Kereskedelmi és Hitelbank Zártkörűen Működő Részvénytársaság

Annual Report

31 December 2009

Statement of the Issuer

K&H Bank Zrt. as the Issuer (represented by: Marko Voljč, CEO and Attila Gombás, Head of the Finance and Risk Management Division) hereby declare that the Year 2009 Annual Report and the Year 2009 Consolidated Annual Report of K&H Bank Zrt. have been prepared, to the best of the Issuer's knowledge, in compliance with the applicable accounting laws and regulations, and the financial details contained therein reflect a true and reliable status of the assets, liabilities, financial position and profitability of K&H Bank Zrt. and the enterprises involved in the consolidation, and the Business Report shows a faithful picture of the situation, development and performance of K&H Bank Zrt. and the enterprises involved in the consolidation, including the major risks and uncertainty factors.

Budapest, April 29, 2010

Marko Voljč
CEO

Attila Gombás
Head of the Finance and Risk Management Division

10195664-6419-114-01
statistical number

Kereskedelmi és Hitelbank Zártkörűen Működő Részvénytársaság
Balance Sheet (Credit Institutions) – Assets

HUF millions

No.	Description	Previous year 31.12.2008.	Reporting year 31.12.2009.
a	b	c	d
01.	**1. CASH AND EQUIVALENTS**	**124 297**	**147 102**
02.	**2. GOVERNMENT SECURITIES**	**953 907**	**1 065 539**
03.	a) held for trading	695 220	782 938
04.	b) held for investment	258 687	282 601
05.	**2/A. VALUATION DIFFERENCE OF GOVERNMENT SECURITIES**	**4 029**	**935**
06.	**3. AMOUNTS DUE FROM CREDIT INSTITUTIONS**	**95 196**	**46 538**
07.	a) on demand	23 425	9 301
08.	b) other receivables from financial services	71 771	37 237
09.	ba) short-term	57 553	31 119
10.	of which: - from affiliated undertakings		
11.	- from other associated undertakings		
12.	- from the NBH		
13.	- from the clearing house		
14.	bb) long-term	14 218	6 118
15.	of which: - from affiliated undertakings		
16.	- from other associated undertakings		
17.	- from the NBH		
18.	- from the clearing house		
19.	c) from investment services		
20.	of which: - from affiliated undertakings		
21.	- from other associated undertakings		
22.	- from the clearing house		
23.	**3/A. VALUATION DIFFERENCE OF AMOUNTS DUE FROM CREDIT INSTITUTIONS**		
24.	**4. AMOUNTS DUE FROM CLIENTS**	**1 764 606**	**1 603 766**
25.	a) from financial services	1 763 487	1 602 650
26.	aa) short-term	500 608	565 093
27.	of which: - from affiliated undertakings	7 004	6 537
28.	- from other associated undertakings		
29.	ab) long-term	1 262 879	1 037 557
30.	of which: - from affiliated undertakings	174 355	134 005
31.	- from other associated undertakings		
32.	b) from investment services	1 119	1 116
33.	of which: - from affiliated undertakings		
34.	- from other associated undertakings		
35.	ba) receivables from stock exchange investment services		
36.	bb) receivables from over-the-counter investment services		
37.	bc) amounts due from clients, arising from investment services	1 118	1 114
38.	bd) amounts due from the clearing house	1	2
39.	be) other receivables from investment services		
40.	**4/A. VALUATION DIFFERENCE OF AMOUNTS DUE FROM CLIENTS**		
41.	**5. DEBT SECURITIES, INCLUDING THOSE WITH A FIXED INTEREST RATE**	**57 268**	**74 405**
42.	a) securities issued by local municipalities and other administrative institutions (excluding government securities)	42 811	47 700
43.	aa) held for trading		
44.	ab) held for investment	42 811	47 700
45.	b) securities issued by third-party issuers	14 457	26 705
46.	ba) held for trading	8 334	22 575
47.	of which: - issued by affiliated undertakings		
48.	- issued by other associated undertakings		
49.	- Treasury stock	14	
50.	bb) held for investment	6 123	4 130
51.	of which: - issued by affiliated undertakings		
52.	- issued by other associated undertakings		
53.	**5/A. VALUATION DIFFERENCE OF DEBT SECURITIES**	**- 978**	**- 13 822**

HUF millions

No.	Description	Previous year 31.12.2008.	Reporting year 31.12.2009.
a	b	c	d
54.	**6. SHARES AND OTHER VARIABLE YIELD SECURITIES**	**465**	**854**
55.	a) shares and participations held for trading		
56.	of which: - issued by affiliated undertakings		
57.	- issued by other associated undertakings		
58.	b) variable yield securities	465	854
59.	ba) held for trading	465	854
60.	bb) held for investment		
61.	**6/A. VALUATION DIFFERENCE OF SHARES AND OTHER VARIABLE YIELD SECURITIES**	**- 41**	**56**
62.	**7. SHARES AND PARTICIPATIONS HELD FOR INVESTMENT**	**1 775**	**1 673**
63.	a) shares and participations held for investment	1 775	1 673
64.	of which: - participations in credit institutions		
65.	b) adjustments to the value of shares and participations held for investment		
66.	of which: - participations in credit institutions		
67.	**7/A. VALUATION DIFFERENCE OF SHARES AND PARTICIPATIONS**		
68.	**8. SHARES AND PARTICIPATIONS IN AFFILIATED UNDERTAKINGS**	**16 516**	**8 824**
69.	a) shares and participations held for investment	16 516	8 824
70.	of which: - participations in credit institutions		
71.	b) adjustments to the value of shares and participations held for investment		
72.	of which: - participations in credit institutions		
73.	**9. INTANGIBLE ASSETS**	**7 203**	**7 898**
74.	a) intangible assets	7 203	7 898
75.	b) adjustments to the value of intangible assets		
76.	**10. TANGIBLE ASSETS**	**24 157**	**21 883**
77.	a) tangible assets used in financial and investment services	24 098	21 811
78.	aa) land and buildings	13 944	13 994
79.	ab) technical equipment, machinery and vehicles	7 806	6 916
80.	ac) capital expenditure	2 348	901
81.	ad) advances for capital investments		
82.	b) tangible assets not directly used in financial and investment services	59	72
83.	ba) land and buildings		
84.	bb) technical equipment, machinery and vehicles	59	72
85.	bc) capital expenditure		
86.	bd) advances for capital investments		
87.	c) adjustments to the value of tangible assets		
88.	**11. TREASURY STOCK**		
89.	**12. OTHER ASSETS**	**16 219**	**9 087**
90.	a) inventories	178	236
91.	b) other receivables	16 041	8 851
92.	of which: - amounts due from affiliated undertakings	207	271
93.	- amounts due from other associated undertakings		
94.	**12/A. VALUATION DIFFERENCE OF OTHER RECEIVABLES**		
95.	**12/b. POSITIVE VALUATION DIFFERENCE OF DERIVATIVE TRANSACTIONS**	**65 364**	**26 503**
96.	**13. PREPAYMENTS AND ACCRUED INCOME**	**48 387**	**47 177**
97.	a) accrued income	47 988	46 464
98.	b) prepayments	399	713
99.	c) deferred expense		
100.	**TOTAL ASSETS**	**3 178 370**	**3 048 418**
101.	**of which: - CURRENT ASSETS [1+2.a)+3.a)+3.ba)+3.c)+4.aa)+4.b)+5.aa)+5.ba)+6.a)+6.ba)+11+12+ the values of Lines 2/A,+3/A,4/A,5/A,6/A,12/A and 12/B related to the items above]**	1 495 614	1 582 857
102.	**- FIXED ASSETS [2.b)+3.bb)+4.ab)+5.ab)+5.bb)+6.bb)+7+8+9+10 + the values of Lines 2/A,3/A,4/A,5/A,6/A,7/A,12/A and 12/B related to the items above]**	1 634 369	1 418 384

Budapest, 26 March 2010

Marko Voljč
Chief Executive Officer

Attila Gombás
Head of the Finance and Risk Management Division

10195664-6419-114-01
statistical number

Kereskedelmi és Hitelbank Zártkörűen Működő Részvénytársaság
Balance Sheet (Credit Institutions) – Liabilities & Equity

