposable income, while companies reined in their capital expenditure more than would have been justified. The net foreign debt of the country – excluding shareholder and other investor loans – was EUR 7 billion at the end of the year, down by about EUR 2 billion from a year earlier (at the same time, the net amount of shareholder and other loans showed a EUR 1.7 billion increase as compared to 1999).

The budget deficit totalled HUF 445 billion in 2001, remaining largely unchanged from a year earlier (and equalling 3.3% of GDP rather than 3.4%), though according to EU statistics, the deficit reached 5% of GDP.

GDP growth by quarter



Balance of trade (EUR billion)
export import balance



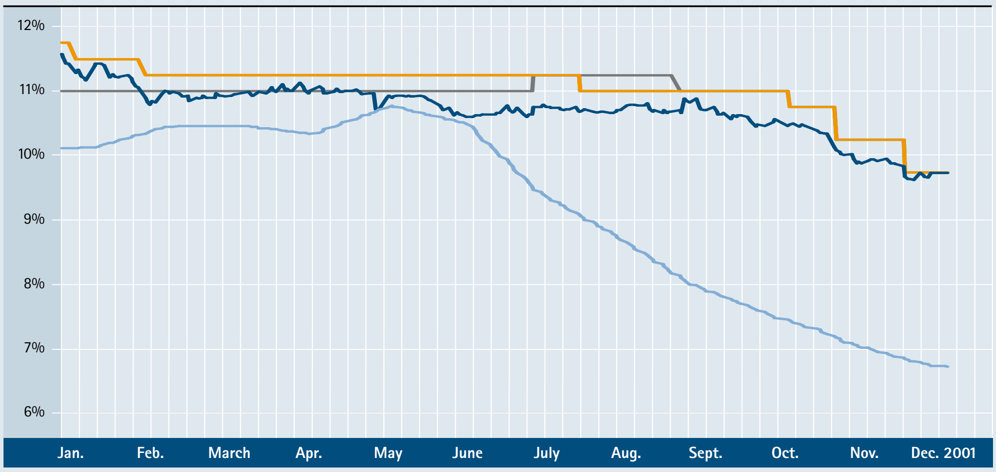
MONETARY TRENDS

In the second half of the year, both the lower inflation rate and the reduced risk premium caused by more favourable investor sentiment toward the region contributed to a considerable drop in market rates, which was followed by cuts in the central bank base rate totalling 125 basis points. The fall in yields, however, did not reflect the decreasing inflation, so the ex-post real yield rose by 150 basis points during the year.

The exchange rate policy saw several material changes in 2001: the monthly crawling peg devaluation rate was cut by another 0.1% in April, while on 4 May the new management of the National Bank of Hungary (NBH) widened the intervention band of the forint to +/-15% (from the earlier band of +/-2.25%), which was followed by a considerable appreciation of the Hungarian currency against the euro. In June the central bank replaced its exchange rate stabilisation objective with a system of inflation objectives; then in October it terminated the crawling peg devaluation, which had lost its significance with the widened band. In 2001 the legal conditions required for the full convertibility of the forint were fulfilled as well. Whereas speculative capital inflows demanded substantial sterilisation prior to the widening of the band and the foreign exchange liberalisation, in the second half of the year the NBH was not forced to reduce liquidity any more, or intervene in defence of the exchange rate.

Following the transformation of the exchange rate system, the appreciation of the forint versus the euro helped reduce the consumer price index (CPI) figure, which, combined with falling oil and food prices, led to a significant drop in inflation rate in the second half of 2001, and enabled the NBH to meet its year-end inflation goal (Dec. 2001/Dec. 2000: 6.8%).

Interest rates
NBH base rate NBH 2-week deposit rate
3-month discounted T-bill yield 12-month inflation



The rate of interest payable on funds under reserve requirements fell to a uniform 4.25% by the end of the year (from 6% on forint, and 6.5% on foreign currency funds at the beginning of the year). The reserve ratio dropped by 4 percentage points in February and another 1 percentage point in July (to 6%), thus the revenue withdrawal which was burdening the banking system was reduced substantially.

THE HUNGARIAN BANKING SYSTEM

The banking system had a successful year in 2001, with continuing consolidation and further improvements in profitability (the return on equity climbed to 16.8% from 13.8% a year earlier). The total assets of the banking sector (which represents nearly 94% of the entire finance sector) grew significantly again in 2001, by 13%.

The slowdown in economic growth was accompanied by a moderate increase in the loan portfolio, which fell short of the rates of previous years: the loan portfolio expanded by 18.9%, as corporate loans grew by 11.6%, and retail loans by 53.6% (the spectacular improvement of the latter was, as in the preceding year, mainly attributable to housing loans – a rise of 72.8% – while consumer loans also doubled in 2001). At the same time, however, the quality of the loan portfolio deteriorated slightly – for the first time in several years. Whereas in 2000 87.1% of corporate loans were rated performing, this figure slid to 84.2% in 2001.

The growth rate of deposits, though still impressive, fell 5.8 percentage points short of the growth rate of loans (13.1%). The expansion in the deposit portfolio was the result of the leap in corporate deposits (due to the less favourable business environment) as well as the substantial increase in real wages. The flow of savings into bank deposits was helped by adverse capital market trends and the diminishing business activity of non-bank intermediaries, as well as the conversions necessitated by the introduction of the single European currency. Average interest rates declined continually in 2001, which in turn clearly entailed narrowing loan-deposit spreads in the corporate sector. Retail demand for loans was considerable throughout the year, thus – apart from housing loans – the drop in loan rates was smaller than the fall in deposit rates, which followed market yields.

The year 2001 brought yet another rise in the off-balance-sheet activities of banks, which actually outperformed the growth in total assets. The substantial increase in deals involving derivative instruments can be linked to the transformation of the exchange rate system in May. The rise in contingent liabilities (26.6% versus 13.1% in 2000) can also be regarded as favourable, and suggests further developments in lending activity.

Business Review

2001 was undeniably the most eventful year in the life of K&H. The merger of Kereskedelmi és Hitelbank and ABN AMRO Magyar Bank created the second largest Hungarian bank in terms of total assets, which is the number one player in corporate banking and ranks second in the retail banking market. The most important challenge of the past year was the simultaneous implementation of the merger and the uninterrupted growth of the business. In addition to shareholder and employee commitment, the success was in part due to the fact that the two banks had already a joint management when the legal merger took place on 1 July.

The required organisational changes were mostly carried out in the first half of the year, and the operating framework of the merged bank was established. The rationalisation of the merged branch network also begun in order to further improve customer service, sales quality and profitability. The Bank started to develop a uniform image for the branch network, portfolios were harmonised and services and conditions integrated.

Parallel with the business side, the co-ordination of operations and support areas also began.

The external GIRO and SWIFT links of ABN AMRO were terminated. As a result of the developments completed, by the time of the legal merger these external connections had already been operating in accordance with K&H standards. Activities were also harmonised in Operation and Back Office (responsible for providing direct administrative support to the business divisions) with the primary objective of relieving the burden on branches and other business units by performing administrative tasks centrally.

The merger of K&H and ABN AMRO Magyar Bank created the second largest banking group in Hungary in terms of assets, which is the number one player in the corporate segment and ranks second in the retail market.

In the area of information technology, we changed the infrastructure of the former ABN AMRO branches. In the second half of the year, we integrated the SAP system, which provides the operating background for the Bank. The preparations for introducing the integrated system designed to replace the present business systems of the Bank are proceeding on schedule. The retail banking division will be able to start using the new system as early as 2002, with corporate banking following suit in the first half of 2003. The end result will be an organic, integrated information technology system that offers a higher degree of operating security, faster and more efficient data processing and uniform services.

In the area of operation and real estate management, one of the key challenges in connection with the merger was the co-location, reconstruction and renovation of 38 branches. In addition, we sold 25 property units that had been out of use in order to cut the costs associated with the real estate portfolio. Taking advantage of the bigger size of the new entity, we managed to achieve price reductions in most supplier contracts.

In the field of human resources management, we had to unify the different remuneration structures of the two institutions. Meanwhile, efficiency considerations led to significant downsizing that involved nearly a thousand jobs, as a result of which the number of employees fell to 3,954.

CORPORATE BANKING

In corporate banking the K&H Group became market leader after the merger. At the end of 2001, its market share was 13.5% in deposits, and 14.3% in loans. In the course of the year the corporate division underwent harmonisation aimed at integrating operations, and a new organisational framework was created. In the new organisational structure, there is more emphasis on the centralised management of large corporate customers (through setting up sector, functional and special clients desks) as well as on retaining the market leader position in project finance.

Based on the experience gained in the preceding year, the Bank made preparations for the standardised management of an even bigger segment of small enterprises in 2001. Businesses with annual sales below HUF 700 million were transferred to retail banking in order to promote service integration and quality on the one hand, and to increase the operating efficiency of the corporate and retail network on the other.

The restructuring of the corporate network serving medium-sized businesses and the creation of new positions were also aimed at more intense business activities and improved efficiency, therefore all operations not directly related to the business were spun off corporate sales. By 1 January 2001 we defined 5 new corporate regions to conform with the principles of the EU on regions. Quality resources were concentrated in the spirit of enhanced efficiency, and the number of branches engaged in corporate lending was reduced to 20, which (with the exception of one county) are all located in county capitals. Budapest and Pest county – the most important markets – are served by 3 Budapest branches. The corporate network ensures nationwide presence, and is responsible for providing full service to medium-sized corporate customers.

As a result of the rigorous employee selection process, the Corporate Banking Division now has a sales-oriented and cost-efficient organisation. In the second half of 2001 the Bank introduced a uniform range of products and services in the corporate segment as well, which required harmonisation in a number of procedures and product pricing policies. In the past year the emphasis in corporate banking was not on launching new products but on improving the quality of service.

LARGE CORPORATE CUSTOMERS

Prior to the actual date of the legal merger, the Large Corporate Customers Directorate had already been ready to deploy its new organisation – built on new foundations and taking advantage of the merger – to ensure that customer requirements are continually met at the highest level. Our market positions strengthened further in 2001, and Large Corporate Customers participated successfully in several tenders.

The number of large corporate clients grew by nearly 7.5% in 2001, so at present we have active relationships with approximately 700 key corporate players. We place particular emphasis on professional customer relationship management, fully satisfying customer needs. In order to do so, it is essential to have a proactive approach, initiative and the ability to quickly identify individual customer needs, which also encourages the development of our services. The Large Corporate Customers Directorate continuously co-operates with market leading Structured and Project Finance (SPF), K&H Treasury, one of the most important and most experienced players in the Hungarian market, and Global Transaction Services (GTS), which enjoys the international support of the ABN AMRO Group.

Large Corporate Customers caters for every need of its clientele in that it offers the complete product range and all the services of the Bank. In 2001, the most notable products and services beyond traditional ones included:

- new cash management and treasury products introduced in the wake of the foreign exchange liberalisation, e.g. foreign currency overdraft, regional/global solutions;
- options (foreign currency/foreign currency and HUF/foreign currency) and structured derivative products (interest rate swaps and currency swaps).

The most important objective for the year 2002 remains unchanged: to use our unique advantages in the domestic banking market in the most efficient way possible. The most significant of these advantages are our capital strength, high legal lending limits and nationwide branch network, as well as the fact that both strategic investors of the Bank, KBC and ABN AMRO, are distinguished banking groups that combine considerable financial muscle and substantial international experience, and are capable of sophisticated regional and global solutions.

CORPORATE NETWORK (medium-sized corporate customers)

The corporate network posted a 4.5% increase in the number of customers in 2001. This growth was the result of the more intensive acquisition activities pursued simultaneously with the merger.

Demand for loans remained stable in 2001, though rates were more moderate than in the previous years, which was attributable to slower economic growth. Parallel with that, the loan portfolio saw positive changes in terms of breakdown by industry as well as risk classification. The Bank accomplished the objectives set in its agriculture sector strategy for 2001 by reducing the gross exposure of the agriculture portfolio by 12%, and the net exposure by 20%.

The number of electronic banking terminals was increased to over 11,000, and in the corporate banking business the percentage of electronic payment orders exceeded 85%. In addition to that, the Bank is also one of the biggest users of Eximbank funds, which offers customers favourable export finance opportunities.

STRUCTURED AND PROJECT FINANCE

K&H is one of the key players in the structured and project finance segment of the Hungarian banking sector, and as such, it carries on the ten-year tradition of its predecessors. The in-depth industry expertise of K&H Bank, combined with the broad product range of ABN AMRO and the know-how of the parent banks, constitute an excellent basis for exploring and exploiting new market opportunities.

In the year 2001 the Bank concluded 18 structured and project finance deals, with a total volume of almost EUR 300 million. K&H participated as arranger in every major syndicated lending/project finance transaction of the Hungarian energy and telecommunications sectors, and was also involved in a number of business and tourism real estate projects.

The products of SPF play an important role in establishing and strengthening customer relationships, and also in ensuring that K&H Bank is able to serve its large and medium-sized corporate customers with structured and other high quality products.

CUSTODY

The Bank provides universal custody services, which satisfy the most exacting requirements of its domestic and international institutional clientele. Our domestic customers include mutual funds, pension funds and insurance companies, while the international side is dominated by our partner broker-dealers and custodian banks.

GLOBAL TRANSACTION SERVICES

In 2001 K&H successfully introduced the cash management system of ABN AMRO Global Transaction Services (GTS), for its key customers. Last year we entered into an agreement with our Dutch parent bank, ABN AMRO, whereby K&H Bank provides highly sophisticated services for global ABN AMRO customers.

In 2001, following the liberalisation of the forint, GTS developed cross-border cash pool solutions for Hungarian companies present in international markets. These products enable our customers to minimise the interest and fees payable on cross-border transactions, while also gaining a better picture of their overall liquidity as the Bank provides daily information on the respective cash balances of their subsidiaries.

Through the parent bank (KBC, ABN AMRO) relationships of K&H Western European liquidity management methods reach the Hungarian market.

K&H LEASING

The K&H Leasing Group is made up of the leasing group of K&H Bank and the three separate leasing groups of the former ABN AMRO. The Group, which comprises 4 financial and 9 non-financial businesses, offers a broad array of asset-based financing solutions to customers.

In creating the new corporate profile in 2001, our primary objective was to set up a comprehensive asset-based financing group organised in a holding structure. In the year of transformation the Group increased its business activities – reflected in the rising number of projects financed – thus reinforcing the position of the K&H Leasing Group in the top tier of the Hungarian leasing market. In 2001 the Group financed new and used cars, compact and full-size trucks, high-value machinery and equipment and – to a lesser extent – various other assets for businesses and individuals alike.

In 2001 the Group realised disbursements in the amount of over HUF 48 billion, which meant more than 23,000 new finance contracts. The development was the most spectacular in car financing, which is attributable to the comprehensive range of services and the profitable business relationships of the leasing company. Foreign currency-based solutions proved to be the most popular with customers.

CAPITAL MARKET SERVICES

K&H Equities specialises in capital market services. Its activities are divided into:

- investment services and
- corporate finance (M&A advisory services).

Investment services

K&H Equities, the investment subsidiary of K&H Bank, operates as a brokerage firm providing comprehensive services. K&H Equities ranked fourth among the members of the Budapest Stock Exchange (BSE) in 2001 with a market share of 8.2%. The K&H Group (K&H Equities, K&H Bank) owns approximately 5.05% of the shares in the BSE, and is thus the third biggest shareholder. The main services of the company include trading/dealing in the shares of Hungarian companies i.e. those traded in the local market as well as Global Depositary Receipts (GDRs), trading in foreign shares, equity research and transactions in foreign bonds. The division responsible for foreign exchange (FX) deals was closed down in the last quarter of 2001, and its activities were transferred to K&H Treasury.

The clientele of K&H Equities consists almost exclusively of professional investors, e.g. major international and domestic institutions, and high-net-worth individuals. The transactions of global investment banks account for over 60% of the total business volume. Investment services provided for retail customers will be taken over by the Bank.

Corporate finance

Through its predecessors, K&H Equities Corporate Finance has been a major player in domestic mergers and acquisitions (M&A) and a key manager of bonds issues since 1993. In the past years, most of its transactions came from the telecommunications, media and financial institutions sectors. After the 2001 merger of the parent banks, it joined ABN AMRO Corporate Finance as well as the regional network of KBC Securities.

In 2001 the company worked on several M&A transactions, the most notable of which was the advisory service provided for the planned acquisition of a regional Internet service provider (ISP) in co-operation with ABN AMRO London. It was also involved in deals with media companies, financial service providers and manufacturers.

The experts of corporate finance have substantial experience in structured finance and private equity as well, so the objective for 2002 is to become a leading player in arranging leveraged buyouts (LBOs) as advisor and manager. The company is also strengthening its bond issue division, taking advantage of the new capital markets act, which broadens the possibilities of companies to obtain direct and off-balance-sheet financing.

MAGYAR FACTOR

Magyar Factor is a dominant player in its segment with a 40%-plus market share: in 2001 it increased its factoring turnover by 45% to HUF 45 billion in the Hungarian market totalling HUF 110-130 billion.

The company provides a complete range of factoring services. While these services mainly attract small and medium-sized enterprises (SMEs), in early 2001 the company successfully introduced a new service, invoice discounting, which is targeted at a wider corporate clientele.

The speciality products of the company are ideal complements to the product range of the Bank and allow the Bank to retain old customers – and acquire new ones – at a lower risk. The company has begun to take advantage of the marketing and distribution network of the Bank.

RETAIL BANKING

The merger of the two banks played a significant part in the organisational development of the Retail Banking Division as well. The branch network saw considerable organisational changes in 2001. The rationalisation of the merged branch network was started in order to achieve further improvements in customer service, sales quality and profitability. The network, which had originally comprised of 214 branches, was thus reduced to 176 branches by year-end. Units deemed inefficient were closed down, while new branches were opened as well, in response to market requirements. We began to create a uniform corporate image for the entire network, a process that is to end by the middle of 2002.