HUF millions

No.	Description	Previous year 31.12.2008.	Reporting year 31.12.2009.
a	b	c	d
103.	**1. AMOUNTS DUE TO CREDIT INSTITUTIONS**	**818 615**	**936 479**
104.	a) on demand	10 609	7 051
105.	b) fixed-term liabilities from financial services	808 006	929 428
106.	ba) short-term	639 900	783 323
107.	of which: - from affiliated undertakings		
108.	- from other associated undertakings		
109.	- from the NBH		
110.	- from the clearing house		
111.	bb) long-term	168 106	146 105
112.	of which: - from affiliated undertakings		
113.	- from other associated undertakings		
114.	- from the NBH		
115.	- from the clearing house		
116.	c) from investment services		
117.	of which: - from affiliated undertakings		
118.	- from other associated undertakings		
119.	- from the clearing house		
120.	**1/A. VALUATION DIFFERENCE OF AMOUNTS DUE TO CREDIT INSTITUTIONS**		
121.	**2. AMOUNTS DUE TO CLIENTS**	**1 948 432**	**1 730 044**
122.	a) savings deposits		
123.	aa) on demand		
124.	ab) short-term		
125.	ac) long-term		
126.	b) other liabilities from financial services	1 945 649	1 724 667
127.	ba) on demand	515 791	524 135
128.	of which: - from affiliated undertakings	18 994	9 442
129.	- from other associated undertakings		
130.	bb) short-term	1 049 893	1 025 584
131.	of which: - from affiliated undertakings	4 162	6 872
132.	- from other associated undertakings		
133.	bc) long-term	379 965	174 948
134.	of which: - from affiliated undertakings	1 438	1 475
135.	- from other associated undertakings		
136.	c) from investment services	2 783	5 377
137.	of which: - from affiliated undertakings		
138.	- from other associated undertakings		
139.	ca) liabilities from stock exchange investment services	2	
140.	cb) liabilities from over-the-counter investment services		
141.	cc) amounts due to clients from investment services	2 781	5 377
142.	cd) amounts due to the organization performing clearing house activities		
143.	ce) other liabilities from investment services		
144.	**2/A. VALUATION DIFFERENCE OF AMOUNTS DUE TO CLIENTS**		
145.	**3. LIABILITIES FROM SECURITIES ISSUED**	**5 094**	**16 149**
146.	a) bonds issued	4 802	15 876
147.	aa) short-term		283
148.	of which: - from affiliated undertakings		
149.	- from other associated undertakings		
150.	ab) long-term	4 802	15 593
151.	of which: - from affiliated undertakings		
152.	- from other associated undertakings		

HUF millions

No.	Description	Previous year 31.12.2008.	Reporting year 31.12.2009.
a	b	c	d
153.	b) other debt securities issued		
154.	ba) short-term		
155.	of which: - from affiliated undertakings		
156.	- from other associated undertakings		
157.	bb) long-term		
158.	of which: - from affiliated undertakings		
159.	- from other associated undertakings		
160.	c) debt instruments treated as securities for accounting purposes but not deemed securities under the Securities Act	292	273
161.	ca) short-term	292	273
162.	of which: - from affiliated undertakings		
163.	- from other associated undertakings		
164.	cb) long-term		
165.	of which: - from affiliated undertakings		
166.	- from other associated undertakings		
167.	**4. OTHER LIABILITIES**	**38 491**	**50 209**
168.	a) short-term	38 491	50 209
169.	of which: - from affiliated undertakings	4	444
170.	- from other associated undertakings		
171.	- other financial contributions made by members of co-operative credit institutions		
172.	b) long-term		
173.	of which: - from affiliated undertakings		
174.	- from other associated undertakings		
175.	**4/A. NEGATIVE VALUATION DIFFERENCE OF DERIVATIVE TRANSACTIONS**	**77 982**	**31 852**
176.	**5. ACCRUALS AND DEFERRED INCOME**	**60 370**	**48 012**
177.	a) accrued income	352	294
178.	b) accrued cost and expense	59 699	47 449
179.	c) deferred income	319	269
180.	**6. PROVISIONS**	**42 891**	**33 125**
181.	a) provisions for retirement benefits and severance pay		84
182.	b) risk provisions for contingent and future liabilities	3 377	3 613
183.	c) general risk provisions	21 601	17 132
184.	d) other provisions	17 913	12 296
185.	**7. SUBORDINATED LIABILITIES**	**20 601**	**20 964**
186.	a) subordinated debt	20 601	20 964
187.	of which: - from affiliated undertakings		
188.	- from other associated undertakings		
189.	b) other financial contributions made by members of co-operative credit institutions		
190.	c) other subordinated liabilities		
191.	of which: - from affiliated undertakings		
192.	- from other associated undertakings		
193.	**8. SUBSCRIBED CAPITAL**	**66 307**	**73 709**
194.	- repurchased ownership interest at par value		
195.	**9. SUBSCRIBED CAPITAL UNPAID (-)**		
196.	**10. CAPITAL RESERVE**	**28 070**	**28 070**
197.	a) differences between the par value and offering price of shares and participations (premium)	14 393	14 393
198.	b) other	13 677	13 677
199.	**11. GENERAL RESERVE**	**10 704**	**12 536**
200.	**12. PROFIT RESERVE (+/-)**	**56 103**	**60 813**
201.	**13. EARMARKED RESERVE**		
202.	**14. VALUATION RESERVE**		
203.	a) valuation reserve for value adjustments		
204.	b) valuation reserve for fair market valuation		
205.	**15. RETAINED EARNINGS (+/-)**	**4 710**	**6 456**
206.	**TOTAL LIABILITIES & EQUITY**	**3 178 370**	**3 048 418**
207.	**of which: - SHORT-TERM LIABILITIES [1.a)+1.ba)+1.c)+1/A+2.aa)+2.ab)+2.ba)+2.bb)+2.c)+2/A+3.aa)+3.ba)+3.ca)+4.a)+4/A]**	2 335 741	2 428 087
208.	**- LONG-TERM LIABILITIES [1.bb)+2.ac)+2.bc)+3.ab)+3.bb)+3.cb)+4.b)+7]**	573 474	357 610
209.	**- EQUITY (8-9+10+11+12+13+14+15)**	165 894	181 584

Budapest, 26 March 2010

Marko Voljč
Chief Executive Officer

Attila Gombás
Head of the Finance and Risk Management Division

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Kereskedelmi és Hitelbank Zártkörűen Működő Részvénytársaság
Profit & Loss Account (Credit Institutions)

HUF millions

No.	Description	Previous year 31.12.2008.	Reporting year 31.12.2009.
a	b	c	d
01.	**1. Interest received and similar income**	**235 913**	**305 907**
02.	a) interest received (receivable) on fixed-interest debt securities	38 210	97 361
03.	of which: - from affiliated undertakings		
04.	- from other associated undertakings		
05.	b) other interest received and similar income	197 703	208 546
06.	of which: - from affiliated undertakings	6 757	902
07.	- from other associated undertakings		
08.	**2. Interest paid and similar expense**	**176 151**	**209 653**
09.	of which: - from affiliated undertakings	1 839	383
10.	- from other associated undertakings		
11.	**NET INTEREST INCOME (1-2)**	**59 762**	**96 254**
12.	**3. Income from securities**	**4 211**	**9 859**
13.	a) income from shares and participations held for trading (dividend, minority interest)		
14.	b) income from participations in affiliated undertakings (dividend, minority interest)	4 211	9 859
15.	c) income from other participations (dividend, minority interest)		
16.	**4. Fees and commissions received (receivable)**	**41 663**	**42 484**
17.	a) income from other financial services	36 369	35 790
18.	of which: - from affiliated undertakings	217	301
19.	- from other associated undertakings		
20.	b) income from investment services (excluding income from trading operations)	5 294	6 694
21.	of which: - from affiliated undertakings	3 695	245
22.	- from other associated undertakings		
23.	**5. Fees and commissions paid (payable)**	**18 396**	**17 001**
24.	a) expense on other financial services	18 096	16 429
25.	of which: - from affiliated undertakings		
26.	- from other associated undertakings		
27.	b) expense on investment services (excluding expense on trading operations)	300	572
28.	of which: - from affiliated undertakings		141
29.	- from other associated undertakings		
30.	**6. Profit/loss on financial transactions [6.a)-6.b)+6.c)-6.d)]**	**23 640**	**- 1 471**
31.	a) income from other financial services	39 156	16 346
32.	of which: - from affiliated undertakings		
33.	- from other associated undertakings		
34.	- valuation difference		
35.	b) expense on other financial services	10 670	11 652
36.	of which: - from affiliated undertakings		
37.	- from other associated undertakings		
38.	- valuation difference		
39.	c) income from investment services (income from trading operations)	121 993	69 677
40.	of which: - from affiliated undertakings	3 087	1 340
41.	- from other associated undertakings		
42.	- reversal of impairment on securities held for trading		
43.	- valuation difference		
44.	d) expense on investment services (expense on trading operations)	126 839	75 842
45.	of which: - to affiliated undertakings	975	1 300
46.	- to other associated undertakings		
47.	- impairment on securities held for trading		
48.	- valuation difference		

HUF millions

No.	Description	Previous year 31.12.2008.	Reporting year 31.12.2009.
a	b	c	d
49.	**7. Other income from business activities**	**6 780**	**15 760**
50.	a) income from non-financial and investment services	1 673	1 460
51.	of which: - from affiliated undertakings	619	469
52.	- from other associated undertakings		
53.	b) other income	5 107	14 300
54.	of which: - from affiliated undertakings	161	86
55.	- from other associated undertakings		
56.	- reversal of impairment on inventories		
57.	**8. General and administrative expenses**	**59 860**	**59 992**
58.	a) personnel expense	28 444	29 452
59.	aa) salaries and wages	18 337	19 492
60.	ab) other personnel expense	3 446	3 302
61.	of which: - social security expense	469	484
62.	- retirement expense	352	289
63.	ac) contributions payable on salaries and wages	6 661	6 658
64.	of which: - social security expense	1 158	921
65.	- retirement expense	4 627	4 978
66.	b) other administrative expenses (material-type expenses)	31 416	30 540
67.	**9. Depreciation**	**7 582**	**7 295**
68.	**10. Other expenses on business activities**	**40 385**	**30 818**
69.	a) expense on non-financial and investment services	777	780
70.	of which: - to affiliated undertakings		
71.	- to other associated undertakings		
72.	b) other expense	39 608	30 038
73.	of which: - to affiliated undertakings	11	4
74.	- to other associated undertakings		
75.	- impairment on inventories		
76.	**11. Impairment on receivables and risk provisioning for contingent and future liabilities**	**16 031**	**37 224**
77.	a) impairment on receivables	15 543	35 367
78.	b) risk provisioning for contingent and future liabilities	488	1 857
79.	**12. Reversal of impairment on receivables and risk provisions used for contingent and future liabilities**	**19 872**	**16 324**
80.	a) reversal of impairment on receivables	16 889	14 709
81.	b) risk provisions used for contingent and future liabilities	2 983	1 615
82.	**12/A. Difference between general risk provisions made and used**	**- 2 861**	**4 469**
83.	**13. Impairment on debt securities held for investment and shares and participations in affiliated and other associated undertakings**	**1 051**	**7 942**
84.	**14. Reversal of impairment on debt securities held for investment and shares and participations in affiliated and other associated undertakings**	**8 750**	**53**
85.	**15. Profit/loss on ordinary activities**	**18 512**	**23 460**
86.	**of which: - profit/loss on financial and investment services [1-2+3+4-5±6+7.b)-8-9-10.b)-11+12-13+14]**	17 616	22 780
87.	**- profit/loss on non-financial and investment services [7.a)-10.a)]**	896	680
88.	**16. Extraordinary income**	**115**	**148**
89.	**17. Extraordinary expense**	**28**	**205**
90.	**18. Extraordinary profit/loss (16-17)**	**87**	**- 57**
91.	**19. Pretax profit/loss (±15±18)**	**18 599**	**23 403**
92.	**20. Taxation**	**5 141**	**5 080**
93.	**21. Net profit/loss (±19-20)**	**13 458**	**18 323**
94.	**22. General provisions made/used (±)**	**- 1 346**	**- 1 832**
95.	**23. Profit reserve used for dividend and minority interest**		
96.	**24. Dividend and minority interest approved**	**7 402**	**10 035**
97.	of which: - to affiliated undertakings		
98.	- to other associated undertakings		
99.	**25. Retained earnings (±21-/+22+23-24)**	**4 710**	**6 456**

Budapest, 26 March 2010

Marko Voljč
Chief Executive Officer

Attila Gombás
Head of the Finance and Risk Management Division

Kereskedelmi és Hitelbank Zártkörűen Működő Részvénytársaság

Notes to the Financial Statements

31 December 2009

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I. OVERVIEW

I/1. Kereskedelmi és Hitelbank Zártkörűen Működő Részvénytársaság – key facts

type of company: company limited by shares

method of operation: private

date of establishment: 20 February 1987

shareholders:

Shareholder	31 December 2008		31 December 2009	
	Subscribed capital (HUF m)	Stake (%)	Subscribed capital (HUF m)	Stake (%)
KBC N.V. Havenlaan 2, 1080 Brussels, Belgium	**66 307**	**100**	**73 709**	**100**
Other	**0**	**0**	**0**	**0**
Total subscribed capital	**66 307**	**100**	**73 709**	**100**

Activities:

6491 ’08 Financial leasing

6419 ’08 Other monetary intermediation — Principal activity

6622 ’08 Insurance agent and broker activities

6499 ’08 Financial mediation n.e.c.

6612 ’08 Stock and commodities market agent activities

6619 ’08 Other auxiliary financial activities

I/2. Kereskedelmi és Hitelbank Zártkörűen Működő Részvénytársaság – Accounting Policy

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

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

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

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

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

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

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

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

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

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

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

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

The Bank uses the Hungarian language in its accounting vouchers.

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

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

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

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

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

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

The annual report consists of the following parts:

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

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

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

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

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

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

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

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

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

VALUATION PROCEDURES EMPLOYED IN THE REPORT

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

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

The key principles of valuation procedures:

I. Fair market valuation

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

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

The Bank classifies financial instruments in the following categories.

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

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

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

    - Net hedging transaction of net investment in foreign business entity: a transaction concluded to hedge the risks arising from changes in exchange rate related to investments representing ownership and held not for trading purposes (shares, participations, other interest) in foreign currency and in a foreign business entity classifying as an associated enterprise, and the long-term receivables from and liabilities to such a business entity.
- Regardless of their above categorization, all derivative transactions are reported at fair market value.

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

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

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

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

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

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

- Other derivative transactions: the present value of the future cash-flows estimated on the basis of available market information.

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

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

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

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

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

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

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

II. Valuation of assets

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

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

Valuation of debt securities held for investment or trading

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

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

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

The Bank does not recognize impairment on government securities.

Valuation of participations

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

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

Valuation of amounts due from credit institutions and clients

The original cost of receivables arising from contracts concluded by the Bank equals the amount of principal not yet repaid; in the case of receivables purchased, the original cost equals the part of the purchase price not yet paid.

The Bank regularly rates its receivables.

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

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

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

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

Valuation of intangible and tangible assets

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

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

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

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

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

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

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

III. Valuation of liabilities & equity

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

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

II. NOTES TO THE BALANCE SHEET

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

HUF millions

Description	Balance Sheet	31 December 2008			31 December 2009		
		HUF	Foreign currency	Total	HUF	Foreign currency	Total
Cash and equivalents	Line 1	122 265	2 032	124 297	145 245	1 857	147 102
Government securities	Line 2	947 621	6 286	953 907	1 059 391	6 148	1 065 539
Valuation difference of government securities	Line 5	4 029	0	4 029	935	0	935
Amounts due from credit institutions	Line 6	29 304	65 892	95 196	4 203	42 335	46 538
Valuation difference of amounts due from credit institutions	Line 23	0	0	0	0	0	0
Amounts due from clients	Line 24	522 245	1 242 361	1 764 606	473 263	1 130 503	1 603 766
Valuation difference of amounts due from clients	Line 40	0	0	0	0	0	0
Debt securities, including those with a fixed interest rate	Line 41	39 799	17 469	57 268	13 806	60 599	74 405
Valuation difference of debt securities	Line 53	-284	-694	-978	-6 269	-7 553	-13 822
Shares and other variable yield securities	Line 54	200	265	465	774	80	854
Valuation difference of shares and other variable yield securities	Line 61	-42	1	-41	56	0	56
Shares and participations held for investment	Line 62	1 527	248	1 775	1 429	244	1 673
Valuation difference of shares and participations	Line 67	0	0	0	0	0	0
Shares and participations in affiliated undertakings	Line 68	16 516	0	16 516	8 824	0	8 824
Intangible assets	Line 73	7 203	0	7 203	7 898	0	7 898
Tangible assets	Line 76	24 157	0	24 157	21 883	0	21 883
Treasury stock	Line 88	0	0	0	0	0	0
Other assets	Line 89	14 192	2 027	16 219	8 731	356	9 087
Valuation difference on other assets	Line 94	0	0	0	0	0	0
Positive valuation difference of derivative transactions	Line 95	65 203	161	65 364	26 019	484	26 503
Prepayments and accrued income	Line 96	43 399	4 988	48 387	43 423	3 754	47 177
Total assets		**1 837 334**	**1 341 036**	**3 178 370**	**1 809 611**	**1 238 807**	**3 048 418**

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

HUF millions

Description	Balance Sheet	31 December 2008			31 December 2009		
		HUF	Foreign currency	Total	HUF	Foreign currency	Total
Amounts due to credit institutions	Line 103	137 556	681 059	818 615	182 378	754 101	936 479
Valuation difference of amounts due to credit institutions	Line 120	0	0	0	0	0	0
Amounts due to clients	Line 121	1 263 800	684 632	1 948 432	1 330 847	399 197	1 730 044
Valuation difference of amounts due to clients	Line 144	0	0	0	0	0	0
Liabilities from securities issued	Line 145	4 074	1 020	5 094	14 376	1 773	16 149
Other liabilities	Line 167	30 469	8 022	38 491	45 379	4 830	50 209
Negative valuation difference of derivative transactions	Line 175	77 809	173	77 982	31 365	487	31 852
Accruals and deferred income	Line 176	51 324	9 046	60 370	44 063	3 949	48 012
Provisions	Line 180	42 812	79	42 891	29 747	3 378	33 125
Subordinated liabilities	Line 185	4 714	15 887	20 601	4 714	16 250	20 964
Subscribed capital	Line 193	66 307	0	66 307	73 709	0	73 709
Subscribed capital unpaid (-)	Line 195	0	0	0	0	0	0
Capital reserve	Line 196	28 070	0	28 070	28 070	0	28 070
General reserve	Line 199	10 704	0	10 704	12 536	0	12 536
Profit reserve (+/-)	Line 200	56 103	0	56 103	60 813	0	60 813
Earmarked reserve	Line 201	0	0	0	0	0	0
Valuation reserve	Line 202	0	0	0	0	0	0
Retained earnings	Line 205	4 710	0	4 710	6 456	0	6 456
Total liabilities & equity		**1 778 452**	**1 399 918**	**3 178 370**	**1 864 453**	**1 183 965**	**3 048 418**