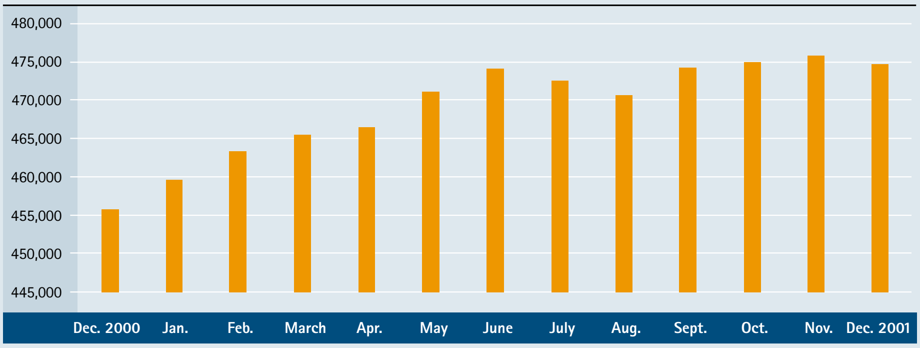
The harmonisation of retail portfolios and the integration of services and conditions were completed. The Bank started to market its most popular products in the entire network. The products of subsidiaries are also widely available; branches are already selling life insurance policies, pension fund and mutual fund products. Building on its corporate customer relationships, the Bank set up the Employee Benefits Unit, which, as a new distribution channel began to sell the complete range of retail services through existing (and prospective) medium-sized and large corporate customers, with co-operation of customer relationship managers of the Corporate Banking. K&H Bank ranked second in the Hungarian market in terms of both retail deposits and retail lending. At the end of 2001 the Bank had a market share of 13.6% in deposits and 7.4% in loans.

DEPOSIT COLLECTION AND ACCOUNT SERVICES

Retail customers

At the end of 2001 the retail deposit portfolio exceeded HUF 486 billion, its growth driven by the expansion of forint deposits (in addition to the merger). The number of retail account holders reached 475,000 by year-end.

Number of customers with retail bank account



Within forint deposits, the top products in raising funds were time deposits linked to retail accounts and savings deposit accounts. Their sales were helped by several advertising campaigns during the year. Due to certain regulatory changes, (the termination of anonymous savings deposits) the funds in various deposit notes were largely transferred into the above-mentioned two products, further contributing to their 2001 expansion.

We launched a new, higher-interest account product for key depositors, the so-called 'premier account package'. In April 2001 we began to introduce private banking services creating a three-tier banking service for individuals:

- retail services,
- premier retail services and
- private banking services.

Private banking services are designed to provide a complex financial solution for individuals who have liquid savings of at least HUF 50 million. The core element is investment management and advisory services (i.e. investment, real estate, art, tax and legal consulting). The Bank also continued to sell its special products and services tailored to the needs of young customers within the Trambulin programme.

In 2001 the Bank, as primary dealer, took part in primary and secondary dealing in government securities. As commission agent for K&H Equities, it executed stock exchange orders for its customers according to an established co-operation structure.

Small businesses

For businesses with annual sales below HUF 700 million the Bank provided standard account and deposit service packages in 2001. In this segment, the emphasis was on increasing the number of customers, the amount of deposits and the weight of electronic services. Total deposits grew by almost HUF 8 billion to reach HUF 124 billion. There was a strong improvement in the foreign exchange activities of customers, which brought about a considerable rise in commission income as well as in the foreign currency portfolio. On the services side, the Bank continued to expand electronic services, while also preparing for the introduction of Mobilinfo and Internet banking.

LENDING

Retail customers

In retail lending, the Bank achieved a 90% volume growth in 2001, pushing the year-end figure to HUF 49.5 billion from the HUF 26.1 billion posted in the previous year. At the end of the year, we had about 94,000 customers with a credit agreement and 164,000 customers with an overdraft facility. In terms of market share, K&H ranked second in the Hungarian banking sector.

In the autumn we launched a new product in co-operation with the Földhitel és Jelzálogbank (FHB): a subsidised-interest loan, of which we disbursed as much as HUF 1.5 billion in the last two months of the year. The figure reached HUF 4 billion by mid-March 2002. The 2002 strategic retail product is the housing loan that can be taken out to finance the purchase of existing housing. The branch network remained the number one distribution channel in 2001, but the agent networks are also making an increasing contribution to customer acquisition, accounting for HUF 2.5 billion in new loans in the past year.

Small businesses

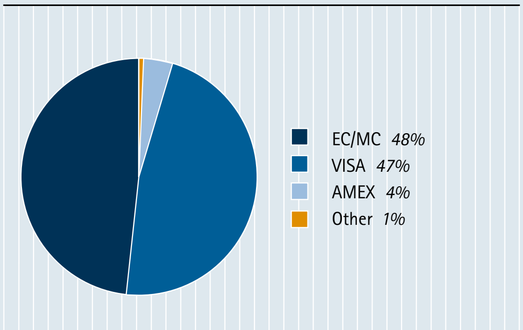
In small business lending, the primary task for 2001 was to develop and introduce new lending conditions and uniform application, decision-making and pricing procedures. Decision-making procedures and competencies were reviewed several times in the course of the year, and by year-end the system currently in use was created. The loan portfolio grew from HUF 26.8 billion to HUF 28.9 billion during the year. Uniform pricing and the introduction of minimum fees boosted profitability, yielding an average spread of 3.66% instead of the planned 3.1%, which in turn meant that interest income was also above plan.

ELECTRONIC DISTRIBUTION CHANNELS

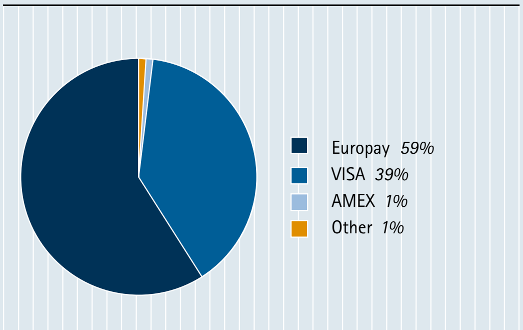
Bankcards

The Bank boasts a history of over 10 years in the bankcard business, and offers a comprehensive range of bankcard services to its retail and corporate customers. The most popular solutions are the EUROCARD/MasterCard and VISA electronic and classic debit cards. The VISA FOTEX embossed co-branded card, which guarantees various discounts, and the SuperShop Maestro bankcard, which allows the holder to collect points in a loyalty programme, are truly unique in the Hungarian market. The VISA Gold, VISA Business Gold and American Express (AMEX) cards are designed for customers who require prestige cards. In 2001, the Bank issued bankcards for almost half a million customers, who used them in transactions worth HUF 140 billion. In 2001 K&H began to develop chipcard products, which use the most advanced and most secure technology and comply with the Europay-MasterCard-VISA (EMV) standard.

Merchant turnover by card type, 2001



Bankcards issued by type, 2001



The Bank ranks second in serving merchants that accept bankcards, operating over 10,000 electronic card terminals, which generate a total turnover of almost HUF 100 billion per year. The market leader position in the tourism and catering sector is due to the acceptance of the full range of cards (VISA, Europay, AMEX, JCB, Diners Club). The Bank operates 270 ATMs in its branches, in shopping centres and at the offices of key customers. In the future, the Bank will focus on the following new areas: small-business cards, credit cards, expanding the loyalty programme with shopping centres, Széchenyi card, investment cards and health insurance cards.

E-banking

Internet-based banking services are the safest solution in the market at present with chipcard customer identification and electronic signatures that have passed the test phase; by year-end, about 1,500 customers have tried the new channel. Access is provided for our retail customers to the Retail Account, the Savings Account, all accounts opened with the Retail Account, the AMEX retail card and the VISA credit card. Our goal for 2002 is to launch e-banking for small businesses.

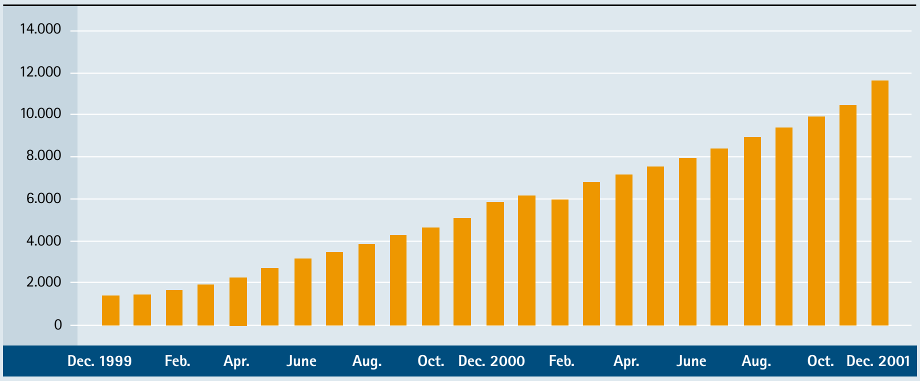
TeleCenter

K&H Bank has a fully functional TeleCenter, which sells investment products, transmits information by fax and offers customer service. It is our objective for 2002 to transform the TeleCenter into a direct sales channel that would offer existing customers savings deposit accounts, bankcards, e-banking and Mobilinfo services and the products of subsidiaries, all on the basis of incoming calls.

LIFE INSURANCE

K&H Life Insurance developed further in 2001. Despite the company was able to increase its sales (the fact that the Hungarian life insurance market experienced a considerable slowdown for the first time in years), and broke even in its third year of operation. The merger of K&H and ABN AMRO meant an expansion of the branch network, which was used very well in sales. By the middle of the year the entire network was selling the savings and risk products of the insurance company.

Number of customers with life insurance policy



TREASURY

2001 brought two major challenges for the treasury area:

- the merger of K&H Bank with ABN AMRO Magyar Bank, and
- market liberalisation.

The treasury function of the Bank comprises of three main areas:

In sales, the key challenge of 2001 was to create a uniform corporate image and integrated customer management. This objective was met in full, as the Bank not only retained the customers of its predecessors, but took a significant step forward in increasing the number of partners as well as the services offered to them. Foreign exchange liberalisation gave the green light to derivative transactions not used before and, relying on the specialist knowledge and substantial experience of our parent banks, we were able to offer new products to our customers. All this is well reflected in the 35% rise in the number of transactions.

The capital markets unit held on to the favourable position in the primary government securities business system achieved in 2000. The foreign exchange liberalisation implemented in May entailed considerable changes in the government securities market as well. Foreign capital plays an increasingly important role, so in 2001 K&H also took steps toward closer co-operation with its parent institutions.

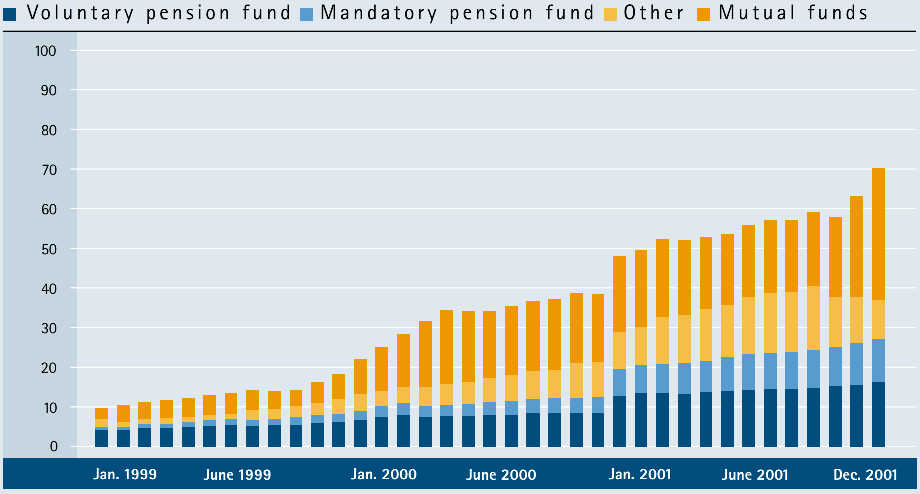
In trading, the single most significant event was the widening of the fluctuation band effective May 2001. It is in this area that market liberalisation had the earliest and most profound changes. The active participation of foreign banks in forint trading boosted both the volatility and the turnover of the Hungarian currency. In order to eliminate market uncertainties, in addition to traditional hedging solutions, we began trading in derivative products that were a novelty in the domestic market with the professional support of the two parent institutions, KBC and ABN AMRO.

ASSET MANAGEMENT

In effect, K&H asset management business consists of three subsidiaries: K&H Asset Management, K&H Investment Fund Management and K&H Pension Fund Administration. The most important elements of their operations are institutional portfolio management for pension funds, municipalities, insurance companies and other business associations, and mutual fund management (money market funds, Hungarian short and long-term bond funds, Hungarian, European and American equity funds).

In the mutual fund segment, assets under management grew continually during the year, hitting HUF 33 billion in December, and have shown dynamic development ever since. Total wealth under management exceeded HUF 72 billion at the end of 2001. Fund management fees amounted to HUF 112 million in 2001, while the income from managing pension fund portfolios totalled HUF 200 million.

Assets under management (HUF billions)



RISK MANAGEMENT

Banks usually realise part of their revenues through conscious risk-taking and professional risk management. The two main categories of banking risks are credit risks and market risks. While the former includes possible losses stemming from the non-performance of customers, the latter refers to those associated with the fluctuation of market variables (mainly interest and exchange rates).

Credit risks

The assumption of credit risk is a natural core business of every bank. Most of the risks taken by Kereskedelmi és Hitelbank also fall into this category. The possible losses stemming from such risks, however, can be reduced considerably through the application of appropriate regulations, institutional framework and guarantees/collaterals.

In order to limit credit risks, K&H Bank employs decision-making procedures that provide multiple protection. The right decisions are ensured, among others, by the risk manager opinion that is independent of the business side, the two decision-makers and the principles on the unanimity of decisions. In addition, all banking risks are taken into account in the decision-making process, including credit, industry, country, operating and reputation risks, as well as the principles and guidelines laid down by the management and shareholders of the Bank (e.g. minimum price, return on capital).

Depending on the magnitude of the risk involved decisions are taken at different levels by various credit committees. Secure lending is guaranteed by the rules on conflicts of interest applicable to decision-makers, and the regulations governing the validity of decisions. In making commitments, the Bank always takes into consideration the specific limits applicable to customers, customer groups and deal types as well.

Credit risk at K&H is mainly related to corporate, small business and retail lending (though the counterparty risk linked to treasury and brokerage operations is present as well).

In managing corporate portfolios, we put the stress on analysing individual deals and customers. Our analyses cover market trends and sectors as well. The Bank sets limits for each sector and segment beforehand. Credit risk decisions are based on tools and recommendations provided by the major shareholder KBC Bank and adjusted to domestic legislation.

In retail and small business lending, decision-making processes are also based on the best practice of the two predecessors and the two parent banks. The Bank has an extensive retail clientele, and in accordance with its strategy for the coming years, is ready to provide comprehensive services to small businesses as well. All that required lending activities to be supported by a highly integrated and automated decision-making process. To meet this objective, in the second half of 2001 the Bank began to use in retail credit scoring a method based on statistical probability and relying on historical data. In 2002, retail decision-making will become fully centralised with the help of this method.

As a result of the processes and risk management techniques described, the quality of the loan portfolio of the Bank has improved continuously in recent years, and is now above the banking sector average.

LOAN PORTFOLIO QUALITY	31 December 2001	31 December 2000
Performing	93.9%	89.4%
Special watch	5.0%	8.9%
Substandard	0.4%	1.0%
Doubtful	0.5%	0.5%
Bad	0.2%	0.2%
Total loans	100.0%	100.0%

In addition to specific provisions made against adversely classified loans, the bank also makes general risk provisions against performing loans. For the purposes of such provisioning, the bank divides performing loans into three risk categories; low, medium and high, to which it assigns provisions of 0.25%, 0.5% and 1%, respectively.

Market risks

The management of market risks involves the management of risks appearing in the banking and trading books. Risk assumption and risk management are regulated by and based on a multilevel system. Operative activities are performed by the risk management department, which is responsible for developing guidelines, methodologies and systems, putting them into practice, measuring and reporting risks on a daily basis, and actual risk management. The policies and procedures currently in place set forth a system of limits and a reporting structure that are able to measure the foreign exchange, interest rate, liquidity, share price and non-linear exposures of the Bank in a comprehensive manner. The most notable techniques employed are probability-based measuring methods, gap analysis, and various other static and dynamic approaches. The key methods include the "Value-at-Risk" (VAR) approach, where the Bank calculates 10-day value-at-risk at a 99% confidence level. At present the Bank uses the so-called parametric or variance-covariance approach. Interest gap and basis point-based limits are also applied regularly, and stress tests are run as well.

The Board of Directors is continuously informed on the risk profile, limit systems and methods of the Bank, and actively participates in high-level market risk management.

A separate body, the market committee is responsible for keeping market trading within appropriate risk limits and performing supervision. Decisions regarding the asset-liability management of the Bank and the management of market and liquidity risks that stem from balance sheet and off-balance-sheet items that appear in the banking book are taken by the Asset-Liability Committee (ALCO).

Furthermore, the Supervisory Board of the Bank is also informed on a regular basis on market exposures, the methods applied and the limits in effect.

The most important task for 2001 in this area as well was to integrate the methods employed and introduce the systems of the international shareholder banks, and connect to their risk management systems.

Financial Analysis

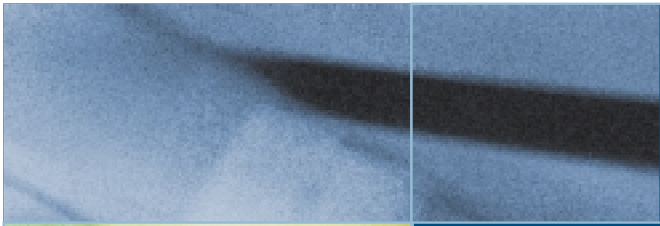
ASSET AND LIABILITY STRUCTURE

On 31 December 2001 the consolidated balance sheet total of Kereskedelmi és Hitelbank was HUF 1,144.9 billion, which exceeds the previous year's figure considerably (by HUF 525.9 billion, or 85%), mainly as a result of the merger with ABN AMRO Magyar Bank.

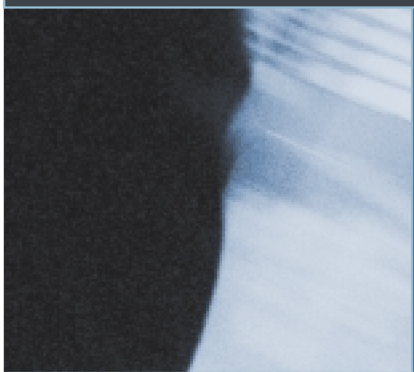
ASSETS

The composition of the asset side of the balance sheet changed favourably from a year earlier: although loans to customers were outperformed by total assets in 2001 (which meant a 1.5 percentage point drop in the loans-to-assets ratio), the weight of non-interest earning assets decreased within the balance sheet.

Cash and balances with NBH: the ratio of cash and cash equivalents to total assets fell by almost 5 percentage points. All this was the consequence of the substantial changes in reserve requirements introduced in January 2001, when the reserve ratio was cut from 11% to 6% (the balance of K&H with the central bank decreased, and the liquidity thus released had to be tied up by subscribing to the 5-year government bond specified by NBH: the growth can be seen in the Securities line).



K&H is a large bank providing the full range of banking products and services. In 2001 its balance sheet showed favourable changes compared to the preceding year in terms of both asset and liability breakdown.



CONSOLIDATED BALANCE SHEET (MHUF)	31 December 2001	Share	31 December 2000	Share	Change	%
Cash and balances with NBH	80,534	7.0%	72,314	11.7%	8,220	11.4%
Balances with other banks	141,567	12.4%	56,342	9.1%	85,225	151.3%
Loans to customers	626,147	54.8%	348,857	56.3%	277,290	79.5%
Trading and investment securities	216,496	18.8%	92,453	14.9%	124,043	134.2%
Derivative financial instruments	4,845	0.4%	0	0.0%	4,845	–
Accrued interest receivable	15,109	1.3%	10,363	1.7%	4,746	45.8%
Bank premises and equipment	41,827	3.7%	28,810	4.7%	13,017	45.2%
Intangible assets	637	0.1%	368	0.1%	269	73.1%
Other assets	17,723	1.5%	9,516	1.5%	8,207	86.2%
Total assets	**1,144,885**	100.0%	**619,023**	100.0%	**525,862**	85.0%

CONSOLIDATED BALANCE SHEET (MHUF)	31 December 2001	Share	31 December 2000	Share	Change	%
Deposits and certificates of deposits	846,825	73.9%	444,565	71.8%	402,260	90.5%
Balances due to banks	29,159	2.5%	33,163	5.4%	(4,004)	(12.1%)
Refinancing credits	73,178	6.4%	72,541	11.7%	637	0.9%
Derivative financial instruments	13,222	1.2%	0	0.0%	13,222	–
Accrued interest payable	10,959	1.0%	3,892	0.6%	7,067	181.6%
Subordinated debt	20,646	1.8%	15,312	2.5%	5,334	34.8%
Other liabilities	71,252	6.2%	16,714	2.7%	54,538	326.3%
Minority interest	0	0.0%	0	0.0%	0	–
Shareholders' equity	79,644	7.0%	32,836	5.3%	46,808	142.6%
Total liabilities and shareholders' equity	**1,144,885**	100.0%	**619,023**	100.0%	**525,862**	85.0%

MARKET SHARE	31 December 2001	31 December 2000
Corporate loans	14.3%	10.1%
Household loans	7.4%	3.6%

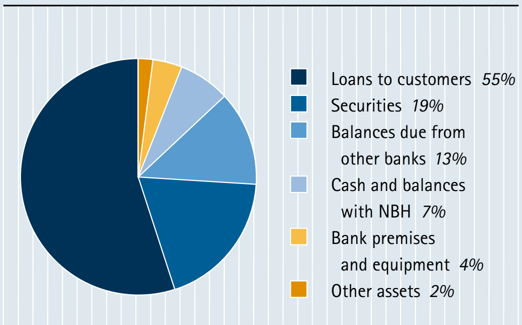
Interbank loans: balances due from other banks accounted for 12.4% of total assets on 31 December 2001, versus 9.1% a year earlier, which indicates improving liquidity.

Loans to customers: as a result of the merger, the amount of loans to customers also exceeds the 2000 year-end figure substantially (by HUF 277.3 billion, or 79.5%). Retail and leasing loans posted above-average growth (retail loans climbed from 4.7% to 7.7% within total loans, while the share of leasing loans doubled to 9.7%).

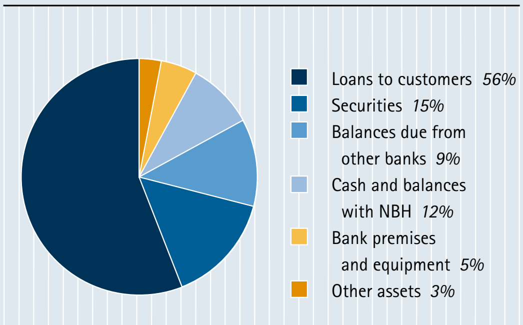
Although the entire banking sector was characterised by a dynamic expansion of retail loan portfolios, the HUF 32.5% billion (90%) increment in loans extended by K&H Bank brought a significant improvement in market share as well. The figure, which includes loans to individuals and sole proprietorships, leapt 3.8 percentage points to 7.4%. The dynamic growth in retail loans was mainly attributable to personal and housing loans, similar to developments in the banking sector as a whole.

As a further positive result of the merger, K&H Bank became the market leader in corporate lending with a share of 14.3%. The industry breakdown of loans shifted perceptibly as well: in accordance with company policy, the combined share of the farm and food industries shrank further (by 7.6 percentage points), accounting for 19.1% of the total loan portfolio at

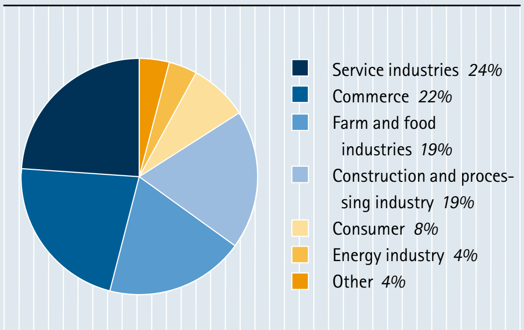
Assets
31 December 2001



Assets
31 December 2000



Loans by industry
31 December 2001



the end of 2001. At the same time, the weight of commercial companies leapt 8.4 percentage points to 21.6%, while the share of loans to the service industry and the building and construction and processing industries dropped slightly (by 1.5 and 1.9 percentage points, respectively).

PORTFOLIO CLASSIFICATION, PROVISIONING

Credit risks are linked to corporate and retail lending, corporate investments, and treasury and brokerage operations (counterparty risk). The principal type of credit risk is the corporate credit risk. Retail loans do not represent a major portion of total loans yet, but retail lending did start to grow in size and importance, currently accounting for 7.7% of the loan portfolio.

The credit risk exposure of the Bank is concentrated in Hungary, where the majority of its activities take place, therefore its country risk can be regarded as negligible.

In compliance with its lending policy, in the medium-sized and large corporate customer segment the Bank assumes risk related only to financing quality projects of Hungarian blue chip companies and the Hungarian subsidiaries of

LOANS BY CLASSIFICATION (MHUF)	31 December 2001			31 December 2000		
	Gross loan portfolio	Provision*	Net loan portfolio	Gross loan portfolio	Provision*	Net loan portfolio
Performing	591,351	0	591,351	313,540	0	313,540
Special watch	31,252	(179)	31,073	31,563	(529)	31,034
Substandard	3,088	(778)	2,310	4,581	(927)	3,654
Doubtful	6,467	(3,030)	3,437	3,297	(1,528)	1,769
Bad	11,429	(9,899)	1,530	10,043	(9,426)	617
Total loans	**643,587**	**(13,886)**	**629,701**	**363,024**	**(12,410)**	**350,614**
Performing	91.8%	0.0%	94.0%	86.3%	0.0%	89.4%
Special watch	4.9%	1.3%	4.9%	8.7%	4.3%	8.9%
Substandard	0.5%	5.6%	0.4%	1.3%	7.5%	1.0%
Doubtful	1.0%	21.8%	0.5%	0.9%	12.3%	0.5%
Bad	1.8%	71.3%	0.2%	2.8%	75.9%	0.2%
Total loans	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**

* Excluding general risk provision

investment-grade multinational corporations. Small business and retail financing is based on uniform rules, separately from the aforementioned borrowers.

The share of performing loans rose from 89.4% to 93.9% within the total loan portfolio.

Derivative financial instruments: the Bank prepared a valuation of its derivative products in accordance with IAS 39 in 2001. Of the HUF 4.8 billion appreciation of assets, HUF 3.5 billion is related to trading derivatives, mainly (HUF 3.4 billion) to foreign exchange transactions.

The value of bank premises and equipment rose by HUF 13 billion in the wake of the merger, but their share within total assets dropped from 4.7% to 3.7% as a result of the considerable rationalisation of real estate and tangible assets during the year.

LIABILITIES AND SHAREHOLDERS' EQUITY

As with the asset side, the liabilities side of the balance sheet also shifted toward a more favourable composition in 2001: the share of customer deposits increased (against interbank and refinancing funds), while non-interest earning liabilities rose to a greater extent than the balance sheet total.

Customer deposits: funds from customers accounted for 73.9% of total liabilities and shareholders' equity at the end of 2001, versus 71.8% a year earlier. Whereas the tremendous growth (HUF 402.3 billion) was mainly the result of the merger, the increase in deposits was also helped by several marketing campaigns during the year. The liquidity of the Bank thus improved further in 2001, which is also reflected in the decreasing role of interbank funds in financing.

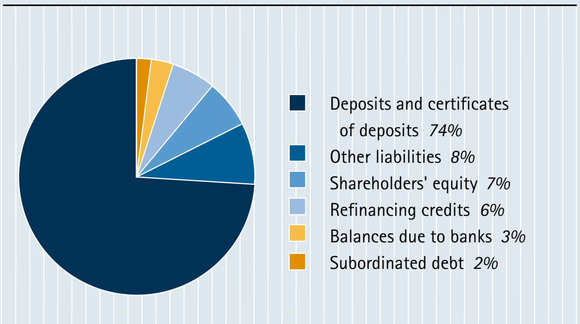
In 2001 the entire Hungarian banking sector was characterised by a perceptible expansion of deposits, and K&H – taking advantage of the merger with ABN AMRO – managed to secure significant positions for itself, becoming the number one deposit-taker in the corporate segment and the second biggest player in the retail deposit market.

MARKET SHARE	31 December 2001	31 December 2000
Corporate deposits	13.5%	7.0%
Household deposits	13.4%	8.8%

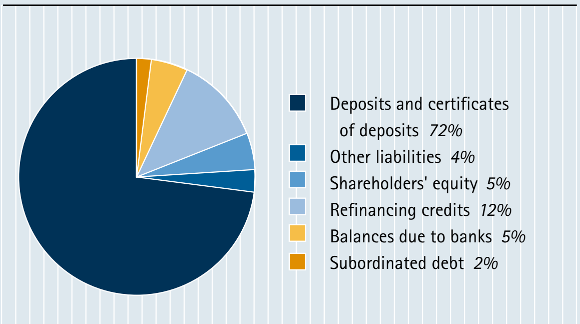
Derivative financial instruments: as with assets, the Bank performed an IAS 39 valuation of its liabilities. The majority of derivatives valued at HUF 13.2 billion are linked to interest rate swaps (HUF 10.4 billion).

Shareholders' equity: the HUF 46.8 billion rise in shareholders' equity (to HUF 79.6 billion) is also mainly due to the merger with ABN AMRO (in addition, shareholders' equity was raised by the net profit for the year and the capital increase implemented by the majority shareholder KBC).

Liabilities and shareholders' equity
31 December 2001



Liabilities and shareholders' equity
31 December 2000



PROFITS

The profitability of the K&H Group continued to improve in 2001: the IAS consolidated profit amounted to HUF 3.8 billion, up HUF 1.3 billion on previous year. The merger brought one-off positive as well as negative items. Downsizing, IT equipment write-offs and real estate rationalisation entailed a substantial one-off cost during the year (HUF 10.3 billion), whereas the goodwill recognised because of the merger affected the bottom line favourably (HUF 6.4 billion).

OPERATING INCOME (MHUF)	31 December 2001	Share	31 December 2000	Share	Change	%
Net interest income	34,510	68.0%	20,249	64.8%	14,261	70.4%
Net commission and fee income	13,880	27.3%	8,868	28.4%	5,012	56.5%
(Loss)/gain on trading securities, net	(354)	(0.7%)	370	1.2%	(724)	(195.7%)
Gain on foreign exchange activities, net	4,759	9.4%	2,104	6.7%	2,655	126.2%
Gain on derivatives	1,521	3.0%	0	0.0%	1,521	–
Dividend income	143	0.3%	41	0.1%	102	248.8%
Other operating losses	(3,684)	(7.3%)	(379)	(1.2%)	(3,305)	872.0%
Operating income	**50,775**	100.0%	**31,253**	100.0%	**19,522**	62.5%

NET INTEREST INCOME

Interest revenue rose significantly by HUF 19.5 billion, or 70.4%, in 2001 compared to a year earlier, which was primarily attributable to the growth in volume related to the merger. Market interest rates continued to decline in 2001, but the increasingly fierce competition among banks was not accompanied by a further narrowing in the interest spread. Whereas in corporate banking the average loan-deposit spread moved in an adverse direction for banks, retail deposit rates, which flexibly adjusted to market returns, were followed by loan rates with some delay and to a lesser extent (thus widening the retail loan-deposit spread).

The retail spread trends witnessed at K&H Bank were attributable to several factors: in the first half of the year, a number of deposit-collecting campaigns were launched (with interest premiums), which had a temporary deteriorating effect on product profitability, but as the campaigns ended, the Bank managed to retain the increased retail deposit portfolio, and even expand it further, despite the fact that the interest paid on these products was cut considerably in the second half of the year. The interest on loan products also dropped in the course of the year, but strong demand allowed these cuts to be smaller, so the Bank was able to improve on its interest spread later in the year.

INTEREST INCOME AND EXPENSE (MHUF)	31 December 2001	Share	31 December 2000	Share	Change	%
Interest on corporate loans	51,053	63.3%	33,943	63.3%	17,110	50.4%
Interest on retail loans	5,759	7.1%	2,459	4.6%	3,300	134.2%
Interest from NBH	2,764	3.4%	3,983	7.4%	(1,219)	(30.6%)
Interest from other banks	5,425	6.7%	3,150	5.9%	2,275	72.2%
Interest on trading securities	1,564	1.9%	531	1.0%	1,033	194.5%
Interest on investment securities	13,464	16.7%	8,875	16.5%	4,589	51.7%
Loan origination fees	729	0.9%	698	1.3%	31	4.4%
Interest income	**80,758**	100.0%	**53,639**	100.0%	**27,119**	50.6%
Interest on corporate deposits and certificates of deposits	(14,242)	30.8%	(8,802)	26.4%	(5,440)	61.8%
Interest on retail deposits and certificates of deposits	(22,095)	47.6%	(15,228)	45.5%	(6,867)	45.1%
Interest on NBH deposits	(1,923)	4.2%	(4)	0.0%	(1,919)	–
Interest paid to other banks	(4,102)	8.9%	(2,702)	8.1%	(1,400)	51.8%
Interest on refinancing credits	(2,755)	6.0%	(5,108)	15.3%	2,353	(46.1%)
Interest on subordinated debt	(1,422)	3.1%	(1,228)	3.7%	(194)	15.8%
Adjustment due to FX hedge transactions	291	(0.6%)	(318)	1.0%	609	(191.5%)
Interest expense	**(46,248)**	100.0%	**(33,390)**	100.0%	**(12,858)**	38.5%
Net interest income	**34,510**		**20,249**		**14,261**	70.4%

The merger gave a substantial boost to both interest income and interest expenses. Interest income from retail loans was doubled in comparison with the previous year.

NET INTEREST INCOME (MHUF)	Total change	Effect of change in portfolio values	Effect of change in interest levels
Interest on corporate loans	17,110	116,976	134
Interest on retail loans	3,300	4,124	(824)
Interest from NBH	(1,219)	(764)	(455)
Interest from other banks	2,275	2,739	(464)
Interest on trading securities	1,033	983	50
Interest on investment securities	4,589	4,768	(179)
Loan origination fees	31	31	0
Interest income	**27,119**	**28,857**	**(1,738)**
Interest on corporate deposits and certificates of deposits	(5,440)	(5,343)	(97)
Interest on retail deposits and certificates of deposits	(6,867)	(8359)	1,492
Interest on NBH deposits	(1,919)	(2,111)	192
Interest paid to other banks	(1,400)	(1,580)	180
Interest on refinancing credits	2,353	1,552	801
Interest on subordinated debt	(194)	(3,99)	205
Adjustment due to FX hedge transactions	609	609	0
Interest expense	**(12,858)**	**(15,631)**	**2,773**
Net interest income	**14,261**	**13,226**	**1,035**

The HUF 14,261 million increment in net interest income may be attributed to two simultaneous effects. The merger and the resulting growth in volumes were the dominant factors, pushing net interest income HUF 13,226 million higher, while favourable changes in interest levels contributed HUF 1,035 million to net interest income versus a year earlier.

NON-INTEREST INCOME

The weight of non-interest income within operating income shrank by 3.2 percentage points in 2001. Net commission and fee income, which represents the majority of non-interest income, jumped 56.5% versus a 70.4% leap in net interest income, whereas the substantial deterioration in other items (a loss of HUF 3.3 billion in the net figure) also contributed to a slighter overall growth in non-interest income (47.8%).

NET FEE INCOME

Net commission and fee income rose by 56.5%, but its breakdown shows some difference from the structure seen in the previous year. The weight of payment transactions grew further in 2001; the HUF 10.2 billion net income from payment transactions represents the major part of total net commission and fee income at 73.6%. Card and brokerage services diminished in importance, the former being the result of the relatively small card business of ABN AMRO and the latter of the continuing slide in stock exchange turnover due to poor capital market performance.

The bottom line of **securities trading** fell short of the previous year's mark owing to the adverse trends in government securities yields seen in most of the year and the unfavourable capital market environment. The net loss was primarily related to the trading operations of subsidiaries (K&H Investment: HUF 157 million, K&H Equities: HUF 187 million).

NET FEE INCOME (MHUF, %)	31 Dec, 2001	Share	31 Dec, 2000	Share	Change	%
Payment transactions	10,213	73.5%	6,018	67.8%	4,195	69.7%
Card services	1,716	12.4%	1,300	14.7%	416	32.0%
Brokerage services	823	5.9%	708	8.0%	115	16.2%
Credit and guarantee fee income	1,039	7.5%	674	7.6%	365	54.2%
Insurance services	(145)	(1.0%)	17	0.2%	(162)	(952.9%)
Exchange commission	128	0.9%	117	1.3%	11	9.4%
Other	106	0.8%	34	0.4%	72	211.8%
Net commission and fee income	**13,880**	100.0%	**8,868**	100.0%	**5,012**	56.5%

The net gain on foreign exchange activities more than doubled since 2000. The improvement came from foreign exchange and currency trading related to customers as well as from more intense treasury activities prompted by the transformed exchange rate system and foreign exchange liberalisation. All these positive results were, however, offset somewhat by the loss incurred on capital held in euro due to the strengthening forint (HUF 1,184 million).