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

31 December 2009

HUF millions

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

HUF millions

Description	31 December 2009				
	0-3 months	3 months – 1year	1-5 years	5+ years	Total
Amounts due from credit institutions, arising from financial services (Balance Sheet line 08)	8 942	22 177	5 323	795	37 237
Amounts due from clients, arising from financial services (Balance Sheet line 25)	246 572	318 521	418 413	619 144	1 602 650
Total	**255 514**	**340 698**	**423 736**	**619 939**	**1 639 887**

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

31 December 2009

HUF millions

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

HUF millions

Description	31 December 2009				
	0-3 months	**3 months – 1year**	**1-5 years**	**5+ years**	**Total**
Amounts due to credit institutions – fixed-term liabilities from financial services (Balance Sheet line 105)	757 709	25 614	93 721	52 384	929 428
Amounts due to clients – other short-term liabilities from financial services (Balance Sheet line 130)	881 900	143 038	571	75	1 025 584
Amounts due to clients – other long-term liabilities from financial services (Balance Sheet line 133)	0	0	152 313	22 635	174 948
Subordinated liabilities (Balance Sheet line 185)	0	0	4 714	16 250	20 964
Total	**1 639 609**	**168 652**	**251 319**	**91 344**	**2 150 924**

II/5. Gross value of intangible and tangible assets

2009

HUF millions

Description	Balance Sheet	Change in gross value					
		Opening value	Reclassification (+/-)	Merger (+)	Increase (+)	Decrease (-)	Closing value
Intangible assets	Line 73	**36 167**	**182**	**0**	**2 893**	**-36**	**39 206**
- rights		3 683	11		649	0	4 343
- trademarks and patents		32 484	171		2 244	-36	34 863
Tangible assets used in financial services	Line 77	**44 280**	**-183**	**0**	**3 063**	**-499**	**46 661**
- land and buildings	Line 78	20 949	-1		1 426	-266	22 108
- technical equipment, machinery	Line 79	20 983	6		2 883	-220	23 652
- capital expenditure	Line 80	2 348	-188		-1 246	-13	901
- advances for capital investments	Line 81	0					0
Tangible assets not directly used in financial services	Line 82	**69**	**1**	**0**	**19**	**-3**	**86**
- land and buildings	Line 83	0	0		0		0
- technical equipment, machinery and vehicles	Line 84	69	1		19	-3	86
- capital expenditure	Line 85	0					0
- advances for capital investments	Line 86	0					0

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

II/6. Accumulated depreciation of intangible and tangible assets

2009

HUF millions

Description	Balance Sheet	Accumulated depreciation				
		Opening value	Reclassification (+/-)	Increase (+)	Decrease (-)	Closing value
Intangible assets	Line 73	**28 964**	**-2**	**2 382**	**-36**	**31 308**
- rights		1 167	-1	648		1 814
- trademarks and patents		27 797	-1	1 734	-36	29 494
Tangible assets used in financial services	Line 77	**20 182**	**2**	**5 051**	**-385**	**24 850**
- land and buildings	Line 78	7 005	1	1 280	-172	8 114
- technical equipment, machinery and vehicles	Line 79	13 177	1	3 771	-213	16 736
Tangible assets not directly used in financial services	Line 82	**10**	**0**	**4**	**0**	**14**
- land and buildings	Line 83	0	0	0	0	0
- technical equipment, machinery and vehicles	Line 84	10	0	4	0	14

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

II/7. Net value of intangible and tangible assets

2009

HUF millions

Description	Balance sheet	31.12.2008. Closing value	31.12.2009. Closing value
Intangible assets	Line 73	**7 203**	**7 898**
- rights		2 516	2 529
- trademarks and patents		4 687	5 369
Tangible assets used in financial services	Line 77	**24 098**	**21 811**
- land and buildings	Line 78	13 944	13 994
- technical equipment, machinery and vehicles	Line 79	7 806	6 916
- capital expenditure	Line 80	2 348	901
- advances for capital investments	Line 81	0	0
Tangible assets not directly used in financial services	Line 82	**59**	**72**
- land and buildings	Line 83	0	0
- technical equipment, machinery and vehicles	Line 84	59	72
- capital expenditure	Line 85	0	0
- advances for capital investments	Line 86	0	0

II/8. Annual depreciation of intangible and tangible assets

2009

HUF millions

Description	Ordinary	Extraordinary	Total
Intangible assets	2 342	36	2 378
Tangible assets used in financial services	4 720	106	4 826
- land and buildings	1 173	106	1 279
- technical equipment, machinery and vehicles	3 547		3 547
Tangible assets not directly used in financial services	4	0	4
- land and buildings	0	0	0
- technical equipment, machinery and vehicles	4	0	4
Depreciation of tangible assets with a value of less than HUF 100,000	151	0	151
Adjustment due to self-audit	78	0	78
Total	**7 295**	**142**	**7 437**

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

In 2009 the Bank did not change the depreciation method used with intangible and tangible assets.

II/10. Contingent and future liabilities by type

HUF millions

Description	31.12.2008.	31.12.2009.
Guarantees issued	137 969	118 270
Loans, guarantees and letters of credit	384 474	410 130
Export letters of credit	3 970	462
Import letters of credit	1 747	3 858
Liabilities from lawsuits	2 273	15 805
Liabilities from options	1 141 287	629 376
Other contingent liabilities	155	494
Total contingent liabilities	**1 671 875**	**1 178 395**

HUF millions

Description	31.12.2008.	31.12.2009.
Foreign currency swaps	1 429 496	1 093 964
Foreign currency forwards	175 752	170 668
Liabilities from the sale/purchase of securities	669	26 839
Future liabilities on payments	1 861	958
Other future liabilities	384	393
Interbank deposits	233 674	40 019
Total future liabilities	**1 841 835**	**1 332 841**

II/11. Impairment and risk provisioning
2009

HUF millions

Description	Opening balance	Impairment recognized and provisions made in the reporting year (+)	Reversal of impairment recognized, and use/release of provisions made, in the previous year (-)	Other changes	Closing balance
Impairment recognized on receivables (amounts due from credit institutions, clients)	32 835	35 367	14 709	-59	53 434
Impairment recognized on financial fixed assets	12 218	7 942	53	0	20 107
Impairment recognized on administrative risks	336	0	0	0	336
Impairment recognized on other receivables (operating)	323	33	62	-1	293
Total impairment recognized on assets	**45 712**	**43 342**	**14 824**	**-60**	**74 170**
Risk provisions for contingent and future liabilities	3 377	1 857	1 615	-6	3 613
General risk provisions	21 601	0	4 469	0	17 132
Provisions for future expenses	104	0	104		0
Provisions for anticipated liabilities	17 809	6 708	12 159	-812	11 546
Provisions for administrative risks	0	750	0	0	750
Provisions for payment obligations due to early retirement and severance pay	0	84	0	0	84
Total provisions	**42 891**	**9 399**	**18 347**	**-818**	**33 125**

The “Other changes” column shows the change resulting from revaluation in 2009.

II/12. Other notes to the Balance Sheet

a., Listed securities held by the Bank

- Under financial fixed assets:

HUF millions

Description	31 December 2008		31 December 2009	
	Par value	Book value	Par value	Book value
Government bonds	233 715	212 559	225 270	199 918
Mortgage notes			500	510
Total:	**233 715**	**212 559**	**225 770**	**200 428**

- Under current assets:

HUF millions

Description	31 December 2008		31 December 2009	
	Par value	Book value	Par value	Book value
Government bonds	75 871	71 384	33 314	32 950
Discounted Treasury bills	189 037	179 567	215 442	204 866
Investment units	5 977	6 787	5 822	5 729
Total:	**270 885**	**257 738**	**254 577**	**243 544**

b., The total amount of loans, securities, participations and liabilities classified as legal lending limits pursuant to Section 79(1) of the Credit Institutions Act was HUF 506 596 million as at the balance sheet date.

c., As at 31 December 2009 the Bank's liabilities included subordinated debt of HUF 20 964 million (HUF 4 714 million, maturity date 22.12.2014., interest rate: same as the rate of interest on 2014/B government bonds; and EUR 60 million, maturity date 30.06.2016., interest rate: 3-month EURIBOR + 0.55%, that is, 1.257%), stated under subordinated liabilities.