The revaluation of the derivatives of the group added HUF 1,521 million to operating income. Of this amount, HUF 247 million was generated by K&H Investment. As for the contribution of the Bank, the majority stemmed from the valuation of hedging derivatives (HUF 937 million), mainly foreign currency swaps.

Other operating income and expenses produced a loss of HUF 3,684 million in 2001, versus a loss of HUF 379 million a year earlier. The majority of this substantial loss was caused by expenses related to the merger. The two dominant items are the provisions made against anticipated expenses linked to the rationalisation of real estate management, and future merger-related layoffs (HUF 1.5 billion both).

In summary, operating income exceeds the corresponding 2000 figure by HUF 19,522 million (62.5%).

OPERATING EXPENSES

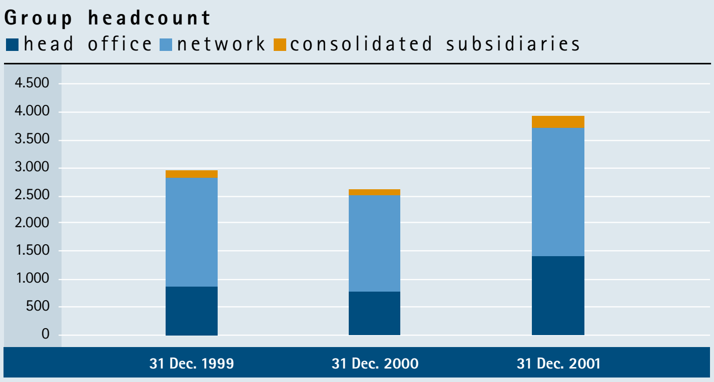
Operating expenses slightly exceeded operating income during the year. The real picture is more positive, however, as 2001 expense figures contained HUF 7.3 billion in merger costs (extraordinary depreciation of real estate and IT equipment, costs related to downsizing and various advisory services, etc.). The books of Kereskedelmi és Hitelbank thus feature total one-off merger-related expenses of HUF 10.3 billion (including the reserves made for future costs recognised under "other operating income"). The operating expense/operating income ratio cleared of these items actually improved to 78.3% from the previous year's figure of 91.6%.

OPERATING EXPENSES (MHUF)	31 Dec, 2001	Share	31 Dec, 2000	Share	Change	%
Personnel costs	**16,183**	32.7%	11,771	41.0%	4,412	37.5%
Operations	**8,381**	17.0%	5,886	20.6%	2,495	42.4%
Depreciation and amortisation	**12,373**	25.1%	4,484	15.7%	7,889	175.9%
IT costs	**7,156**	14.5%	2,976	10.4%	4,180	140.5%
Taxes and duties	**2,197**	4.4%	1,685	5.9%	512	30.4%
Marketing cost	**1,017**	2.1%	560	2.0%	457	81.6%
Other expenses	**2,077**	4.2%	1,274	4.4%	803	63.0%
Operating expenses	**49,384**	100.0%	**28,636**	100.0%	**20,748**	72.5%

OPERATING EXPENSES (MHUF)	2001		
	Original figures	Merger-related figures	Adjusted figures
Operating income	50,775	(2,976)	**53,751**
Operating expenses	49,384	7,312	**42,072**

At the end of 2001 the total number of employees at K&H Group was 3,954, up 1,338 from the end of 2000 as a result of the merger.

EMPLOYEE EFFICIENCY (MHUF)	31 December 2001	31 December 2000	Change
Assets per employee	291	217	34.2%
Operating income per employee (excluding merger-related items)	14	11	25.2%
Personnel costs per employee	4	4	0.2%



OPERATING PROFIT

In 2001 the Bank posted an operating profit of HUF 1,391 million, a fall of HUF 1,226 million from a year earlier. Merger-related one-off items excluded, however, the Bank posted an operating profit of HUF 11,679 million in 2001.

OTHER PROFIT ITEMS

Items below the operating profit yielded a total profit of HUF 2,665 million in 2001.

The impact of credit risk provisions on the bottom line was a loss of HUF 2,782 million in 2001 (versus a loss of HUF 163 million in 2000). In accordance with the risk management policies of the Bank, provisions for corporate and retail loans and provisions against the outstandings of the leasing companies both increased during the year (to a total of HUF 1,983 million). The HUF 799 million growth in general risk provisions is the result of the continuing expansion of the performing portfolio.

The HUF 6.4 billion figure reported as exceptional gain in 2001 is the goodwill calculated as the difference between the shareholders' equity of the ABN AMRO Group as at 30 June 2001 and the value of the 40.23% stake ABN AMRO N.V. holds in K&H Bank.

CAPITAL ADEQUACY

According to the Basle Principles, at the end of 2001 K&H Bank had a consolidated capital adequacy ratio of 11.73% (versus 10.92% in 2000). The capital adequacy ratio calculated in compliance with Hungarian regulations came to 9.67% at the end of the year.

Consolidated Financial Statements

Ernst & Young Kft.
H-1132 Budapest, Váci út 20.
1139 Budapest 62 Pf. 632
Hungary

Tel.: +36 1 451-8100
Fax: +36 1 451-8199
E-mail: mailbox.ey@hu.eyi.com
www.ey.com
Cg. 01-09267553

Report of Independent Auditors

To the Shareholders
of Kereskedelmi és Hitelbank Rt.

We have audited the accompanying balance sheet of Kereskedelmi és Hitelbank Rt. and its subsidiaries ("the Group") as at 31 December 2001, and the related statements of income, changes in shareholders equity, and cash flows for the year then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with International Standards on Auditing. Those Standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, these financial statements give a true and fair view of the financial position of the Group as at 31 December 2001, and the results of its operations, the changes in its equity and its cash flows for the year then ended in accordance with International Accounting Standards.

Ernst & Young

Ernst & Young Kft.
Budapest, Hungary
20 March 2002

CONSOLIDATED BALANCE SHEET (MHUF)	Notes	31 December 2001	31 December 2000
ASSETS			
Cash and balances with NBH	2	80,534	72,314
Balances due from other banks		141,567	56,342
Loans to customers	3	626,147	348,857
Trading and investment securities	4	216,496	92,453
Derivative financial instruments	5	4,845	–
Accrued interest receivable		15,109	10,363
Bank premises and equipment	6	41,827	28,810
Intangible assets	7	637	368
Other assets	8	17,723	9,516
Total assets		**1,144,885**	**619,023**
LIABILITIES AND SHAREHOLDERS' EQUITY			
Deposits and certificates of deposits	9	846,825	444,565
Balances due to banks		29,159	33,163
Refinancing credits	10	73,178	72,541
Derivative financial instruments	5	13,222	–
Accrued interest payable		10,959	3,892
Other liabilities	11	71,252	16,714
Total liabilities		**1,044,595**	**570,875**
Subordinated debt	12	20,646	15,312
Share capital	13	42,507	34,089
Share premium		36,074	2,282
Statutory risk reserve	15	634	–
Accumulated profit/(deficit)		429	(3,535)
Total shareholders' equity		**79,644**	**32,836**
Total liabilities and shareholders' equity		**1,144,885**	**619,023**
MEMORANDUM ITEMS			
Commitments and contingent liabilities	32	**250,530**	**92,177**

CONSOLIDATED STATEMENT OF OPERATIONS

(MHUF)

	Notes	31 December 2001	31 December 2000
Interest income		80,758	53,639
Interest expense		(46,248)	(33,390)
Net interest income	17	34,510	20,249
Commission and fee income		18,129	11,868
Commission and fee expense		(4,249)	(3,000)
Net commission and fee income	18	13,880	8,868
Net interest and commission and fee income		48,390	29,117
(Loss)/gain on trading securities, net		(354)	370
Gain on foreign exchange activities, net		4,759	2,104
Gain on derivatives		1,521	–
Dividend income		143	41
Other operating losses		(3,684)	(379)
Operating income		**50,775**	**31,253**
Operating expenses	19	**(49,384)**	**(28,636)**
Operating profit before provisions and exceptional items		1,391	2,617
Provision for possible loan and commitment losses	20	(2,782)	(163)
Loss on investments	21	(723)	(117)
(Loss)/gain on sale of bank premises, equipment and other assets		(214)	623
Exceptional gain	22	6,384	–
Profit before income taxes and minority interest		**4,056**	**2,960**
Income taxes	23	(268)	(453)
Net profit for the year		**3,788**	**2,507**
Earnings per share (HUF)	24	0,10	0,08

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY
(MHUF)

	Share capital	Share premium	Statutory risk reserve	Accumula-ted profit/ (deficit)	Total
Balance at 1 January 2000	**25,756**	**589**	**1,957**	**(7,997)**	**20,305**
MOVEMENTS IN YEAR ENDED 31 DECEMBER 2000					
Share capital increase	8,333	1,693	–	–	10,026
Transfer from statutory risk reserve	–	–	(1,957)	1,957	–
Other	–	–	–	(2)	(2)
Profit for the year	–	–	–	2,507	2,507
Balance at 31 December 2000, and at 1 January 2001 before restatement	**34,089**	**2,282**	**–**	**(3,535)**	**32,836**
EFFECTS OF ADOPTING IAS 39, NET OF TAX					
Trading derivatives	–	–	–	15	15
Fair value hedge derivatives	–	–	–	(4,572)	(4,572)
Hedged assets and liabilities	–	–	–	4,733	4,733
As restated	**34,089**	**2,282**	**–**	**(3,359)**	**33,012**
MOVEMENTS IN YEAR ENDED 31 DECEMBER 2001					
Business combination with ABN AMRO Group (see Notes 13 and 33)	8,418	32,140	634	–	41,192
Contribution by shareholder (see Note 35)	–	1,652	–	–	1,652
Profit for the year	–	–	–	3,788	3,788
Balance at 31 December 2001	**42,507**	**36,074**	**634**	**429**	**79,644**

The accompanying notes on pages 38 to 75 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS
(MHUF)

	Notes	Year ended 31 Dec. 2001	Year ended 31 Dec. 2000
CASH FLOWS FROM OPERATING ACTIVITIES			
Net profit for the year		3,788	2,507
Deferred tax	23	(221)	583
Depreciation and amortisation	19	12,373	4,484
Negative goodwill recognised as income	22	(6,384)	–
Provision for possible loan and commitment losses	20	2,782	163
Provision for other liabilities	11	2,977	–
Gain on derivatives		(1,521)	
Loss on investments	21	723	76
Loss/(gain) on sale of bank premises, equipment and other assets		214	(623)
(Increase)/decrease in operating assets:			
Loans to customers		(44,498)	(97,252)
Balances due from NBH and other banks		10,166	4,142
Trading securities		(15,450)	684
Derivative financial instruments		(170)	–
Other assets		22,651	12,447
Accrued interest receivable		(568)	(363)
Increase/(decrease) in operating liabilities:			
Deposits and certificates of deposits		71,558	35,361
Balances due to other banks		(54,865)	13,264
Refinancing credits		(8,034)	114
Derivative financial instruments		3,924	–
Other liabilities and minority interest		(31,943)	(8,388)
Accrued interest payable		5,785	(1,214)
Net cash used in operating activities		**(26,713)**	**(34,015)**
CASH FLOWS FROM INVESTING ACTIVITIES			
Decrease in investment securities		3,208	6,497
Acquisition of ABN AMRO (see Note 33)	33	108,437	–
Purchase of property, plant and equipment		(12,304)	(10,734)
Disposal of property, plant and equipment		6,427	3,459
Net cash provided by investing activities		**105,768**	**(778)**
CASH FLOWS FROM FINANCING ACTIVITIES			
Decrease in subordinated debt		(1,004)	(1,016)
Shareholders' contribution to the equity		11,346	10,026
Net cash provided by financing activities		**10,342**	**9,010**
Net increase/(decrease) in cash and cash equivalents		89,397	(25,783)
Cash and cash equivalents at beginning of year	2	**98,472**	**124,255**
Cash and cash equivalents at end of year	2	**187,869**	**98,472**

NOTE 1: BASIS OF FINANCIAL STATEMENTS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

1.1 General

Kereskedelmi és Hitelbank Rt. ("K&H Bank" or the "Bank") was founded on 1 January 1987 during the division of the National Bank of Hungary ("NBH") into a two tier banking system. K&H Bank is a public company with liability limited by shares, incorporated in the Republic of Hungary. K&H Bank and its subsidiaries (the "K&H Group") comprise a universal banking group whose principal activities are commercial, retail and investment banking including brokerage, leasing, insurance and fund management services. K&H Bank's registered office is at Vigadó tér 1, Budapest.

Originally, the Bank's major shareholder was the Hungarian State through direct and indirect shareholdings. In 1997, the privatisation of the Bank commenced when a consortium consisting of KBC and Irish Life purchased shares and subscribed to a share capital increase. EBRD also became a shareholder in 1997 by converting its subordinated debenture to shares. In 1999, EBRD sold its shares to KBC and ES Asset Management. In 2000, KBC became the majority shareholder by increasing the Bank's share capital and purchasing shares owned by the Hungarian State and other shareholders. On 7 November 2000, KBC announced the merger of K&H Bank with ABN AMRO Magyar Bank Rt. The Hungarian Court of Registration registered the merger on the 1 July 2001. Refer to Note 13 and 33 for further details on the effects of the merger.

K&H Group provides a full range of banking services through a nation-wide network of 176 branches.

1.2 Basis of preparation

The Bank maintains its accounting records and prepares its statutory accounts in accordance with commercial, banking and fiscal regulations prevailing in Hungary.

The Bank's functional currency is the Hungarian Forint ("HUF"). All balances are denominated in millions of Hungarian Forints (MHUF) unless otherwise stated.

Certain accounting principles prescribed for statutory purposes are different from those generally recognised in international financial markets. In order to present the consolidated financial position and results of operations of the Bank in accordance with International Accounting Standards ("IAS"), certain adjustments have been made to the Bank's Hungarian consolidated statutory accounts, (see Note 36).

Significant accounting policies applied in the preparation of the accompanying consolidated financial statements are summarised on the following pages.

1.3 Basis of presentation

The financial statements are prepared under the historical cost convention modified to include the revaluation of freehold land and buildings and the measurement at fair value of investment securities and derivative financial instruments.

The accounting policies have been consistently applied by the company and, except for the changes in accounting policy due to implementation of IAS 39 "Financial Instruments: Recognition and Measurement" from 1 January 2001, are consistent with those used in the previous year.

1.4 Revenue recognition

Interest income is recognised on a time proportion basis, taking account of the principal outstanding and the rate applicable. Interest is recognised on impaired loans and advances and other financial assets when received. Other fees receivable or payable are recognised when earned. Dividend income is recognised when the right to receive payment is established.

1.5 Foreign currency translation

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

1.6 Consolidated financial statements

Included in these consolidated financial statements are the accounts of those significant subsidiaries in which K&H Bank holds a controlling interest. All significant intercompany transactions and balances have been eliminated on consolidation. A list of fully consolidated subsidiaries, the percentage of issued capital owned by K&H Bank and the description of their activities is provided in Note 34.

Investments in which the Bank holds directly or indirectly 20% or more but not more than 50% of the equity capital and in which the Bank exercises significant influence are accounted for using the equity method and included in investments.

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

Certain subsidiaries in which K&H Bank hold a controlling interest have not been consolidated because it is intended either that the shares shall be disposed in the near future or the effect of consolidating such companies is immaterial to the consolidated financial statements as a whole.

1.7 Accounting for acquisitions

Upon acquisition, subsidiaries are accounted for using the fair value method of accounting for acquisitions. Any goodwill or negative goodwill arising on acquisition is recognised in the consolidated balance sheet and accounted for as indicated below.

Goodwill and negative goodwill, which represents the residual cost of the acquisition after recognising the acquirer's interest in the fair value of the identifiable assets and liabilities acquired, is held as an intangible asset or liability and amortised to the consolidated statement of operations on a straight-line basis over a period not exceeding five years or until the date of disposal of the acquired company, whichever is shorter. The value of any goodwill held in the consolidated balance sheet is reassessed on an annual basis, determined on the basis of specific identification of the investment. If it is no longer probable that the goodwill will be recovered from future economic benefits, it is recognised immediately as an expense.

1.8 Trading securities

Trading securities consist of discounted and interest bearing Treasury bills, Hungarian Government and commercial companies bonds and shares in commercial companies and investment funds.

These are carried at fair value with any gain or loss arising from a change in fair value being included in the consolidated statement of operations in the period in which it arises.

1.9 Investment securities

These are classified as follows:

- Available for sale
- Held to maturity

All investments are initially recognised at cost, being the fair value of the consideration given including acquisition charges associated with the investment.

Premiums and discounts on debt instrument principal amounts are amortised on a straight line basis and taken to interest income.

Investment securities – available for sale: After initial recognition, investments which are classified "available for sale" are remeasured at fair value. Unrealised gains and losses on remeasurement to fair value are reported in the consolidated statement of operations for the period. Hungarian Government securities are stated at amortised cost less an allowance for permanent diminution in value as management believes that this is the most appropriate estimation available of their fair value.

Investment securities held to maturity: Investments which have fixed or determinable payments which are intended to be held to maturity, are subsequently measured at amortised cost, less provision for impairment in value. Amortised cost is calculated by taking into account any discount or premium on acquisition.

Equity investments in which K&H Bank holds an equity share of 20% or more and where the Bank, through direct and indirect ownership interest, has the power to participate in the financial and operating policies of the investee but not to control those activities. Such equity investments are classified as associates and accounted for under the equity method.

Other equity investments comprise shareholdings which do not meet the preceding criteria. Other equity investments are recorded at the cost of acquisition, less an allowance for any permanent diminution in value.

Investment securities include securities sold under sale and repurchase agreements. Such securities are included in the consolidated financial statements and the counterparty liability is included in balances due to other banks or deposits and certificates of deposits, as appropriate. The difference between the sale and repurchase price is recognised as income on a straight-line basis during the period from sale to repurchase and included in accrued interest receivable.

1.10 Loans, placements with other banks

Loans and placements with other banks are stated at principal amounts outstanding, net of allowance for possible loan or placement losses, respectively. Interest is accrued and credited to income based on the principal amounts outstanding. When a borrower is unable to meet payments as they come due or, in the opinion of the management, there is an indication that a borrower may be unable to meet payments as they come due, all unpaid interest is reversed and interest is recognised only when received.

1.11 Allowance for possible loan and placement losses

Allowances for possible loan and placement losses are maintained at levels estimated by management to reduce all impaired loans, advances and balances due from other banks to their realisable value. Actual credit losses, net of recoveries are deducted from the allowance. Management determines the adequacy of the allowances based upon reviews of individual loans and placements, recent loss experience, current economic conditions, the risk characteristics of the various categories of loans and other pertinent factors.

In addition to the allowance for possible loan and placement losses, determined based on management's classification and assessment of the risk represented by specific loans and placements, an additional allowance is calculated to cover unforeseen risks present in the loan and placement portfolio at the balance sheet date. This allowance, referred to as the general allowance for possible loan and placement losses, is calculated on all loans and placements classified as either performing or special watch where the specific allowance for possible loan or placement losses is zero

Effective 1 January 2000, the Bank adopted the above methodology for calculating the general allowance for possible loan and placement losses, replacing the previous calculation of 1% of all loans and placements classified as performing.

1.12 Deposits and money market placements

Deposits and money market placements are stated at cost less any amounts written off and provision for impairment. The carrying values of such assets which are being effectively hedged for changes in fair value are adjusted to the extent of the changes in fair value being hedged. Resultant gains or losses are recognised in the statement of income.

1.13 Bank premises and equipment

Bank premises and equipment are either stated at cost or at revalued amount less accumulated depreciation. Depreciation is calculated using the straight-line method over the estimated useful lives of the assets using the following rates:

- Buildings: 1–3%
- Leasehold improvements: 6%
- Furniture, fixtures and equipment: 7–33%
- Software: 20%

K&H Bank revalues real estate at least every three years. Real estate was last revalued on 31 December 1999 and 31 March 2001, respectively. Net gains from revaluation are credited to a revaluation reserve except where such gains compensate for losses previously recognised in the consolidated statement of operations. Net losses from revaluation are recorded against the revaluation reserve with any excess charged to the consolidated statement of operations. Real estate acquired between revaluations is stated at cost less accumulated depreciation.

Replacements and improvements, which prolong the useful life or significantly improve the condition of the asset, are capitalised. Repairs and maintenance are charged to the consolidated statement of operations as incurred. Where the carrying value of bank premises and equipment is greater than the estimated recoverable amount, it is written down immediately to the estimated recoverable amount.

Depreciation on bank premises and equipment commences on the day such assets are placed into service. Depreciation is not charged on land or on assets under construction.

1.14 Intangible assets

Intangible assets are stated at cost or revalued amount, less accumulated amortisation. Amortisation is computed using the straight-line method over the estimated useful lives of the assets based on the following rates:

- Goodwill/negative goodwill 20 100%
- Leasehold rights 2%

Leasehold rights represent the right to lease certain buildings indefinitely. K&H Bank revalues leasehold rights every three years as a class of assets and last revalued its leasehold rights as of 31 December 1999. Net gains from revaluation are credited to the revaluation reserve except where such gains compensate for losses previously recognised in the consolidated statement of operations. Net losses from revaluation are recorded against the revaluation reserve with any excess charged to the consolidated statement of operations. Amortisation is calculated based on the revalued amount.

The carrying value of each intangible asset is reviewed annually and adjusted for permanent impairment to its carrying value, where it is considered necessary.

1.15 Commitments, contingent liabilities

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

Allowance for possible losses on commitments and contingent liabilities is maintained at a level estimated by management to be adequate to absorb probable future losses. Management determines the adequacy of the allowance based upon reviews of individual items, recent loss experience, current economic conditions, the risk characteristics of the various categories of transactions and other pertinent factors.

1.16 Income taxes

The annual taxation charge is based on the tax payable under Hungarian fiscal law, adjusted for deferred taxation. Deferred taxation is provided on temporary differences arising between the tax bases of assets and liabilities and their carrying value for financial reporting purposes, measured at the tax rates that are expected to apply when the asset is realised or the liability is settled, based on tax rates that have been enacted at the date of the consolidated balance sheet.

1.17 Provisions

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

1.18 Derivatives

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

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

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

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

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

Hedge accounting is discontinued when the hedging instrument expires or is sold, terminated or exercised, or no longer qualifies for hedge accounting. At that point in time, any cumulative gain or loss on the hedging instrument recognised in equity remains in equity until the forecasted transaction occurs. Where the hedged transaction is no longer expected to occur, the net cumulative gain or loss recognised in equity is transferred to the net profit and loss for the period.

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

1.19 Fiduciary assets

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

1.20 Leases

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

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

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

Where the Group is the lessor: Assets subject to operating leases (investment properties) are included in property, plant and equipment in the balance sheet.

1.21 Offsetting

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

1.22 Cash and cash equivalents

For the purposes of reporting cash flows, cash and cash equivalents comprise balances with less than 90 days maturity from the date of acquisition, including cash, due from banks and balances with NBH (including obligatory reserves), balances with other banks and trading securities.

1.23 Segmental reporting

Condensed financial statements of subsidiaries, representing segments of business, other than banking, are not presented due to their immateriality to the consolidated financial statements as a whole.

1.24 Trade and settlement date accounting

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

1.25 Collateral pending sale

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

1.26 Changes in accounting policies

The company has adopted International Accounting Standard (IAS) 39 "Financial Instruments: Recognition and Measurement" for the year ended 31 December 2001. This has resulted in significant changes in the accounting policies of the company in respect of recognition and measurement of financial instruments. In accordance with the transitional provisions of this standard, the bank has accounted for the changes in policies with effect from 1 January 2001 and has not restated comparatives. The major changes are as follows:

Previously, the bank valued all non-trading investments at amortised cost, less provision for impairment. The bank has reclassified such investments as either "available for sale" or "held to maturity". Those classified as available for sale have been remeasured at fair value with the resultant gain or loss being taken to retained earnings on 1 January 2001.

As at the beginning of the financial year, the company has recognised for the first time the fair value of all derivatives in its balance sheet as either assets or liabilities at their fair values.

The adoption of IAS 39 resulted in a credit adjustment to retained earnings at 1 January 2001 of HUF 176 million.

1.27 Comparatives

Certain adjustments have been made to prior year comparatives to conform with the presentation of these financial statements.

NOTE 2: CASH AND BALANCES WITH NBH

CASH AND BALANCES WITH NBH (MHUF)	31 December 2001	31 December 2000
Cash in hand	20,038	11,191
Balances with NBH		
less than 90 days	46,737	45,608
equal or greater than 90 days	13,759	15,515
	80,534	**72,314**

Balances with NBH include HUF 45,065 million and HUF 23,944 million of statutory reserves as at 31 December 2001 and 2000, respectively. Banks have to comply with statutory reserves requirements based on average monthly balances, thus daily balances can fluctuate.

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

CASH AND CASH EQUIVALENTS (MHUF)	31 December 2001	31 December 2000
Cash and balances with NBH	66,775	56,799
Balances less than 90 days maturity with other banks	120,407	41,672
Trading securities (see Note 4)	687	1
Cash and cash equivalents	**187,869**	**98,472**

NOTE 3: LOANS TO CUSTOMERS

LOANS TO CUSTOMERS (MHUF)	31 December 2001	31 December 2000
INDUSTRY SECTOR		
Service industry	155,792	93,368
Agriculture	70,885	57,321
Wholesale and retail	139,240	48,227
Manufacturing and building	123,605	76,443
Food processing	52,054	39,650
Power industry	24,382	17,398
Other	28,129	4,520
Individuals	49,500	26,097
Gross loans	**643,587**	**363,024**
General allowance for possible loan losses	(3,554)	(1,757)
Specific allowance for possible loan losses	(13,886)	(12,410)
Allowance for possible loan losses (see Note 20)	**(17,440)**	**(14,167)**
Loans to customers	**626,147**	**348,857**

Uncollected interest not accrued as income amounted to HUF 6,178 million as at 31 December 2001 (HUF 3,688 million at 31 December 2000).

BREAK-DOWN OF LOANS BY TYPE (MHUF)	31 December 2001	31 December 2000
CORPORATE LOANS		
Current account advances	43,973	19,245
Term loans to 1 year	176,795	113,327
Term loans over 1 year	305,205	192,868
Corporate loans	**525,973**	**325,440**
RETAIL LOANS		
Current account advances	2,533	1,956
Term loans to 1 year	5,906	2,218
Term loans over 1 year	41,062	12,861
Retail loans	**49,501**	**17,035**
Lease receivables	31,633	10,782
Loans originated by lease companies	30,398	6,285
Other loans (factoring, trade bills, acceptances, etc.)	6,082	3,482
Gross loans	**643,587**	**363,024**

BREAK-DOWN OF LOANS BY CREDIT CATEGORY (MHUF)	31 December 2001			31 December 2000		
	Gross loan	Allowance	Net loan	Gross loan	Allowance	Net loan
Performing	591,351	(3,554)	587,797	313,540	(1,757)	311,783
Special watch	31,252	(179)	31,073	31,563	(529)	31,034
Substandard	3,088	(778)	2,310	4,581	(927)	3,654
Doubtful	6,467	(3,030)	3,437	3,297	(1,528)	1,769
Bad	11,429	(9,899)	1,530	10,043	(9,426)	617
Total	**643,587**	**(17,440)**	**626,147**	**363,024**	**(14,167)**	**348,857**

NOTE 4: TRADING AND INVESTMENT SECURITIES

TRADING AND INVESTMENT SECURITIES (MHUF)	31 December 2001	31 December 2000
Trading securities	24,146	3,001
Investment securities	192,350	89,452
	216,496	**92,453**

SECURITIES

SECURITIES (MHUF)	31 December 2001	31 December 2000
TRADING SECURITIES		
Treasury bills		
less than 90 days	687	1
equal or greater than 90 days	518	525
Government bonds	22,582	1,629
Other unlisted bonds	37	–
Listed shares	322	846
	24,146	**3,001**
INVESTMENT SECURITIES – AVAILABLE FOR SALE		
Government bonds issued in HUF [see (a) below]	120,534	49,389
Other bonds unlisted issued in HUF	656	–
Unlisted shares [see (b) below]	680	822
Other	11	11
Available for sale investment securities, net	**121,881**	**50,222**
INVESTMENT SECURITIES – HELD TO MATURITY		
Government bonds		
issued in HUF	14,429	–
issued in foreign currencies [see (b) below]	47,873	32,835
Total of government bonds	**62,302**	**32,835**
Other bonds – unlisted issued in foreign currencies	4,506	5,022
Listed shares	3	–
Unlisted shares [see (c) below]	1,245	858
Other	555	42
Subsidiaries consolidated using equity method	2,404	499
Held to maturity investment securities, gross	**71,015**	**39,256**
Allowance for permanent diminution in value	(546)	(26)
Held to maturity investment securities, net	**70,469**	**39,230**

Increases to the book value of hedged government bonds issued in foreign currencies due to adopting IAS 39:

SECURITIES (MHUF)	**31 December 2001**
Held to maturity government bonds issued in foreign currencies	5,320
Held to maturity other bonds issued in foreign currencies	(297)
Less: deferred income tax	(904)
Total adjustments, net of deferred income tax	**4,119**

a) Government bonds issued in HUF at 31 December 2001 and 2000 include consolidation bonds of HUF 120 534 million and HUF 49,389 million most of which were acquired as part of the 1992-1994 consolidation programs. These bonds expire in 2013 and 2014, bear a market rate of interest equivalent to the State of Hungary's treasury bill rates and reprice annually or semi-annually. As there is not yet a liquid market for these instruments in Hungary they are carried at amortised historical cost. As they reprice regularly management believe that amortised historical cost is the most appropriate estimation of their fair value.

b) Government bonds and other bonds issued in foreign currencies include foreign currency denominated fixed interest bonds of HUF 35,171 million face value at 31 December 2001 (HUF 34,170 million at 31 December 2000) that are hedged by interest swaps for variable interest rates and asset-based cross currency interest rate swaps (see Note 5).

Government bonds at 31 December 2001 include securities in the amount of HUF 1,538 million (HUF 9,327 million at 31 December 2000) which the Bank has sold and agreed to repurchase.

c) Unlisted shares include 25% of the shares of HAGE Rt., a company incorporated in Hungary. This investment (HUF 542 million at 31 December 2001 and 2000) is not classified as an associate because it is held for resale.

NOTE 5: DERIVATIVE FINANCIAL INSTRUMENTS

DERIVATIVE FINANCIAL INSTRUMENTS (MHUF)	Year ended 31 December 2001			Year ended 31 December 2000		
	Notional amount	Positive fair value Assets	Negative fair value Liabilities	Notional amount	Positive fair value Assets	Negative fair value Liabilities
DERIVATIVES HELD FOR TRADING						
FOREIGN EXCHANGE DERIVATIVES						
Currency forwards	54,860	1,248	(1,899)	3,744	10	(72)
Currency swaps	181,928	2,074	(864)	23,016	105	(212)
OTC currency options bought and sold	23,576	37	(37)	–	–	–
Total OTC foreign exchange derivatives	**260,364**	**3,359**	**(2,800)**	**26,760**	**115**	**(284)**
INTERESET RATE DERIVATIVES						
Forward rate agreements	23,100	9	(29)	2,600	1	(2)
Other interest rate contracts (default CCIR swaps)	11,161	124	–	11,389	188	–
Total OTC interest rate derivatives	**34,261**	**133**	**(29)**	**13,989**	**189**	**(2)**
Total derivatives held for trading	**294,625**	**3,492**	**(2,829)**	**40,749**	**304**	**(286)**
DERIVATIVES HELD FOR HEDGING						
DERIVATIVES DESIGNATED AS FAIR VALUE HEDGES						
Interest rate swaps	6,760	–	(751)	7,270	–	(802)
Cross currency interest rate swaps	44,850	1,353	(9,642)	35,127	297	(5,070)
Total derivatives held for hedging	**51,610**	**1,353**	**(10,393)**	**42,397**	**297**	**(5,872)**
Total derivative financial instruments	**346,235**	**4,845**	**(13,222)**	**83,146**	**601**	**(6,158)**

Following the adoption of IAS 39, the Bank reassessed, reclassified and remeasured all derivatives following the policies described in Note 1. The impact of adopting IAS 39 at 1 January 2001 on derivative instruments and hedged assets and liabilities is shown below:

REMEASURING TO FAIR VALUE (MHUF)	Retained earnings
Trading derivatives	18
Fair value hedges	(5,575)
Hedged assets and liabilities	5,772
less: deferred income tax	(39)
Total, net of deferred income taxes	**176**

Trading derivatives

Forward foreign exchange: As part of its customer trading activities, the Bank entered into forward foreign exchange deals with corporate clients.

Foreign exchange swaps: The Bank has entered into mostly short term (less than one year) currency swaps in order to hedge its foreign currency open positions.

Currency options: On 23 November 2001 the Bank sold two European style call options to a corporate client and bought two European style put options from the same client. These four options were hedged immediately with the same notional amounts and maturity with KBC Bank N.V. All of these options expired in January and February 2002 without being exercised.

Forward rate agreements: As part of its proprietary trading activities, the Bank has entered into several forward rate agreements. At 31 December 2001, the total principal amount of the open contracts was HUF 23.1 billion with 3M and 6M BUBOR as reference rates against fixed rates in the range of 8.2% and 10.2%. The maximum period between the contract date and the start date is six months.

Default (cross currency interest rate) swaps: The outstanding balance consists of American type credit default swaps maturing in 2003 to a subsidiary of an international banking group. If a credit event notice is delivered by the buyer to the Bank, the Bank is obliged to buy the reference obligation (bonds issued by the National Bank of Hungary) at 100% of notional amount for USD 40 million calculated at the prevailing exchange rate. The credit event stipulated in the options are the bankruptcy, cross default, failure to pay or restructuring of the National Bank of Hungary.

Derivatives designated as fair value hedges

Interest rate swaps: In 1997 the Bank entered into asset based interest rate swaps. The Bank purchased long term fixed rate bonds denominated in DEM. Fixed rates of 8.75% in DEM were swapped for the entire term of the bond to DEM 3-month LIBOR respectively plus a margin to cover the Bank's interest rate risk.

In 2000 the Bank entered into interest rate swaps to cover the interest rate risk of two long term fixed rate loans originated by the Bank to corporate customers. The fixed EURO interest rates in a range of 5.17%-7.38% were swapped for the term of the loan to 3-month EURIBOR with a margin. Swap counterparties belong to major international banking groups.

Cross currency interest rate swaps: In 1997 and 1998, the Bank purchased long term fixed rate bonds denominated in JPY and ITL. Cross currency interest rate swaps with exchange of principal were entered into for the term of the bond where the Bank pays semi- annually or annually the coupon of the bonds and receives USD 1 to 3-month LIBOR plus a margin to cover the Bank's interest rate and foreign currency risk. At maturity of the swaps which coincides with the repayment of the bonds, notional capital amounts are exchanged where the Bank pays the JPY or ITL notional amount and receives the same USD amount paid at the purchase date of the bonds. Swap counterparties belong to major international banking groups.

K&H Bank inherited a series of cross currency swaps from ABN AMRO Magyar Bank contracted with ABN AMRO N.V. in 1996 for hedging purposes. At 31 December 2001 the outstanding deals details are as follows. NLG 90 million, out of which NLG 50 million is subordinated loans to the Bank (Note 12) is deposited with the Bank at fixed interest rates of an average 9.071%. The maturity of the deposit and the subordinated loan is in 2002-2003. For the NLG amount received long term fixed rate bonds issued by the National Bank of Hungary, denominated in GBP and USD were purchased by the Bank (see note 4). Interest income on the foreign currency bonds is payable to the swap counterparty in the original currency by the Bank and interest on NLG deposits and subordinated loan is paid by the swap counterparty to the Bank on the same days. The interest margin on the transactions, which is the difference between the fixed deposit rates of the NLG deposits and the fixed swap rate (9.321%), is determined for the entire time period of the swap: 0.25 %. The interest payable on the deposit and the subordinated loan is included in the interest expense, while the NLG received from the swap counterparty is included in interest income. The maturity of the GBP and USD bonds is on the same days as the maturity of the NLG deposits and the subordinated loans. On these days the GBP and USD received is also swapped with ABN AMRO N.V. bank for the NLG amount to be paid to the depositor.

NOTE 6: BANK PREMISES AND EQUIPMENT

The Bank's real properties were revalued at 31 March 2001 by an independent valuer based on market value on the "existing use" basis as the Bank intends to hold these buildings. Following the revaluation a total of HUF 1,596 million extraordinary depreciation was charged to the consolidated statement of operations in 2001.

The Bank has started to introduce a new integrated computer system, which is expected to be fully operational at the end of 2002 or early 2003. Construction in progress relating to this system amounts to HUF 2,162 million at 31 December 2001 (HUF 2,794 million at 31 December 2000).