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

e., Under Act CXII of 1996 on Credit Institutions and Financial Enterprises, the Bank may make general risk provisions for up to 1.25% of the adjusted balance sheet total to cover potential losses related to risk exposure that cannot be foreseen or determined in advance. The Bank made general risk provisions of HUF 17 132 million by 31 December 2009.

f., The amount of accrued interest (including transaction interest and late interest), interest-type commission and fees receivable totaled HUF 2,633 million on 31 December 2009, versus HUF 1 230 million on 31 December 2008.

g., The HUF equivalent of receivables and liabilities arising from spot foreign exchange trades totaled HUF 43 167 million and HUF 43 164 million, respectively, at the balance sheet date, 31 December 2009.

h., On 31 December 2009, the balances of currency swap buy and sell trades made in the interbank market stood at HUF 954 109 million and HUF 938 294 million, respectively, while the balances of currency swap buy and sell trades made with clients were HUF 140 025 million and HUF 144 284 million, respectively. The balances of forward sell and buy trades made in the interbank market stood at HUF 56 076 million and HUF 61 587 million, respectively, while the balances of FX forward sell and buy trades made with clients were HUF 64 919 million and HUF 65 917 million, respectively. The transactions served (exchange rate) hedging as well as trading purposes.

i., Profit impact of derivative transactions as of the end of 2009

HUF millions

Product	**Profit impact**
Forward	-2 339
Currency swap	197
IRS, CCIRS, Asset swap	-7 456
Total	**-9 598**

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

HUF millions

Start date	**Maturity date**	**Security**	**Par value**	**Transaction value**
22DEC2009	04JAN2010	2015/A_X	2 500	2 712
Total active special delivery repos			**2 500**	**2 712**

HUF millions

Start date	**Maturity date**	**Security**	**Par value**	**Transaction value**
21DEC2009	08JAN2010	2012/B	35	37
22DEC2009	04JAN2010	2015/A_X	2 500	2 711
09JUL2009	11JAN2010	2016/C	8 000	6 689
30DEC2009	08JAN2010	2011/C	1 500	1 575
21DEC2009	04JAN2010	2014/C_X	295	290
09JUL2009	11JAN2010	2015/A_X	6 000	5 833
23DEC2009	08JAN2010	2015/A_X	25	27
23DEC2009	08JAN2010	2019/A	35	33
31DEC2009	29JAN2010	2010/C	800	840
30DEC2009	06JAN2010	2012/C	305	300
30DEC2009	06JAN2010	2012/C	3 050	3 000
Total passive special delivery repos			**22 545**	**21 335**

k., K&H Bank Zrt. participates, for a commission, in the distribution of investment units issued by various open-end and closed-end investment funds. Settlements are effected with these funds on a daily basis, since 29 June 2009 on a settlement date, thus the Bank had no debts to these funds on 31 December 2009.
The par value of investment units posted as off-balance sheet items (held on securities accounts) – expressed in Hungarian forints – totaled HUF 388 448 million at the end of the year.

l., The Bank did not have any earmarked reserves on 31 December 2009.

m., On 31 December 2009 the adjusted balance sheet total was HUF 1 370 138 million.

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

o., The Bank manages securities with a total par value of HUF 829,061 million for its clients on custody and securities accounts.
As part of its investment services, the Bank also maintains restricted cash accounts (client accounts) for its clients, the aggregate balance of which – expressed in Hungarian forints – was HUF 5 053 million as at 31 December 2009. Clients had receivables of HUF 5 275 million and payables of HUF 222 million on their client accounts at the end of the year.

p., The Bank did not provide any asset management services for pension or health funds in 2009.

q., On 31 December 2009 the Bank had a total amount of HUF 1 216 million due from its parent company; at the same time, the Bank had short-term liabilities of HUF 739 304 million to its parent.
On 31 December 2009, amounts due from subsidiaries totaled HUF 140 813 million, while short-term liabilities amounted to HUF 16 758 million, and long-term liabilities to HUF 1 475 million. The Bank had no subordinated liabilities to its subsidiaries.

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

II/13. Third-party securities

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

HUF millions

Description	Par value		Comments
	31.12.2008.	31.12.2009.	Physical / Dematerialized
Investment units	362 438	344 356	Dematerialized
Discounted Treasury bills	62 122	22 628	Dematerialized
Other bonds	55 746	31 631	Dematerialized
Mortgage notes	4 579	3 891	Dematerialized
Compensation coupons	0	0	Physical
Interest-bearing Treasury bills	8 541	4 440	Dematerialized
Government bonds for loan consolidation	13 846	10 246	Dematerialized
Hungarian government bonds	177 706	181 174	Dematerialized
Shares	62 218	108 616	Physical / Dematerialized
Foreign government bonds	0	0	Dematerialized
NBH discounted bonds	7 286	193	Dematerialized
Municipal bonds	500	0	Dematerialized
Bonds issued by K&H Bank	4 784	13 483	Dematerialized
Total	**759 766**	**720 658**	

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

HUF millions

Description	Par value		Comments
	31.12.2008.	31.12.2009.	Physical / Dematerialized
Investment units	81	0	Physical
Other bonds	4 714	4 802	Physical
Compensation coupons	286	0	Physical
Warehouse receipts	31 951	25 018	Physical
Hungarian government bonds	0	0	Physical
Shares	33 683	28 689	Physical
Total	**70 715**	**58 509**	

- Third-party securities in safekeeping with third parties

HUF millions**

Description	Par value		Comments
	31.12.2008.	31.12.2009.	Safekeeping agent
Investment units	29 916	44 092	KBC Brussels, Clearstream Luxembourg, KBC Securities N.V., Brussels, Kredietbank S.A. Luxembourgeoise, Luxembourg
Other bonds	304	4 716	Clearstream Luxembourg
Shares	74	1 086	KBC Securities N.V., Brussels, Clearstream Luxembourg
Foreign government bonds	1 157	0	
Total	**31 451**	**49 894**	

** converted into HUF at the NBH exchange rate for 31.12.2009.

II/14. Securities portfolio held by the Bank

- Securities held by the Bank (in safekeeping with KELER Rt.)

HUF millions

Description	Par value		Book value	
	31.12.2008.	**31.12.2009.**	**31.12.2008.**	**31.12.2009.**
Investment units	7 252	6 626	7 251	6 583
Discounted Treasury bills	189 037	215 442	179 567	204 866
Other bonds	7 868	23 339	7 146	18 714
Mortgage notes	500	500	510	510
Interest-bearing Treasury bills	147	34	143	33
Government bonds for loan consolidation	110 655	110 676	110 356	110 371
Hungarian government bonds	311 701	260 836	285 845	235 204
Shares	66	250	98	250
NBH discounted bonds	372 848	510 000	371 302	508 763
Municipal bonds	42 811	43 108	42 811	47 700
Bonds issued by K&H Bank	19	2 393	14	1 752
Total:	**1 042 904**	**1 173 204**	**1 005 043**	**1 134 746**

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

HUF millions

Description	Par value		Book value	
	31.12.2008.	**31.12.2009.**	**31.12.2008.**	**31.12.2009.**
Shares	2 388	2 891	15 250	9 093
Total:	**2 388**	**2 891**	**15 250**	**9 093**

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

HUF millions ***

Description	Par value		Book value		Comments
	31.12.2008.	**31.12.2009.**	**31.12.2008.**	**31.12.2009.**	
Hungarian government bonds	472	162	408	154	KBC Securities Hungarian Branch Office
NBH foreign currency bonds	5 791	5 663	6 286	6 147	European Investment Bank
Total:	**6 263**	**5 825**	**6 694**	**6 301**	

*** converted into HUF at the NBH exchange rate for 31.12.2009.

II/15. Accruals

HUF millions

Prepayments and accrued income	31.12.2008.	31.12.2009.
Accrued income	**47 988**	**46 464**
Accrued interest and interest-type commissions	26 498	31 908
IR swaps fair market value interest accrual	17 502	12 370
IR arbitrage transactions interest accrual	3 370	1 634
Other accrued income	618	552
Prepaid costs and expenses	**399**	**713**
Deferred expense	**0**	**0**
Total (Balance Sheet line 96)	**48 387**	**47 177**

HUF millions

Accruals and deferred income	31.12.2008.	31.12.2009.
Accrued income	**352**	**294**
Accrued costs and expenses	**59 699**	**47 449**
Accrued interest	35 523	28 924
IR swaps fair market value interest accrual	9 730	7 876
IR arbitrage transactions interest accrual	4 722	2 542
Other accrued expenses	0	0
Accrued costs	9 724	8 107
Deferred income	**319**	**269**
Total (Balance Sheet line 176)	**60 370**	**48 012**

II/16. Changes in equity

HUF millions

	Subscribed capital	**Capital reserve**	**Profit reserve**	**General reserve**	**Retained earnings for the year**	**Total**
Balance 31.12.2008.	66 307	28 070	56 103	10 704	4 710	**165 894**
Capital increase	7 402					**7 402**
Distribution of 2008 profits			4 710		-4 710	**0**
Retained earnings for the year					6 456	**6 456**
General reserve				1 832		**1 832**
Balance 31.12.2009.	**73 709**	**28 070**	**60 813**	**12 536**	**6 456**	**181 584**

II/17. Intangible assets by type

HUF millions

Description	31.12.2008.	31.12.2009.
Telephone network access fee	41	38
Internet access fee	0	0
Data transmission network access fee	34	31
Image manual	5	4
User rights to commercial	32	29
Network development contribution	2	3
Licenses	2 402	2 424
Rights	**2 516**	**2 529**
Basic software	363	206
User software	4 321	5 160
Trademarks	3	3
Patents	**4 687**	**5 369**
Total:	**7 203**	**7 898**

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

HUF millions

Description	31.12.2008.	31.12.2009.
Inventories purchased	**178**	**236**
Materials	152	134
Goods	26	102
Total (Balance Sheet line 90)	**178**	**236**

II/19. Risk-free securities at par value

HUF millions

Issue currency	Description	2008	2009
HUF	Government bonds for loan consolidation	110 655	110 676
HUF	Bonds issued by the NBH	372 848	510 000
HUF	Securities issued by the State of Hungary	498 770	474 060
HUF Total		**982 273**	**1 094 736**
JPY	Bonds issued by the NBH	5 791	5 663
JPY Total		**5 791**	**5 663**