BANK PREMISES AND EQUIPMENTS (MHUF)	Land and buildings	Leasehold improvements	Furniture, fixtures and equipment	Software	Construction in progress	Total
At 31 December 2000						
Cost	10,482	2,258	16,668	9,183	5,171	43,762
Accumulated depreciation	(1,124)	(312)	(9,702)	(3,814)	–	(14,952)
Net book value	**9,358**	**1,946**	**6,966**	**5,369**	**5,171**	**28,810**
MOVEMENTS IN 2001						
Additions	457	1,962	4,417	4,608	11,362	22,806
Disposals	(1,661)	(2,781)	(1,843)	(266)	(10,745)	(17,296)
Depreciation charge	(2,889)	(891)	(4,310)	(4,060)	-	(12,150)
Acquisition through business combination	5,605	3,316	7,433	2,857	446	19,657
Closing net book value	**10,870**	**3,552**	**12,663**	**8,508**	**6,234**	**41,827**
At 31 December 2001						
Cost	18,522	4,794	19,889	21,041	6,234	70,480
Accumulated depreciation	(7,652)	(1,242)	(7,226)	(12,533)	–	(28,653)
Net book value	**10,870**	**3,552**	**12,663**	**8,508**	**6,234**	**41,827**

NOTE 7: INTANGIBLE ASSETS

INTANGIBLE ASSETS (MHUF)	Goodwill	Leasehold rights	Total
At 31 December 2000			
Cost	191	539	730
Accumulated amortisation	(122)	(240)	(362)
Net book value	**69**	**299**	**368**
Movements in 2001			
Additions	(6,384)	243	(6,141)
Disposals	–	(91)	(91)
Amortisation charge	6.357	(195)	6.162
Acquisition through business combination	–	339	339
Closing net book value	**42**	**595**	**637**
At 31 December 2001			
Cost	191	1,646	1,837
Accumulated amortisation	(149)	(1,051)	(1,200)
Net book value	**42**	**595**	**637**

NOTE 8: OTHER ASSETS

OTHER ASSETS (MHUF)	31 December 2001	31 December 2000
Real estate held for sale	–	286
Receivables from investment services	1,318	707
Prepayments and taxes receivable	2,706	1,090
Receivables from investment sold	–	36
Trade receivables	2,139	1,648
Deferred tax asset (Note 23)	140	563
Loans to employees	2,325	188
Receivables from bankcard service	2,354	1,181
Items in transit due to payment services	1,791	859
Items in transit due to trading in securities	1,251	1,066
Other accruals	2,621	644
Other inventories	339	369
Other receivables	739	879
	17,723	**9,516**

NOTE 9: DEPOSITS AND CERTIFICATES OF DEPOSITS

DEPOSITS AND CERTIFICATES OF DEPOSITS (MHUF)	31 December 2001	31 December 2000
INVIDUALS		
Current accounts	47,925	31,638
Term deposits, savings accounts	438,433	249,645
CORPORATIONS		
Current accounts	149,821	66,577
Term deposit	184,827	71,046
Liabilities to repurchase securities sold	1,538	9,327
OTHER ENTITIES		
Current accounts	9,994	4,378
Term deposits	9,842	5,552
	842,380	**438,163**
Certificates of deposits	4,445	6,402
	846,825	**444,565**

NOTE 10: REFINANCING CREDITS

REFINANCING CREDITS (MHUF)	31 December 2001	31 December 2000
Refinancing credits from NBH	13,018	12,697
Other refinancing credits	51,047	49,791
Foreign exchange – HUF deposit swaps with NBH	9,113	10,053
	73,178	**72,541**

K&H Bank has entered into several refinancing credit facilities with the National Bank of Hungary (NBH) and other financial institutions (EBRD, World Bank, etc.) for the purpose of funding portions of the Bank's activities. There are several covenants governing the determination of qualified recipients, the on-going monitoring process of the ultimate recipients and the repayment process. In all cases the Bank assumes all credit risk related to the ultimate borrower and must check compliance with all covenants. At 31 December 2001, management believes that the Bank is in compliance with all significant covenants.

For refinancing credits or other sources denominated in foreign currency, the Bank uses the foreign currency – HUF deposit swap facility provided by the NBH to place foreign currency deposits with the NBH (included in Cash and balances with NBH) and receive HUF deposits from the NBH. The HUF source is then lent to the customer resulting in a matched currency position for the Bank.

NOTE 11: OTHER LIABILITIES

OTHER LIABILITIES (MHUF)	31 December 2001	31 December 2000
General allowance for possible losses from commitments and contingent liabilities	185	95
Specific allowance for possible losses from commitments and contingent liabilities	47	46
Allowance for possible losses from guarantees issued	314	212
Allowance for possible losses from commitments, contingent liabilities and guarantees issued	546	353
Allowance for possible losses from legal cases	401	58
Subtotal	**947**	**411**
Other provisions	3,284	943
Trade creditors	4,009	1,838
Lease liabilities	2,070	1,181
Items in transit due to payment services	27,145	5,118
Nostro accounts	22,479	7
Items in transit due to lending activity	4,417	274
Items in transit due to trading in securities	71	2,054
Receivables from bankcard service	836	724
Other accruals	3,200	3,299
Liabilities from brokerage services	2,139	275
Other liabilities	655	590
	71,252	**16,714**

Other provisions include a provision for merger related restructuring costs of HUF 1,501 million and a provision for the cancellation of lease contracts of HUF 1,476 million.

NOTE 12: SUBORDINATED DEBT

SUBORDINATED DEBT (MHUF)	31 December 2001	31 December 2000
Subordinated loan from KBC Group	9,853	10,598
Subordinated loan from Hungarian corporate	6,079	–
Bonds issued to the State	4,714	4,714
	20,646	**15,312**

On 14 September 1999, the Bank signed a contract for a subordinated loan facility of EUR 60 million with Irish Intercontinental Bank, a member of the KBC Group, out of which EUR 40 million was immediately drawn down. The loan matures on 31 July 2006 and bears a variable interest rate of 3 month-EURIBOR plus 1.625 percent per annum. The undrawn facility of EUR 20 million was cancelled by the two parties on 1 July 2000.

In 1995 ABN AMRO Bank received fixed rate loans of NLG 50 million from a Hungarian corporate. NLG 28.5 million matures in 2002 and NLG 21.5 million matures in 2003. The average interest rate of loans is 9.33% (see Note 5).

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

NOTE 13: SHARE CAPITAL

SHARE CAPITAL (MHUF)	31 December 2001	31 December 2000
Ordinary shares issued and outstanding	42,507	34,089

The nominal value of the ordinary shares issued and outstanding at 31 December 2001 is HUF 1 per share.

KBC Bank N.V., the Belgian majority owner of the Bank and ABN AMRO N.V., the Dutch owner of ABN AMRO Magyar Bank Rt. announced the merger of their subsidiaries in Hungary on 7 November 2000. KBC Bank exercised its option and bought a 17.9% and 7.3% stake in the Bank from Irish Life and Permanent Plc. and ES Asset Administration Ltd., respectively, on 7 February 2001.

The registered share capital of the merged K&H Bank Rt. is HUF 42,507 million. The equity provided by the shareholders to the new Bank exceeding registered share capital is recorded as share premium. After the merger KBC Bank N.V. and ABN AMRO N.V. have stakes of 59.09% and 40.23% in the merged Bank, respectively. The Hungarian Court of Registration registered the merger of K&H Bank Rt. and ABN AMRO Magyar Bank Rt. at 1 of July 2001.

SHAREHOLDERS OF THE BANK (MHUF)	31 December 2001			31 December 2000		
	Number of shares held	Nominal value of shares held	Share-holding	Number of shares held	Nominal value of shares held	Share-holding
KBC Bank N. V.	25,116,776,309	25,117	59.09%	12,488,758	24,977	73.3%
ABN AMRO N.V. Amsterdam	17,100,419,901	17,100	40.23%	–	–	–
Irish Life and Permanent plc.	–	–	–	3,051,000	6,102	17.9%
ES Asset Administration Ltd.	–	–	–	1,250,000	2,500	7.3%
Other shareholders	290,008,202	290	0.68%	254,829	510	1.5%
	42,507,204,412	**42,507**	**100.0%**	**17,044,587**	**34,089**	**100.0%**

NOTE 14: CAPITAL ADEQUACY

The capital adequacy calculation shown below was prepared based on the international guidelines set forth by the Basle Committee on Banking Regulations and Supervisory Practices. The Bank is also subject to separate Hungarian capital adequacy regulations calculated from the statutory accounts. According to these, the Bank's capital adequacy ratio at 31 December 2001 and 2000 was 9.67% and 8.43%, respectively. The minimum ratio according to Hungarian regulations is 8.00%.

CAPITAL ADEQUACY (MHUF)	31 December 2001	31 December 2000
Cash and balances with NBH	748	667
Balances with other banks	28,313	11,268
Loans to customers	554,044	323,849
Trading and investment securities	3,177	2,247
Non trading derivative financial instruments	167	–
Accrued interest receivable	13,324	7,095
Bank premises and equipment	41,827	28,810
Intangible assets	637	368
Other assets	17,564	9,497
Total risk-weighted assets	**659,801**	**383,801**
Risk-weighted off-balance sheet items	**150,426**	**56,379**
Total risk-weighted assets and off balance sheet items	**810,227**	**440,180**

CAPITAL ADEQUACY (MHUF)	31 December 2001	31 December 2000
Shareholders' equity	79,644	32,836
Less: goodwill	(42)	(69)
Capital requirement for trading book	(714)	–
Tier 1 capital	78,888	32,767
Subordinated debt	16,165	15,312
Tier 2 capital	16,165	15,312
Tier 1+ Tier 2 capital	**95,053**	**48,079**
Capital adequacy: Tier 1	**9.74%**	**7.44%**
Capital adequacy: Tier 1 + Tier 2	**11.73%**	**10.92%**

NOTE 15: STATUTORY RISK RESERVE

The statutory risk reserve is calculated as 10% of profit after tax based on the year end statutory accounts, and is utilised to compensate for losses. The General Meeting of the Bank on 22 April 2000 resolved to release the total amount of HUF 1,957 million to cover the losses in the statutory accounts as at 31 December 1999. The Bank has statutory risk reserve of HUF 634 million at 31 December 2001 generated from the ABN AMRO Magyar Bank's profit after tax for the first half year in 2001.

NOTE 16: DISTRIBUTABLE RESERVES

According to Hungarian corporate and banking law, only profit for the period and the retained earnings included in the statutory financial statements and calculated using Hungarian accounting principles may be distributed to shareholders. Additionally, this can occur only after the Bank establishes the required statutory risk reserve (see Note 15). Accordingly, the Bank has distributable reserves of HUF 11,233 million as of 31 December 2001.

NOTE 17: NET INTEREST INCOME

NET INTEREST INCOME (MHUF)	Year ended 31 December 2001	Year ended 31 December 2000
Interest from NBH	2,764	3,983
Interest from other banks	5,425	3,150
Interest on corporate loans	51,053	33,943
Interest on retail loans	5,759	2,459
Interest on trading securities	1,564	531
Interest on investment securities	13,464	8,875
Loan origination fees	729	698
Interest income	**80,758**	**53,639**
Interest on retail deposits and certificates of deposits	(22,095)	(15,228)
Interest on corporate deposits and certificates of deposits	(14,242)	(8,802)
Interest on NBH deposits	(1,923)	(4)
Interest paid to other banks	(4,102)	(2,702)
Interest on refinancing credits	(2,755)	(5,108)
Interest on subordinated debt	(1,422)	(1,228)
Adjustment due to FX hedge transactions	291	(318)
Interest expense	**(46,248)**	**(33,390)**
Net interest income	**34,510**	**20,249**

NOTE 18: NET FEE INCOME

NET FEE INCOME (MHUF)	Year ended 31 December 2001	Year ended 31 December 2000
Payment transactions	11,956	7,315
Card services	3,740	2,904
Brokerage services	908	786
Credit and guarantee fee income	1,138	689
Exchange commission	128	117
Insurance services	10	17
Other	249	40
Commission and fee income	**18,129**	**11,868**
Payment transactions	(1,743)	(1,297)
Card services	(2,024)	(1,604)
Brokerage services	(85)	(78)
Credit and guarantee fee expense	(99)	(15)
Insurance services	(155)	-
Other	(143)	(6)
Commission and fee expense	**(4,249)**	**(3,000)**
Net fee income	**13,880**	**8,868**

NOTE 19: OPERATING EXPENSES

OPERATING EXPENSES (MHUF)	Year ended 31 December 2001	Year ended 31 December 2000
Personnel costs	16,183	11,771
Operations	8,381	5,886
Depreciation and amortisation	12,373	4,484
IT costs	7,156	2,976
Taxes and duties	2,197	1,685
Marketing cost	1,017	560
Other expenses	2,077	1,274
	49,384	**28,636**

The total number of employees was 3,954 at 31 December 2001 (2,616 at 31 December 2000).

NOTE 20: ALLOWANCE FOR POSSIBLE LOAN AND COMMITMENT LOSSES

Movements in allowance for possible loan and commitment losses are the following:

ALLOWANCE FOR POSSIBLE LOAN AND COMMITMENT LOSSES (MHUF)	Loans		Commitments and contingent liabilities		
	General allowance	Specific allowance	General allowance	Specific allowance	Total
Balance at 1 January 2000	**2,020**	**14,200**	**578**	**871**	**17,669**
Charge/(credit) for 2000 and reclassifications	(263)	1.464	(483)	(555)	163
Write offs	–	(3,254)	–	–	(3,254)
Balance at 31 December 2000	**1,757**	**12,410**	**95**	**316**	**14,578**
Acquisition through business combination	1,088	1,492	–	58	2,638
Charge/(credit) for 2001 and reclassifications	709	1,595	90	388	2,782
Write offs	–	(1,611)	–	–	(1,611)
Balance at 31 December 2001	**3,554**	**13,886**	**185**	**762**	**18,387**

The charge for 2000 includes a HUF 1,492 million credit as a result of the change in accounting of the general allowance for possible loan and commitment losses, respectively, effective 1 January 2000.

The allowance for possible losses from commitments and contingent liabilities of HUF 947 million at 31 December 2001 (HUF 411 million at 31 December 2000) is included under a separate headings in other liabilities (see Note 11).

NOTE 21: LOSS ON INVESTMENTS

Write off of investments includes a HUF 958 million loss on the mark to market valuation of bonds denominated in foreign currency issued by NBH due to adopting IAS 39 in 2001. This loss is offset by a gain of HUF 981 million on bond related foreign exchange swaps included in the gain on derivatives in the consolidated statement of operations. Dividend income of HUF 41 million for 2000 was reclassified from Loss on investments to a separate line of consolidated statements of operations.

LOSS ON INVESTMENTS (MHUF)	Year ended 31 December 2001	Year ended 31 December 2000
Sale of investments	(322)	(268)
Release of provision/(write off) of investments	(423)	181
Equity	22	(30)
Total	**(723)**	**(117)**

NOTE 22: EXCEPTIONAL GAIN

Exceptional gain represents the negative goodwill recognised as income of HUF 6,384 million which arose from the difference between the ABN AMRO Group's equity at 30 June 2001 and ABN AMRO N.V.'s 40.23% share of the equity of K&H Group after the merger at the same date (see Note 33).

NOTE 23: INCOME TAXES

INCOME TAXES (MHUF)	Year ended 31 December 2001	Year ended 31 December 2000
Statutory income tax expense	489	(130)
Deferred taxation (credit)/charge	(221)	583
Income tax charge	**268**	**453**

Statutory income tax expense: Corporate income tax is payable at 18% on taxable statutory profits with an additional 20% tax on dividends, which foreign shareholders may be able to further reduce under double taxation treaties.

There is no procedure for final agreement of tax assessments in Hungary. The tax authorities may examine the accounting records and revise assessments for up to five years after the period to which they relate. Consequently, the K&H Group may be subject to further assessments in the event of an audit by the tax authorities. During 1999, the tax authorities reviewed and closed the years 1993–1994 for the Bank for all taxes, and during 2000 reviewed and closed the years 1995 1999 for VAT. Management is not aware of any additional significant unaccrued potential tax liability which might arise relating to years not audited by the tax authorities.

Deferred income taxes are calculated on all temporary differences under the asset and liability method using a principal rate of 18% (2000: 18%). The resulting deferred tax asset is included in other assets (see Note 8). The deferred tax asset is expected to be utilised in future years based on budgets and projections prepared.

Adjustments made to the Hungarian statutory accounts to comply with IAS and certain other taxation adjustments result in temporary differences. Temporary differences are differences between the carrying amount of an asset or liability in the balance sheet and its tax base. Temporary differences as of 31 December 2001 and 31 December 2000 have resulted in a deferred taxation credit of HUF 221 million and deferred taxation charge of HUF 583 million for years then ended, respectively.

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

DEFERRED INCOME TAXES (MHUF)	Year ended 31 December 2001	Year ended 31 December 2000
At beginning of year	563	1,146
Effect of adoption of IAS 39	(39)	–
Acquisition through business combination	(605)	–
Deferred tax credit/(charge)	221	(583)
At end of year	**140**	**563**

Deferred income tax assets and liabilities are attributable to the following items:

DEFERRED INCOME TAX ASSETS AND LIABILITIES (MHUF)	Year ended 31 December 2001	Year ended 31 December 2000
DEFERRED INCOME TAX ASSETS		
Differences between statutory and IAS books		
revaluation of property and leasehold rights	804	420
additional depreciation	89	195
other provisions	565	235
other	**157**	**–**
Total deferred income tax assets	**1.615**	**850**
DEFERRED INCOME TAX LIABILITIES		
Differences between statutory and IAS books		
general provision for loan losses	(839)	–
fair value evaluation of financing instruments	(402)	(4)
other	(234)	(283
Total deferred tax liabilities	**(1.475)**	**(287)**
Total deferred tax assets	**140**	**563**

Deferred tax income comprises the following temporary differences:

DEFERRED TAX CHARGE (MHUF)	Year ended 31 December 2001	Year ended 31 December 2000
General provision for loan losses	360	(281)
Revaluation of real estates and leasehold rights	(384)	89
Other provisions	(488)	196
Fair value evaluation of financing instruments	233	(9)
Tax loss carry forwards	–	269
Other	58	319
Deferred tax (credit)/charge	**(221)**	**583**

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

INCOME TAX RATE (MHUF)	Year ended 31 December 2001	Tax rate	Year ended 31 December 2000	Tax rate
Income before income taxes	**4,056**		**2,960**	
Tax at statutory rate of 18%	730	18%	533	18%
Tax effect of permanent differences	(241)	(6)%	(663)	(22)%
Deferred tax (credit)/charge for the period	(221)	(5)%	583	20%
Tax charge for the period	**268**	**7%**	**453**	**15%**

NOTE 24: EARNINGS PER SHARE

Earnings per share is calculated as the profit attributable to shareholders of the Bank divided by the weighted average number of shares outstanding during the period, excluding treasury shares. There were no other potentially dilutive securities in existence at 31 December 2001 and 2000. The following amounts were used in the calculation of earnings per share:

EARNINGS PER SHARE	31 December 2001	31 December 2000
Net profit attributable to shareholders (MHUF)	3,788	2,507
Weighted average shares outstanding	38,332,783,852	31,600,589,326
Earnings per share (HUF)	0.10	0.08

Prior year comparatives have been adjusted in accordance with IAS 33 to reflect that the number of shares have increased during the year without a corresponding change in resources.