II/20. The impacts of fair market valuation

a., Derivative transactions

HUF millions

Derivative transaction	Positive fair market value		Negative fair market value		Future cash-flow	
	2008	2009	2008	2009	2008	2009
Asset swap		0	-2 730	-695	-1 763	-2 578
CCIRS	10 951	597	-26 411	-2 246	-6 573	12 487
Forward	4 574	1 062	-1 574	-3 415	-775	-6 506
FRA	1 689	458	-1 574	-540	115	-81
IRS	13 587	12 290	-12 492	-12 129	2 622	-7 658
Option	31 424	11 634	-31 565	-12 605	0	0
Currency swap	3 139	451	-1 636	-211	-1 038	-1 040
Futures		11		-11		-15
Total	**65 364**	**26 503**	**-77 982**	**-31 852**	**-7 412**	**-5 391**

Accruals related to the fair market valuation of derivative transactions amounted to HUF 13 474 million in interest income and HUF 10 417 million in interest expense.
The HUF 14 021 million price difference on the spot leg of interest arbitrage and similar transactions is stated under other assets.

b., Securities

HUF millions

Securities held for trading	Book value		Fair market value		Valuation difference	
	31.12.2008	31.12.2009	31.12.2008	31.12.2009	31.12.2008	31.12.2009
Government bonds	515 509	578 023	518 112	578 277	2 603	254
of which: reclassified from securities held for investment and maturing in 2009	70 514	33 820	70 514	33 820	0	0
Government bonds for loan consolidation	1	16	1	22	0	6
Treasury bills	179 710	204 899	181 136	205 574	1 426	675
Total government securities:	**695 220**	**782 938**	**699 249**	**783 873**	**4 029**	**935**
Closed-end investment units	6 787	5 729	7 309	6 491	522	762
Bonds	1 547	16 336	47	1 752	-1 500	-14 584
Mortgage notes	0	510	0	510	0	0
of which: reclassified from securities held for investment and maturing in 2009	0	510	0	510	0	0
Total debt securities:	**8 334**	**22 575**	**7 356**	**8 753**	**-978**	**-13 822**
Open-end investment units	465	854	424	910	-41	56
Total shares and other variable-yield securities	**465**	**854**	**424**	**910**	**-41**	**56**

c., Fair market value of financial instruments stated at original cost

The fair market value of securities held until maturity and classified as available for sale (balance prior to reclassification of securities maturing in the year 2010) amounted to HUF 391 287 million on 31 December 2009.
The fair market value of loans granted by, and other amounts due to, the Bank and that of other financial obligations was approximately equal to their book value. Exceptions to this rule are certain liabilities whose fair market value exceeds their book value by a total of HUF 1 304 million.

II/21. Reclassification of financial instruments

The Bank did not reclassify any financial instruments into another category in 2009.

III. NOTES TO THE PROFIT & LOSS ACCOUNT

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

HUF millions

No.	Description	31.12.2008.	31.12.2009.
1.	Re-invoiced value of third-party services	764	776
2.	Book value of inventories sold	13	4
Total (Profit & Loss Account line 69)		**777**	**780**

III/2. Income from and expense on investment services

HUF millions

Income from investment services	31.12.2008.	31.12.2009.
1. Income from custody services	603	597
2. Income from trading operations	121 993	69 677
3. Income from brokerage activities	4 280	5 358
4. Other income	411	739
Total (Profit & Loss Account lines 20 + 39)	**127 287**	**76 371**

HUF millions

Expense on investment services	31.12.2008.	31.12.2009.
1. Expense on custody services	10	78
2. Expense on trading operations	126 839	75 842
3. Expense on brokerage activities	290	494
Total (Profit & Loss Account lines 27 + 44)	**127 139**	**76 414**

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

The Bank made all the provisions prescribed by applicable regulations to cover credit, interest, investment and other risks related to its activities in 2009.

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

a) Contributions to deposit insurance and institutional protection funds

HUF millions

Description	Amount		Purpose
	2008	2009	
National Deposit Insurance Fund	93	212	Cost of other services
Investor Protection Fund	156	182	Contribution

b) Financial assistance received

The Bank did not receive any financial assistance in 2009.

c) Geographic breakdown of income in 2009

HUF millions

Profit & Loss Account lines	Geographical breakdown			Breakdown of non-EU countries			
	Domestic	EU member states	Non-EU countries	United States of America	Jersey, Channel Islands	Switzerland	Other
1. Interest received and similar income	237 517	66 086	2 304	1 092	294	910	8
3. Income from securities	9 856		3	3			
4. Fees and commissions received (receivable)	42 334	143	7			1	6
6. Profit/loss from financial transactions							
a) income from other financial services	16 332		14		14		
c) income from investment services	24 492	43 463	1 722	1 418	40	264	
7. Other income from business activities	15 693	61	1	1			

III/5. Extraordinary expense and extraordinary income recognized in 2009

HUF millions

Extraordinary expense	Amount		Extraordinary income	Amount	
	31.12.2008.	31.12.2009.		31.12.2008.	31.12.2009.
Extraordinary expense related to the dissolution of a business association with an ownership interest	3	151	Extraordinary income related to the dissolution of a business association with an ownership interest	42	98
Amounts due from private individuals not deemed uncollectible but nevertheless cancelled		2	Financial assistance received definitively for development purposes	49	49
Amounts due from enterprises not deemed uncollectible but nevertheless cancelled	7	52	Lapsed liabilities	24	
Cash assets transferred definitively	18				1
Total (Profit & Loss Account line 89)	**28**	**205**	**Total (Profit & Loss Account line 88)**	**115**	**148**

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

HUF millions

Megnevezés			2008.12.31	2009.12.31
Futures / forwards	Forward	Hedging	-554	-48
		Trading	267	3 144
	FRAs	Trading	-887	-499
	FX futures	Trading	0	-71
Options	Options		2 838	735
Swaps	Asset swaps	Hedging	-68	-198
	Currency swaps	Hedging	12 966	2 369
	Index swaps	Hedging	424	6
		Trading	-422	-3
	Interest rate swaps	Hedging	0	-193
		Trading	-18 982	14 353
Végösszeg			**-4 417**	**19 593**

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

HUF millions

Profit/loss	Parent	Affiliate
Interest difference	-11 457	519
Fees and commissions	-442	687
Profit/loss from financial transactions	N/A	40
Other	-210	551
Extraordinary	49	0

IV. ADDITIONAL INFORMATION

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

I.	Name:	Marko Voljč
	Address:	1095 Budapest, Lechner Ödön sétány 1/A.
II.	Name:	Attila Gombás
	Address:	5008 Szolnok, Molnár F. u. 65.

IV/2. Auditing

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

a., Auditor

Auditor's name: Ernst & Young Kft.

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

Authorized signatory: Gergely Szabó

b., Fees charged by the auditors in 2009

HUF millions

Description	Amount
Auditing	86
Other certification services	
Tax consulting services	
Other, non-auditor services	2
Total	**88**

IV/3. Person in charge of accounting tasks

Name: Tamás Kovalovszki

Registration number: 141812

Address: 2011 Budakalász, Szentendrei út 13.

IV/4. Registered office and website

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

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

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

type: registered, dematerialized ordinary share

basic denomination: HUF 1

amount issued: 73,709,164,412 shares

par value: HUF 73,709,164,412.00

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

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

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

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

IV/8. The Bank's equity participations

a, Participations in subsidiaries

No.	Company name	Registered office	Stake (%)	Equity (HUF m) 31.12.2009.	Subscribed capital (HUF m) 31.12.2009.	Reserves (HUF m) 31.12.2009.	Retained earnings for the last financial year (HUF m)* 31.12.2009.
1	K&H Lízingadminisztrációs Zrt.	1068 Budapest, Dózsa György út 84/A.	100	19	20	-2	**1**
2	K&H Befektetési Alapkezelő Zrt.	1051 Budapest, Vigadó tér 1.	100	2 561	850	151	**1 561**
3	K&H Eszközfinanszírozó Zrt.	1068 Budapest, Dózsa György út 84/A.	100	137	100	153	**-115**
4	Kvantum KK Rt. "v.a." [in dissolution]	1074 Budapest, Dohány u. 98.	100	81	350	-270	**1**
5	K&H Pannonlízing Zrt.	1068 Budapest, Dózsa György út 84/A.	100	1 744	503	505	**737**
6	K&H Autófinanszírozó Zrt.	1068 Budapest, Dózsa György út 84/A.	100	40	50	550	**-561**
7	K&H Autópark Kft.	1068 Budapest, Dózsa György út 84/A.	100	-806	10	-767	**-48**
8	K&H Alkusz Kft.	1068 Budapest, Dózsa György út 84/A.	100	64	5	18	**41**
9	K&H Lízingház Zrt.	1068 Budapest, Dózsa György út 84/A.	100	-59	20	-66	**-13**
10	K&H Lízing Zrt.	1068 Budapest, Dózsa György út 84/A.	100	144	50	64	**30**
11	K&H Csoportszolgáltató Kft.	1095 Budapest, Lechner Ödön fasor 7	100	267	60	82	**125**
12	K&H Equities Zrt.	1051 Budapest, Vigadó tér 1.	100	5 796	201	5 354	**241**
13	K&H Eszközlízing Kft.	1068 Budapest, Dózsa György út 84/A.	100	-58	50	-127	**19**
14	Risk Kft. f.a. [in liquidation]	1087 Budapest, Könyves Kálmán krt. 76.	100	N/A	444	N/A	**N/A**
15	K&H Ingatlanlízing Zrt.	1068 Budapest, Dózsa György út 84/A.	100	86	50	80	**-44**
16	K&H Faktor Pénzügyi Szolgáltató Zrt.	1051 Budapest, Vigadó tér 1.	100	243	250	7	**-13**

* Unaudited

b, Participations in jointly managed undertakings

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

c, Participations in affiliated undertakings

No.	Company name	Registered office	Stake (%)	Equity (HUF m) 31.12.2009.	Subscribed capital (HUF m) 31.12.2009.	Reserves (HUF m) 31.12.2009.	Retained earnings for the last financial year (HUF m)* 31.12.2009.
1	HAGE Zrt.	4181 Nádudvar, Kossuth u. 2.	25.00	6 979	2 689	4 020	270.387*
2	GIRO Elszámolásforgalmi Zrt.	1054 Budapest, Vadász u. 31.	20.99	7 542	2 496	3 470	1576.459*
3	Garantiqua Hitelgarancia Zrt.	1053 Budapest, Szép u. 2.	13.30	24 683	4 812	21 798	-1 927

* Unaudited

d, Indirect participations in affiliated undertakings

No.	Company name	Registered office	Stake (%)	Equity (HUF m) 31.12.2009.	Subscribed capital (HUF m) 31.12.2009.	Reserves (HUF m) 31.12.2009.	Retained earnings for the last financial year (HUF m) 31.12.2009.
1	HAGE-INVEST Kft.	4181 Nádudvar, Kossuth u. 2.	24.17	N/A	450	N/A	N/A
2	Terményfeltáró Kft.	4152 Püspökladány, I. dűlő	25.00	N/A	74	N/A	N/A
3	Garantiqa Pont Zrt.	1053 Budapest Szép u. 2.	13.30	N/A	200	N/A	N/A
4	Gyulai Húskombinát Zrt.	5700 Gyula, Kétegyházi út 3.	16.96	N/A	2 092	N/A	N/A
5	Kisvállalkozás-fejlesztő Pénzügyi Zrt.	1053 Budapest Szép u. 2.	0.20	N/A	1 700	N/A	N/A
6	BIG-PIG Kft.	4181 Nádudvar, Fő u. 119.	10.07	N/A	59	N/A	N/A
7	Nádudvari Élelmiszer Kft.	4181 Nádudvar, Gutenberg u. 1.	15.22	N/A	1 458	N/A	N/A
8	NAGISZ Zrt.	4181 Nádudvar, Fő u. 119.	6.21	N/A	5 835	N/A	N/A
9	Pannon Lúd Kft.	5800 Mezőkovácsháza Battonyai út 4/1.	0.98	N/A	2 552	N/A	N/A

e, Participations in other associated undertakings

No.	Company name	Registered office	Stake (%)	Equity (HUF m) 31.12.2009.	Subscribed capital (HUF m) 31.12.2009.	Reserves (HUF m) 31.12.2009.	Retained earnings for the last financial year (HUF m) 31.12.2009.
1	Árpád Üzletház Egyesülés	1045 Budapest, Árpád út 112.	7.52	N/A	3	N/A	N/A
2	Swift SC	Belgium, B-1310 La Hulpe, Avenue Adele 1.	0.00	N/A	3 775	N/A	N/A
3	VISA Europe Limited	London, W2 6TT, Sheldon square 1	0.00	N/A	N/A	N/A	N/A
4	VISA Inc.	USA	0.00	N/A	N/A	N/A	N/A

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

Company name	Registered office	Subscribed capital (HUF m)	Voting rights
Controlling interest:			
-	-	-	-
Qualified controlling interest:			
K&H Befektetési Alapkezelő Zrt.	1051 Budapest, Vigadó tér 1.	850	100.00%
K&H Pannonlízing Zrt.	1068 Budapest, Dózsa György út 84/A.	503	100.00%
Risk Kft. f.a.	1087 Budapest, Könyves Kálmán krt. 76.	444	100.00%
Kvantum KK Rt. "v.a." (in dissolution)	1074 Budapest, Dohány u. 98.	350	100.00%
K&H Equities Zrt.	1051 Budapest, Vigadó tér 1.	201	100.00%
K&H Eszközfinanszírozó Zrt.	1068 Budapest, Dózsa György út 84/A.	100	100.00%
K&H Csoportszolgáltató Kft.	1051 Budapest, Vigadó tér 1.	60	100.00%
K&H Autófinanszírozó Zrt.	1068 Budapest, Dózsa György út 84/A.	50	100.00%
K&H Ingatlanlízing Zrt.	1068 Budapest, Dózsa György út 84/A.	50	100.00%
K&H Lízing Zrt.	1068 Budapest, Dózsa György út 84/A.	50	100.00%
K&H Eszközlízing Kft.	1068 Budapest, Dózsa György út 84/A.	50	100.00%
K&H Lízingadminisztrációs Zrt.	1068 Budapest, Dózsa György út 84/A.	20	100.00%
K&H Lízingház Zrt.	1068 Budapest, Dózsa György út 84/A.	20	100.00%
K&H Autópark Kft.	1068 Budapest, Dózsa György út 84/A.	10	100.00%
K&H Alkusz Kft.	1068 Budapest, Dózsa György út 84/A.	5	100.00%
K&H Faktor Pénzügyi Szolgáltató Zrt.	1051 Budapest, Vigadó tér 1.	250	100.00%

IV/10. Other events with a significant impact on the company's financial position

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

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

The Bank did not implement any capital increase in the investment company in 2009.

As at 31.12.2009. the impairment recognized by the Bank on its investment totaled HUF 19 321 million, after an increase of HUF 7 940 million in 2009.

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

In 2003 the Bank agreed to guarantee that the equity of K&H Equities Zrt. would comply with applicable regulations. At the same time the Bank's owner agreed to guarantee the Bank's equity in compliance with applicable regulations.
In 2006 the Bank entered into a compensation agreement with ABN AMRO Bank N.V. – its former owner – whereby ABN AMRO will pay compensation, to an extent approximating its former stake (40%), to reimburse the Bank for claims awarded in court proceedings as a result of the fraudulent practices that had occurred at K&H Equities Zrt. in 2003 and the years before.

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

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

b., Miscellaneous

The provision of HUF 11 546 million on contingent liabilities has been created relating to commercial litigations as a consequence of the sale of investment products to clients in the past. In 2009 commercial compensation was offered to clients and in the majority of the cases a settlement has been reached for which the cost was recorded. For this reason Management believes that during 2009 uncertainty regarding the outcome of these commercial litigations reduced significantly and considers the provision raised for the still pending cases adequate to cover any remaining potential losses.

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

Employees by category	Average statistical number of employees		Salaries and wages (HUF m)	
	2008	2009	2008	2009
Full-time	3 398	3 267	18 000	19 158
Part-time	45	58	144	205
Retired	25	15	190	127
Not on payroll	0*	0*	3	2
Total Profit & Loss Account line 59	**3 468**	**3 340**	**18 337**	**19 492**

* rounded figure

IV/12. Other personnel expenses

HUF millions

Description	Amount	
	31.12.2008.	31.12.2009.
Housing allowance	5	12
Per diem allowance – in Hungary	4	3
Per diem allowance – abroad	7	2
Scholarships	0	0
Cost of benefits paid to temporarily disabled employees	216	210
Daily travel allowance (for travelling to work)	81	79
Life insurance contribution	53	46
Vacation allowance	208	253
Clothing allowance	43	23
Food allowance	278	270
Fringe benefits	438	454
Personal income tax (44%)	623	449
Pension fund contribution	352	289
Health fund contribution	253	274
Severance pay	5	9
Other personnel expense	880	929
Total (Profit & Loss Account line 60):	**3 446**	**3 302**

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

HUF millions

Description	Number of persons receiving remuneration		Remuneration	
	31.12.2008.	**31.12.2009.**	**31.12.2008.**	**31.12.2009.**
Board of Directors	3	3	202	259
Executive Management	26	33	953	1 200
Supervisory Board	0	1	0	6
Total:	**29**	**37**	**1 155**	**1 465**

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

31 December 2009

Members of the Board of Directors, the Executive Management and the Supervisory Board have a total debt of HUF 270.6 million to the Bank in loans and interest/charges.