NOTE 25: RELATED PARTY TRANSACTIONS

Balances with members of KBC and ABN AMRO Group:

RELATED PARTY TRANSACTIONS (MHUF)	31 December 2001	31 December 2000
ASSETS		
Balances due from KBC and ABN AMRO entities	**68,770**	5,301
LIABILITIES		
Balances due to KBC and ABN AMRO entities	1,011	–
Subordinated debt	9,853	10,598
Other liabilities (lease liabilities)	1,596	1,129
Total assets	**12,460**	**11,727**
Commitments and contingent liabilities	34	692
Guarantees received	3,886	–
Guarantees given	–	390
Interest income	4,790	965
Interest expense	(2,579)	(1,786)
Net interest income	**2,211**	(821)

NOTE 26: CURRENCY EXPOSURE

CURRENCY EXPOSURE (MHUF)	At 31 December 2001					
	HUF	EUR	USD	JPY	Other	Total
ASSETS						
Cash and balances with MNB	60,727	8,211	11,399	2	195	80,534
Balances with other banks	39,820	52,091	32,345	320	16,991	141,567
Loans to customers	403,519	159,035	38,714	404	24,475	626,147
Trading and investment securities	164,117	7,072	16,601	27,714	992	216,496
Derivative financial instruments	2,770	30	1,800	–	245	4,845
Accrued interest receivable	12,743	1,121	437	700	108	15,109
Bank premises and equipment	41,827	–	–	–	–	41,827
Intangible assets	637	–	–	–	–	637
Other assets	16,625	943	155	–	–	17,723
Total assets	**742,785**	**228,503**	**101,451**	**29,140**	**43,006**	**1,144,885**
LIALIBITIES						
Deposits and certificate of deposits	604,186	121,123	106,262	94	15,160	846,825
Balances to other banks	16,391	9,577	2,837	69	285	29,159
Refinancing credits	25,303	28,133	19,742	–	–	73,178
Derivative financial instruments	2,651	810	5,818	3,565	378	13,222
Accrued interest payable	8,204	1,812	559	356	28	10,959
Subordinated debt	4,714	15,442	–	–	490	20,646
Other liabilities	34,350	14,997	18,241	1,232	2,432	71,252
Total liabilities and subordinated debt	**695,799**	**191,894**	**153,459**	**5,316**	**18,773**	**1,065,241**
Net balance sheet position	**46,986**	**36,609**	**(52,008)**	**23,824**	**24,233**	**79,644**
Credit commitments and contingent liabilities	**220,079**	**19,976**	**10,132**	**46**	**297**	**250,530**

CURRENCY EXPOSURE
(MHUF)

	At 31 December 2000					
	HUF	EUR	USD	JPY	Other	Total
ASSETS						
Cash and balances with MNB	52,166	5,180	14,738	15	215	72,314
Balances with other banks	6,713	15,237	30,755	398	3,239	56,342
Loans to customers	228,479	85,809	31,338	130	3,101	348,857
Trading and investment securities	54,596	9,898	600	27,359	–	92,453
Accrued interest receivable	8,185	793	872	498	15	10,363
Bank premises and equipment	27,852	127	621	–	210	28,810
Intangible assets	368	–	–	–	–	368
Other assets	8,627	415	154	318	2	9,516
Total assets	**386,986**	**117,459**	**79,078**	**28,718**	**6,782**	**619,023**
LIABILITIES						
Deposits and certificate of deposits	298,788	59,497	76,038	73	10,169	444,565
Balances to other banks	20,785	3,513	8,069	–	796	33,163
Refinancing credits	23,504	27,846	21,191	–	–	72,541
Accrued interest payable	2,097	374	734	654	33	3,892
Subordinated debt	4,714	10,598	–	–	–	15,312
Other liabilities	16,728	5,452	(28,221)	27,527	(4,772)	16,714
Total liabilities and subordinated debt	**366,616**	**107,280**	**77,811**	**28,254**	**6,226**	**586,187**
Net balance sheet position	**20,370**	**10,179**	**1,267**	**464**	**556**	**32,836**
Off-balance sheet net notional position	**(9,553)**	**(4,699)**	**32,851**	**(26,439)**	**4,490**	**(3,350)**
Credit commitments and contingent liabilities	**78,952**	**12,313**	**8,726**	**–**	**378**	**100,369**

NOTE 27: INTEREST RATE RISK

The Asset and Liability Committee ('ALCO') regularly reviews the Group's liquidity profile and market risk in its assets and liability positions. ALCO reviews the Group's market exposures and analyzes the effects of actual or projected changes in rates, prices or market liquidity on the value of these positions.

The interest rate risk run by the Group is reflected in the following table. Interest rate risk exposure derives from mismatches between the repricing of interest bearing assets and liabilities. The table below indicates the breakdown of those assets and liabilities for both HUF and foreign currencies according their repricing periods as of 31 December 2001.

INTEREST BEARING HUF ASSETS AND LIABILITIES (MHUF)	31 December 2001				
	Below 1 month	1–3 months	3–12 months	Over 1 years	Total
Assets	218,609	385,371	136,890	21,241	762,111
Liabilities	(543,538)	(143,519)	(49,702)	(6,391)	(743,150)
	(349,929)	**241,852**	**87,188**	**14,850**	**18,961**

INTEREST BEARING FX ASSETS AND LIABILITIES (MHUF)	31 December 2001				
	Below 1 month	1–3 months	3–12 months	Over 1 years	Total
Assets	210,049	251,664	58,868	30,988	551,569
Liabilities	(273,255)	(149,282)	(61,475)	(28,981)	(512,993)
	(63,206)	**102,382**	**(2,607)**	**2,007**	**38,576**

INTEREST BEARING HUF ASSETS AND LIABILITIES (MHUF)	31 December 2000				
	Below 1 month	1–3 months	3–12 months	Over 1 years	Total
Assets	49,898	232,483	49,677	10,676	342,734
Liabilities	(146,007)	(173,726)	(15,589)	–	(335,322)
	(96,109)	**58,757**	**34,088**	**10,676**	**7,412**

INTEREST BEARING FX ASSETS AND LIABILITIES (MHUF)	31 December 2000				
	Below 1 month	1–3 months	3–12 months	Over 1 years	Total
Assets	23,976	182,013	32,669	687	239,345
Liabilities	(12,623)	(160,181)	(50,163)	(78)	(223,045)
	11,353	**21,832**	**(17,494)**	**609**	**16,300**

NOTE 28: MATURITY STRUCTURE

The following table shows a breakdown of the consolidated balance sheet by maturity at 31 December 2001:

MATURITY STRUCTURE (MHUF)	31 December 2001							
	Loans	Other assets	Total assets	Deposits and certif. of deposits	Other liabilities	Total liabilities	Net coverage	Gross coverage
1-7 days	65,433	183,407	248,840	(450,819)	(71,137)	(521,956)	(273,116)	(273,116)
1-2 weeks	4,144	7,006	11,150	(82,415)	(1,292)	(83,707)	(72,557)	(345,673)
2-4 weeks	16,620	15,172	31,792	(205,022)	(23,576)	(228,598)	(196,806)	(542,479)
1-3 months	32,593	18,562	51,155	(82,767)	(8,881)	(91,648)	(40,493)	(582,972)
4-6 months	77,358	15,048	92,406	(10,891)	(6,595)	(17,486)	74,920	(508,052)
7-12 months	109,007	15,611	124,618	(8,736)	(8,103)	(16,839)	107,779	(400,273)
1-2 years	66,240	23,221	89,461	(5,294)	(23,795)	(29,089)	60,372	(339,901)
2-5 years	155,843	65,782	221,625	(880)	(36,647)	(37,527)	184,098	(155,803)
Over 5 years	116,349	174,929	291,278	(1)	(34,159)	(34,160)	257,118	101,315
Subtotal	643,587	518,738	1,162,325	(846,825)	(214,185)	(1,061,010)	101,315	–
Allowance/Equity	(17,440)	-	(17,440)	-	(83,875)	(83,875)	(101,315)	–
Total	**626,147**	**518,738**	**1,144,885**	**(846,825)**	**(298,060)**	**(1,144,885)**	**–**	**–**

MATURITY STRUCTURE (MHUF)	31 December 2000							
	Loans	Other assets	Total assets	Deposits and certif. of deposits	Other liabilities	Total liabilities	Net coverage	Gross coverage
1-7 days	42,017	98,765	140,782	(216,884)	(8,732)	(225,615)	(84,834)	(84,834)
1-2 weeks	1,359	576	1,935	(37,551)	(625)	(38,176)	(36,241)	(121,074)
2-4 weeks	13,516	1,813	15,329	(78,659)	(4,922)	(83,581)	(68,252)	(189,326)
1-3 months	21,213	7,119	28,332	(36,502)	(4,914)	(41,416)	(13,084)	(202,410)
4-6 months	45,294	5,382	50,676	(39,551)	(2,828)	(42,379)	8,297	(194,113)
7-12 months	54,519	5,377	59,896	(31,524)	(4,436)	(35,960)	23,936	(170,177)
1-2 years	38,003	8,234	46,237	(2,629)	(7,743)	(10,372)	35,865	(134,312)
2-5 years	83,269	43,659	126,928	(1,261)	(29,254)	(30,515)	96,413	(37,899)
Over 5 years	63,834	99,241	163,075	(5)	(76,643)	(76,648)	86,427	48,528
Subtotal	363,024	270,166	633,190	(444,565)	(140,097)	(584,662)	48,528	–
Allowance/Equity	(14,167)	–	(14,167)	–	(34,361)	(34,361)	(48,528)	–
Total	**348,857**	**270,166**	**619,023**	**(444,565)**	**(174,457)**	**(619,023)**	**–**	**–**

The Asset and Liability Committee regularly reviews the Group's liquidity profile by monitoring the differences in maturities between assets and liabilities and by analyzing the future level of funds required based on various assumptions, including its ability to liquidate investment and trading positions and its ability to access the markets for funds. The table above analyzes the maturity mismatch between assets and liabilities by sorting them into relevant maturity buckets based on the remaining period to the contractual maturity date, except for a standard amount of sight deposits. 80% of sight deposits is the minimum balance of deposits always kept at the Bank, therefore these are classified as over 5 years.

NOTE 29: FAIR VALUE INFORMATION

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

Loans to customers: Loans to customers are net of specific and general allowances for loan losses. The estimated fair value of loans should be the amount of estimated future cash flows expected to be received, discounted at market rates. It is not practicable within the constraints of timeliness and cost to determine precisely the fair value, but as the majority of loans are repriced quarterly, the carrying value is estimated to approximate the fair value.

Investments: Investments principally comprise trading securities, available for sale securities and held to maturity securities.

Trading securities and available for sale investments are carried at market value. Market value is generally based on the quoted market price. Consolidation bonds classified as available for sale do not have observable market prices. However, as the interest rate of these securities follow the market rate, the face value approximates the fair value.

Bonds and other investments held to maturity are carried at amortised cost except for bonds denominated in foreign currency issued by NBH. As the cross currency interest rate swaps relating to the bonds are valued at fair value (note 5), these bonds are measured at fair value as well.

Deposits and certificates of deposits: The estimated fair value of deposits with no stated maturity is the amount repayable on demand, which is the carrying value. Due to the short-term maturity of fixed interest bearing deposits, the carrying value approximates the fair value. The carrying value of fixed interest bearing deposits approximates fair value as interest rates are usually fixed only for periods up to 3 months

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

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

Fair value of derivatives: Fair values of trading derivative financial instruments, such as forward foreign exchange, currency swaps and options, forward rate agreements and default swaps are marked to market, based on international money and capital market price quotations. Fair values of derivative financial instruments designated as fair value hedges, such as interest rate swaps and cross currency swaps are determined by discounted cash flow using prevailing market rates at 31 December 2001 (see Note 5).

NOTE 30: CREDIT RISK

Credit risk is associated with corporate lending, retail lending, corporate investments, treasury and brokerage activities (counterparty risk). The major type of credit risk is corporate credit risk. Retail lending is not yet a significant part of the loan portfolio, however the retail portfolio is growing. Retail loans now represent 8 % of the total credit portfolio. Due to the merger all credit risk procedures (decision authorities, client rating, facility rating, provisioning, collateral evaluation, etc. policies) were harmonized and reissued in the first half of 2001. These procedures represent the best practices of the former banks and the standards of the shareholder banks. The credit process is designed in accordance with KBC guidelines.

The Bank's exposure to credit risk is concentrated in Hungary, where most of its activity is conducted, accordingly country risk is not assessed to be significant.

The Bank's policy is to extend credit to Hungarian blue chip corporations, to subsidiaries of highly rated multinational companies and to high quality project financing. A separate business unit has been set up for the financing of small and medium enterprises. The industrial concentration and the breakdown by credit risk category is outlined in Note 3.

The Bank operates in six main geographical areas. Beside Hungary the Group's exposure to credit risk is concentrated on the European Union and other West-European countries. The areas of operation include all primary business segments.

GEOGRAPHICAL CONCENTRATION OF ASSETS, LIABILITIES AND OFF-BALANCE-SHEET ITEMS (MHUF)	31 December 2001		
	Total assets	Total liabilities	Commitments and contingent liabilities
Hungary	1,014,168	989,593	244,235
EMU countries	90,847	33,754	4,879
East-European countries	1,613	15,318	30
Russia	10,602	10,347	33
Other European countries	16,324	40,191	914
Non-European countries	11,331	55,682	439
	1,144,885	**1,144,885**	**250,530**

NOTE 31: FINANCE AND OPERATING LEASES

The Bank is in the process of introducing new integrated computer systems. The equipment and software is purchased by KBC Vendor Lease, a member of the KBC Group, and the Bank leases the system under a finance lease agreement. The total contracted commitment amounts to HUF 8,000 million. The implementation date of this new integrated system is expected to be at the beginning of 2003.

OPERATING LEASING (MHUF)	31 December 2001	31 December 2000
Net carrying amount of leased assets in the Balance Sheet		
Bank premises and equipment-software	1,625	1,596
Bank premises and equipment-hardware	371	–
	1,996	**1,596**
Finance lease liabilities-minimum lease payments		
Less than one year	641	768
1–5 years	1,667	966
More than 5 years	–	–
	2,308	**1,734**
The present value of finance lease liabilities may		
be analysed as follows:	433	334
Less than one year	1,163	795
1–5 years	–	–
More than 5 years		
	1,596	**1,129**

Payment on the lease contract, which is denominated in EURO, commenced in September 1999 with the last payment due in August 2004. The contract interest rate is set at an average interest rate of 6.81% over the term of the lease. The outstanding finance lease obligation related to this contract was HUF 2,070 million at 31 December 2001 and HUF 1,181 million at 31 December 2000 (see Note 12). The Group has entered into property lease agreements and has the following commitments during the remaining term of the contracts:

OPERATING LEASING (MHUF)	31 December 2001	31 December 2000
Total of future minimum lease payments under non-cancellable operating leases:		
Less than one year	1,425	1,508
1–5 years	6,623	6,030
More than 5 years	6,293	7,843
	14,341	**15,381**
Lease and sublease payments recognised in income for the period		
Minimum lease payments	3,991	2,203
Sublease payments	(71)	(8)

Other liabilities comprise provisions made in 2001 for the future expense of HUF 1,476 million arising from the planned cancellation of lease contracts. The leasing subsidiaries of the Bank operate in the domestic leasing market and provide both finance and operating lease products to customers. The following tables indicate the key amounts of this activity:

FINANCE LEASING (MHUF)	31 December 2001	31 December 2000
Total of gross investment in the lease:		
Less than one year	16,603	6,048
1–5 years	20,519	6,667
More than 5 years	95	41
	37,217	**12,756**
The present value of minimum lease payments receivables:		
Less than one year	13,623	4,986
1–5 years	17,919	5,756
More than 5 years	91	40
	31,633	**10,782**
Unearned finance income	5,585	1,974
Non-guaranteed residual values	141	–
Accumulated allowance for uncollectible minimum lease payments receivable	1,193	381

The term of the contracts are between 12 and 72 months, and the interest rates are in a range of BUBOR, EURIBOR or LIBOR plus 4.5%-8%.

OPERATING LEASES (MHUF)	31 December 2001
Gross carrying amount of equipment for operating leases	5.936
Accumulated depreciation of equipment for operating leases	(1.858)
	4.078
Depreciation recognised in income for the period	1.151

Machinery, other equipment, passenger and commercial vehicles are subjected to operating leases. The term of the contracts are generally between 6 and 48 months with interest rates in a range of BUBOR, EURIBOR or LIBOR plus 3.1%-5.1%. All lease contracts are non-cancellable and lease payments do not contain contingent rents.

NOTE 32. COMMITMENTS AND CONTINGENT LIABILITIES

Commitments and contingent liabilities include the following:

COMMITMENTS AND CONTINGENT LIABILITIES (MHUF)	31 December 2001		31 December 2000	
	Amount	Allowance	Amount	Allowance
Commitments to extend credit	173.978	47	70.816	46
Guarantees	69.107	499	17.918	307
Trade finance commitments	3.098	–	3.443	–
Other	4.347	–	–	–
	250.530	**546**	**92.177**	**353**

The K&H Group is party to litigation and claims arising in the normal course of business. An allowance of HUF 401 million at 31 December 2001 (HUF 58 million at 31 December 2000) for possible losses from legal cases has been made relating to these contingencies and included in other liabilities. Management believes that adequate allowance has been made in the financial statements for potential losses from litigation. Certain of the alleged claims from this litigation are for significant amounts.

A subsidiary of ABN AMRO Magyar Bank Rt. acted as distributor in a local public offering by an issuer which subsequently became bankrupt. To cover possible losses as a result of litigation against the subsidiary of the Bank ABN AMRO N.V. issued an irrevocable payment guarantee in the amount of HUF 3,560 million for the potential liability in September 2000. The litigation was completed in 2001 and the Bank is obliged to pay the amounts arising from properly authenticated claims covered by the court order. A reliable estimate cannot be made of the amount and the timing of the obligation the Bank but based on present information management believes that the guarantees received from ABN AMRO N.V. will cover the possible losses.

NOTE 33: BUSINESS COMBINATION

KBC Bank N.V., the Belgian majority owner of the Bank and ABN AMRO N.V., the Dutch owner of ABN AMRO Magyar Bank Rt. announced on 7 November 2000 the intention to merge their respective subsidiaries in Hungary.

The Hungarian Court of Registration registered the merger of K&H Bank Rt. and ABN AMRO Magyar Bank Rt. at 1 of

July 2001. This business combination was treated as an acquisition as K&H Bank Rt. obtained control over the net assets and operations of ABN AMRO Magyar Bank Rt.

KBC Bank N.V. and ABN AMRO N.V. has a stake of 59.09% and 40.23% in the merged Bank, respectively while minor shareholders have a stake of 0.68% of the voting shares (see Note 13).

As cost of acquisition, ABN AMRO N.V. acquired a 40.23% stake (amounting to HUF 31,498 million) in K&H Bank's equity as at 1 July 2001. Since the net assets of ABN AMRO Magyar Bank Group were HUF 37,882 million at 1 July 2001, a negative goodwill of HUF 6,384 million was recognised in the books of K&H Bank Rt. This negative goodwill was fully amortised in 2001 (see Note 22).

FAIR VALUE OF ASSETS ACQUIRED AND LIABILITIES ASSUMED (MHUF)	31 December 2001
Cash and cash equivalents	108,437
Balances with other banks	14,900
Loans to customers	235,480
Trading and investment securities	106,815
Tangible and intangible assets	19,996
Other assets	39,965
Deposits to customers	(331,451)
Balances due to other banks	(50,861)
Refinancing credits	(8,671)
Subordinated debt	(6,338)
Other liabilities	(90,390)
Total fair value of assets	**37,882**
Net purchase consideration	**31,498**
Negative goodwill created on acqusition	**6,384**

NOTE 34: SUBSIDIARIES AND ASSOCIATES

SUBSIDIARIES AND ASSOCIATES (MHUF)	31 December 2001 Capital	31 December 2001 Effective share-holding	31 December 2000 Capital	31 December 2000 Effective share-holding
FULLY CONSOLIDATED SUBSIDIARIES				
K&H Lízing Rt.	25	100%	25	100%
K&H Lízingház Rt.	20	100%	20	100%
K&H Alkusz Kft.	5	100%	5	100%
Trambulin 2000 Kft.	60	100%	1.476	100%
K&H Befektetési Rt.	2.520	100%	2.520	100%
Pannonlízing Rt.*	200	100%		
Eszközfinanszírozó Kft.*	50	100%		
Lízingadminisztrációs Rt.*	1.301	100%		
K&H Vagyonkezelési Holding Kft.*	887	100%		
Vagyonkezelő Rt.*	850	100%		
Pénztárszolgáltató Kft.*	34	100%		
Alapkezelő Rt.*	20	100%		
Beruházó Kft.*	1.336	100%		
Gondnok Kft.*	10.204	100%		
Talentum Rt.*	400	100%		
Work Out Kft*.	10	100%		
PROPORTIONALLY CONSOLIDATED SUBSIDIARIES				
Equities Rt.*	637	50%		
Magyar Factor Rt.*	400	50%		
SUBSIDIARIES CONSOLIDATED USING EQUITY METHOD				
International Treasury Szolgáltató Kft.*	6	49%		
K&H Életbiztosító Rt.	1.200	50%	1.200	50%
OTHER INVESTMENTS				
Kvantum Követeléskezelő és Befektetési Rt.**	650	100%	650	100%
Fordat Kft.**	6	100%	6	100%
Optimum Rt.**	1.204	100%	1.204	100%
Softteam Rt.**	66	100%	66	100%
K&H Communication Rt.**	15	100%	15	100%

* Previous subsidiaries of ABN AMRO Magyar Bank involved in consolidation due to the merger between K&H Bank and ABN AMRO Magyar Bank as of 1 July 2001.

** In voluntary liquidation.

All subsidiaries are incorporated in Hungary.

NOTE 35: CONTRIBUTION BY SHAREHOLDER

On 28 December, 2001 ABN AMRO N.V. the minority shareholder of the Bank contributed HUF 1,652 million to the equity of the Bank. As no share capital increase was attached to the transaction, the amount is recorded as share premium in these financial statements.

NOTE 36: SUBSEQUENT EVENTS

There were no material subsequent events.

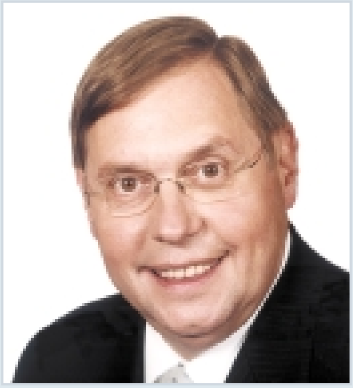
NOTE 37: RECONCILIATION OF STATUTORY ACCOUNTS TO IAS ACCOUNTS

SUBSIDIARIES AND ASSOCIATES (MHUF)	(Profit)/loss for the year	Shareholders' equity excluding current year (profit)/ lossl	Assets	Sub-ordinated debt and liabilities
K&H Bank accounts prepared under Hungarian Accounting Rules	4,051	(73,795)	1,130,451	(1,060,707)
ADJUSMENT FOR IAS ACCOUNTS				
Reversal of provision on foreign exchange losses	89	(89)	–	–
Additional depreciation	(592)	1,086	(494)	–
Capitalisation of VAT	164	(429)	265	–
Capitalisation of financial leases	5	(535)	2,126	(1,596)
Accrual of sold investment with deferred payment	–	2		
Reversal of provision of country risks	277	(277)	(2)	–
General provision for loan losses	1,437	(6,097)	–	–
Revaluation of real estates	(2,331)	2,331	(3,554)	8,214
Mark to market evaluation of trading portfolio and derivatives	(1,374)	(648)	– 8,571	- (6,549)
Amortisation of negative goodwill	(6,384)	6,384	–	–
Contribution by ABN AMRO N.V.	1,652	(1,652)	–	–
Deferred tax	(252)	(63)	315	–
Other items	–	–	(34)	34
K&H Bank standalone IAS adjustments	**(7,309)**	**13**	**7,193**	**103**
Subsidiaries accounts prepared under Hungarian Accounting Standards	2,383	(21,907)	109,337	(89,813)
ADJUSMENT FOR IAS ACCOUNTS				
Provision for fiscal charges	(95)	95	–	–
Financial leases	(89)	(913)	(401)	1,403
Mark to market evaluation of trading portfolio	(11)	(19)	30	–
Deferred tax	31	144	(175)	–
Subsidiaries standalone IAS adjustments	**(164)**	**(639)**	**(546)**	**1,403**
Adjustments for consolidation	**(2,749)**	**20,526**	**(101,550)**	**83,773**
Balance per IAS report	**(3,788)**	**(75,856)**	**1,144,885**	**(1,065,241)**

Members of the Board of Directors as at 31 Dec, 2001

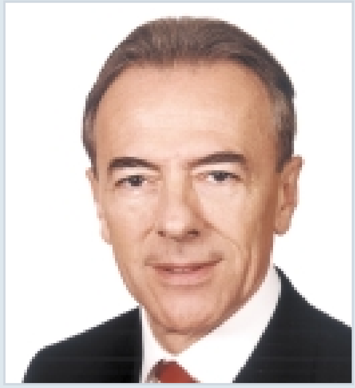
István Szalkai

Position: Chairman of the Board of Directors
Member since: April 26, 2000
Graduate of the College of Accountancy and Finance and Marx Károly University of Economic Sciences. 1985-1987: Economist with the IMF in Washington. 1988-1989: Deputy President of the National Bank of Hungary. 1992: IMF consultant and Chairman of the Board of Directors of Magyar Hitelbank. 1993-1996: head of IMF resident mission in Uzbekhistan and Belorussia. From 1989: lecturer and advisor at the International Bankers' Training Centre, then General Manager in 1998-1999. 1999-2000: President of the Hungarian Banking and Capital Market Supervision. From 2000: Managing Director of Eastconsult Kft. and bank privatisation advisor to the Uzbekh Government in a World Bank loan programme.



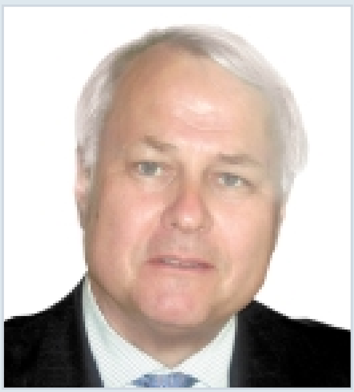
Herman Agneessens

Position: Member of the Board of Directors
Member since: January 27, 1999
Graduate of the Catholic University of Leuven, Doctor at Law, 1971. Joined Kredietbank, now KBC Bank N.V., in 1971. From 1989: General Manager of the International Directorate of Kredietbank. From January 1995: Managing Director of Kredietbank. From 1998: Managing Director and member of the Executive Committee of KBC Bank and KBC Bank & Insurance Holding Company. At present he is, amongst others, responsible for the bank's international activities with special focus on Central Europe.



Tibor E. Rejtő

Position: Member of the Board of Directors
Member since: April 22, 1999
Graduate of the Technical University of Budapest: BS in chemical engineering; University of British Columbia, Vancouver: MBA. 1973-1988: worked for the Royal Bank of Canada at the bank's international, lending, project financing and corporate banking divisions in Canada, Paris and London. Since 1988, he has worked in Hungary, first as Deputy CEO of Citibank, then in 1991-1999 as CEO of ING Bank. Since April 1999: CEO of Kereskedelmi és Hitelbank.

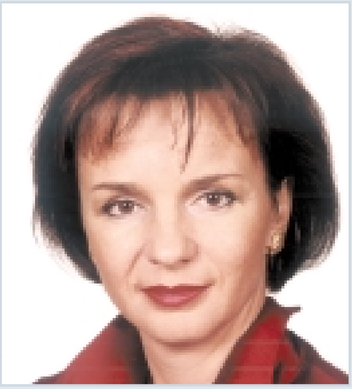


I.H.J.M. (Igno) van Waesberghe

Position: Member of the Board of Directors
Member since: February 5, 2001
1970: Law degree at Leyden University. Joined ABN AMRO Bank in 1975. Deputy General Manager in Hong Kong, then General Manager in Tokyo, later District Manager in Eindhoven and Regional Manager in North-East Asia. 1995-2000: Country Manager, United Kingdom. Since 2001: Business Manager responsible for the automotive, consumer and other industries.

dr. Csaba László

Position: Member of the Board of Directors
Member since: February 5, 2001
Graduate of the University of Economic Sciences, Budapest; economist and certified auditor. 1986-1999: Ministry of Finance; 1993-1994: Deputy Head of the Foreign Trade Department; 1995: Head of Department of the State Budget Reform Secretariat; March 1995 - June 1998: Deputy State Secretary; June 1998 - July 1999: State Secretary for Public Administration; from November 1, 1999: Deputy CEO responsible for Finances, KELER Rt.; since June 2000: Deputy CEO and member of the Board of Directors of ABN AMRO Magyar Bank; then Deputy CEO responsible for Integration of Kereskedelmi és Hitelbank.



Edit Várkonyi

Position: Member of the Board of Directors
Member since: July 29, 1999
University of Economic Sciences: MS in economics. 1991-1997: worked for Budapest Bank; head of Card Department, later Retail Banking Director. 1997-1999: Managing Director of OTP Bank (Retail Banking, Private Banking and Bankcard). Since June 1999: Deputy CEO of Kereskedelmi és Hitelbank (Retail Banking Division).

Dirk Mampaey

Position: Member of the Board of Directors
Member since: February 5, 2001
1983-1988: studied commercial engineering at the Free University of Brussels, then international banking at a course organised by the Union Bank of Switzerland and Corestates Bank. 1995-1999: Senior Account Manager, later Senior Area Manager at Kredietbank. 1999-2000: Deputy General Manager of the Central and Eastern European Division of KBC. Since 2000: Assistant General Manager and General Co-ordinator for Central Europe.

Jan Peter Schmittmann

Position: Member of the Board of Directors
Member since: February 5, 2001
Joined ABN AMRO Bank in 1983, Customer Relationship Manager, Corporate Finance Advisor, then Country Manager in Singapore; later appointed Executive Vice President of the Special Credits Division and Europe Project Leader. At present, he is Senior Executive Vice President Responsible for Private Clients Asset Management and Consumer and Commercial Clients within Europe.

Francois Louise (Frans) Florquin

Position: Member of the Board of Directors
Member since: April 27, 2001
Graduate of the Catholic University of Leuven, where he studied economic sciences. 1972-1992: Chief Inspector, later Manager, then General Secretary at CERA Bank. From December 1, 1992: member of the Board of Directors and the Executive Committee. Since 1998: Managing Director of KBC Bank and Insurance Holding Company.

Conraad Hendrik Adolph (Dolf) Collee

Position: Member of the Board of Directors
Member since: July 1, 2001
1972-1980: Law degree, Erasmus University, Rotterdam. From 1980: Account Manager, later Branch Manager, then Regional Manager at ABN AMRO Bank. From 1996: Senior Executive Vice President at the Commercial Section, Netherlands Division. From 2000: member of the Managing Board.

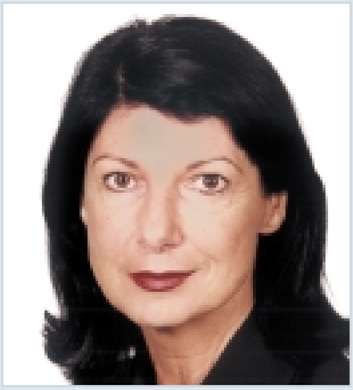
MEMBERS OF THE BOARD OF DIRECTORS IN 2001:

Júlia Király – *till January 1, 2001,* **Luc Flamée** – *till February 5, 2001,* **Gerry Danaher** – *till February 5, 2001,* **Brian McConnell** – *till February 5, 2001,* **Márton Halasi** – *till February 5, 2001,* **Tibor Zarnóczi** – *till February 5, 2001,* **Rudy Broeckaert** – *till April 27, 2001,* **Bernard Yoncourt** – *between February 5 and July 1, 2001,* **dr. Tibor Draskovics** – *between February 5 and September 13, 2001*

Members of the Supervisory Board as at 31 Dec, 2001

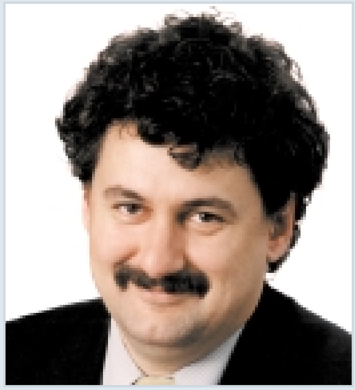
Jean Paul Van Keirsbilck

Position: Chairman of the Supervisory Board
Member since: (Nov. 28, 1997) April 27, 2001
Degree in electrical and mechanical engineering, University of Gent; degree in business administration, Insead, Fontainebleau, France. 1975-1980: Account Officer with Citibank (Belgium). 1980-1998: Branch Manager, Divisional Manager, General Manager in charge of Automation and Processing, Internal Auditor at Kredietbank (Belgium). Since 1998: General Manager and Internal Auditor at KBC.



dr. Ágnes Hitesy

Position: Member of the Supervisory Board
Member since: December 17, 1998
Marx Károly University of Economic Sciences; 1979: PhD in economic sciences. 1986-1990: Secretary of the Commercial Representative Office of Hungary in Brussels. 1994: Participated in a bankers' training programme at the International Bankers' School, Belgium. From 1995: licensed management advisor. 1994-2000: Country Manager (Hungary) at Kredietbank (KBC Bank N.V.). Managing Director of Hitesy és Bartucz Üzleti Tanácsadó Iroda (Business Consultancy Firm).



János Négyesi

Position: Member of the Supervisory Board
Member since: April 26, 2000
1983-1987: Marx Károly University of Economic Sciences. Joined Kereskedelmi és Hitelbank in 1990; Unit Head, Department Head, later Executive Director of Lending, Product Development and Sales Management. Representing the Corporate Banking business line, he is Programme Manager of the Integration Office and K2 Project Team Leader.

Jos Motzheim

Position: Member of the Supervisory Board
Member since: July 1, 2001
Registered Accountant, the Dutch Institute for Registered (Public) Auditors (NIvRA); Certified Internal Auditor, Institute of Internal Auditors. 1982-1989: Tax Audit Department, Ministry of Finance. From 1989: several positions at the Internal Audit Department of ABN AMRO Bank N.V. January 2001 - June 2002: Head Audit SBU Consumer and Commercial Clients. Since June 2002: Head Group Audit / Corporate Centre.

Paul Johannes Scholten

Position: Member of the Supervisory Board
Member since: July 1, 2001
Law studies at Rijks University of Utrecht, and MBA in Delft. Joined ABN AMRO Bank in January 1984; July 1985 - September 1988: Head Equity Options Department in Paris; September 1988 - September 1992: Branch General Manager in Bahrain; September 1992 - June 1996: Deputy Country Manager, Tokyo, Japan; June 1996 - March 2001: Country Manager, Taipei, Taiwan; April 2001: returned to Amsterdam as Managing Director.

Lajos Samák

Position: Member of the Supervisory Board
Member since: July 1, 2001
Kandó Kálmán College of Telecommunications. Joined the Hungarian Television in 1960 as technician, then as Head of the Implementation Department. August 1988: technical expert, later Department Head at Magyar Hitelbank; from 1993: Independent Secretary of the Trade Union. From 1992: Member of the Supervisory Board; in 1993 elected President of Central Workers' Council. Since 1989: Member and later Vice President of the Presidium of the Employees' Trade Union of Banks and Insurance Companies. Since July 1, 2001: Trade Union Secretary of Kereskedelmi és Hitelbank.

MEMBERS OF THE SUPERVISORY BOARD IN 2001:

Gerry Hunt – *till July 1, 2001,* **József Windhelm** – *till July 1, 2001,* **Johan De Decker** – *till July 1, 2001*

Publisher: Kereskedelmi és Hitelbank
Budapest, June 2002
Design: a4-design