IV/15. Adjustments to the Bank's taxable income
31 December 2009

HUF millions

Items decreasing taxable income	Amount	Items increasing taxable income	Amount
Income from the use of provisions	12 263	Expense arising from provisioning	7 542
Depreciation according to the Corporation Tax Act	7 022	Depreciation according to the Accounting Act	7 217
Book value of tangible assets removed from the books	203	Book value of tangible assets removed from the books	117
Dividends received	9 859	Extraordinary depreciation	142
Local trade tax	3 529	Fines	318
Donations	200	Receivables not deemed uncollectible but nevertheless cancelled in the fiscal year	54
Reversal of impairment	90	Impairment	7 971
Tax allowance for works of art	19	Cash and equivalents transferred definitively	299
		Other items increasing taxable income	782
		Expenses related to previous years	369
		Taxes paid abroad	94
		Expenses not incurred in the interest of the company	13 143
Total:	**33 185**	**Total:**	**38 048**

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

HUF millions

No.	Description	Previous year	Reporting year
A.			
01.	+ Interest income	235 913	305 954
02.	+ Income from other financial services (excluding reversal of impairment on securities)	75 525	52 136
03.	+ Other income (excluding use of provisions, reversal of surplus provisions, reversal of impairment on inventories and reversal of extraordinary depreciation)	3 582	-2 494
04.	+ Income from investment services (excluding reversal of impairment on securities)	37 995	30 462
05.	+ Income from non-financial and investment services	1 673	1 460
06.	+ Dividend income	4 211	9 859
07.	+ Extraordinary income	115	148
08.	- Interest expense	176 151	209 653
09.	- Expense on other financial services (excluding impairment on securities)	28 766	28 081
10.	- Other expense (excluding provisioning, impairment on inventories and extraordinary depreciation)	20 295	17 423
11.	- Expense on investment services (excluding impairment on securities)	36 232	17 762
12.	- Expense on non-financial and investment services	777	780
13.	- General and administrative expense	59 860	59 992
14.	- Extraordinary expense (excluding corporation tax liability for the year)	28	205
15.	- Corporation tax liability for the year	5 141	5 080
16.	- Dividend paid	7 402	10 035
17.	**CASH FLOW FROM OPERATIONS (lines 01-16)**	**24 362**	**48 514**
18.	Change in liabilities (+ if increase, - if decrease)	687 166	-78 206
19.	Change in receivables (- if increase, + if decrease)	-165 919	196 059
20.	Change in inventories (- if increase, + if decrease)	98	-58
21.	Change in securities stated under current assets (- if increase, + if decrease)	-330 596	-102 374
22.	Change in securities stated under fixed assets (- if increase, + if decrease)	-272 311	-26 905
23.	Change in capital expenditure (including advances) (- if increase, + if decrease)	783	1 434
24.	Change in intangible assets (- if increase, + if decrease)	-2 875	-3 073
25.	Change in tangible assets (excluding capital expenditure and advances for capital investments) (- if increase, + if decrease)	-6 262	-4 349
26.	Change in prepayments and accrued income (- if increase, + if decrease)	-3 847	-4 837
27.	Change in accruals and deferred income (+ if increase, - if decrease)	17 700	-10 503
28.	Share offering at sale price	0	7 402
29.	Cash and equivalents received definitively under applicable law	0	0
30.	Cash and equivalents transferred definitively under applicable law	-345	-299
31.	Par value of Treasury stock and equity bonds retired	0	0
32.	**NET CASH FLOW (lines 17-34)**	**-52 046**	**22 805**
33.	of which: - change in cash (HUF and foreign currency cash and checks)	5 490	-4 053
34.	- change in account balances (short-term, HUF and foreign currency technical and deposit accounts maintained with the NBH, and HUF transaction accounts maintained with other credit institutions under separate laws)	-57 536	26 858

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

1. Balance sheet and profit & loss account

1.1. Balance sheet

HUF billions	**2008**	**2009**	**Change**
Total assets	3 178	3 048	-4.1%
Amounts due from clients	1 765	1 604	-9.1%

The total assets of K&H Bank Zrt. decreased by 4.1% (HUF 130bn) year on year in 2009. The decrease was primarily related to client loans and deposits on both the assets and liabilities side of the balance sheet.
In **amounts due from clients**, corporate loans fell by 12% in 2009, while retail loans remained at the level seen at the end of the previous year: the lessened demand for loans and the banks' more conservative lending policy – all due to the unfavorable macroeconomic environment – led to reduced lending activity in the banking sector as a whole, in both corporate and retail business.

HUF billions	**2008**	**2009**	**Change**
Amounts due to clients	1 948	1 730	-11.2%
Equity	166	182	+9.5%

Amounts due to clients fell by HUF 218bn (11.2%) during the year. While the Bank enjoyed solid growth in business volume (both retail and corporate deposits continued to increase in 2009), it saw a fall in total deposits in connection with the maturing deposits held for investment funds managed by KBC Asset Management, a subsidiary of its parent company, KBC Bank.
The banking sector experienced more fierce competition than ever during the year as players were vying for retail (household) and corporate funds. Similarly to the previous year, K&H Bank successfully increased its deposits again in 2009 (retail: 4% growth, corporate: 12% growth as compared to December 2008).
Equity: the Bank will pay dividends of HUF 10.0bn from its 2009 earnings of HUF 18.3bn. The almost HUF 16bn increase in equity is the result of the capital increase completed in the first half of the year (HUF 7.4bn) and the addition of net earnings less dividends (HUF 8.3bn) to reserves.

	2008	**2009**	**Change**
Regulatory capital (HUF bn)	188.0	203.2	+8.1%
Capital adequacy ratio	9.87%	12.82%	+3.0%

Capital adequacy ratio: since 1 January 2008 the Bank has used the Basle II standard method to calculate its capital adequacy ratio (which includes the capital requirement arising from lending risk, market risk and operating risks).

1.2. Profit & loss account

K&H Bank reported a HUF 18.3bn net profit after taxes in 2009. While the Bank achieved substantial income growth as a result of its net interest, commission and securities trading income[1], the amount of impairment related to lending activities also increased considerably year on year.

HUF billions	2008	2009	Change
Profit from ordinary activities	18.5	23.5	+27.0%
Net profit	13.5	18.3	+35.5%

The key drivers of income growth are described below.

- *Net interest and similar income* rose by 61% in 2009. The primary reasons for this impressive growth were as follows:
  - the crisis entailed a change in financing structure: the Bank now obtains a significant part of the funds required for foreign currency lending through EUR interbank deposits and EUR/CHF currency swaps, as opposed to the HUF/CHF currency swaps used as standard practice earlier. Consequently, the interest-like income linked to swaps (posted to the books in another line, as exchange rate gain) dropped, but the drop was offset by the interest income linked to securities, which increased as a result of additional HUF liquidity.
  - in addition to volume growth, increased margins also had a positive impact on margin income from client loans.
- *Net commission income* went up by 10% year on year (HUF 25.5bn in 2009 vs. HUF 23.3bn in 2008) as a result of the increase in *fee income related to bankcards* and *securities services*.
- The Bank's *operating costs* basically remained flat from the previous year (HUF 67.3bn in 2009 vs. HUF 67.4bn in 2008), but there were some changes in the cost structure.
  The costs related to facilities and properties (+1.1bn HUF) and IT costs (+0.9bn HUF) rose, while costs related to management (-1.1bn HUF), consulting costs (-0.5bn HUF) and marketing costs (-0.7bn HUF) fell considerably.
  Personnel expenses increased by HUF 1.0bn, or 3.5%.
  Depreciation dropped by HUF 0.3bn (3.8%) year on year.

2. Risk management

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

- **Credit risk** refers to the possibility of a loss that the Bank sustains if a client becomes insolvent or cannot perform its payment obligations in time. Credit risks are managed using risk mitigation techniques approved by the Bank's Board of Directors. The applicable policies cover the lending process as a whole. The Bank continuously monitors its loan portfolio; this monitoring activity forms the basis for the reports prepared for the Bank's senior management.
  The adverse change in the HUF exchange rate and the increase in unemployment in the reporting period boosted the volume of non-performing loans in retail banking. In early July 2009 K&H Bank suspended the acceptance of foreign currency loan applications for an indefinite period.
  As part of its Basle II program, the Bank set the objective of implementing an IRB Foundation model. Within the scope of the Basle II program, all client rating models were reviewed and improved pursuant to the new guidelines. The Bank developed a procedure for the

[1] The changes in accounting regulations passed in October 2008 mean that delivery repos can now be posted as standard lending deals (as opposed to the previous practice of posting a purchase/sale transaction), and financial assets held for trading can now be reclassified into another category if certain conditions are met. Due to poor returns, the Bank sustained a substantial loss on such deals according to Hungarian accounting regulations in the first half of 2008.

maintenance and regular backtesting of the models in accordance with group standards, and began to review the various models according to this methodology. The next round of model reviews started in 2009. In 2008 the capital calculation software selected at group level (Fermat) was implemented on the basis of the data warehouse and the credit risk database created within that; the software can manage Hungary's national characteristics, and allows capital requirement calculations that are in accordance with applicable Hungarian law.
In 2009 the Bank placed considerable emphasis on developing the risk management methodology in use, and primarily on testing the sensitivity of the loan portfolio to various stress scenarios. In accordance with that, management reports were revised, and the various quantitative risk measures were given much greater significance in the management information system.

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

3. The Bank's operating conditions

Capital investments in branches:

33 branches were opened, altered or completely reconstructed in 2009 – the projects completed and those still in progress at the end of the year were as follows:

- o 10 new branches/sub-branches were completed and opened, and another one was under construction;
- o 8 branches were relocated, and technical preparations were completed for the relocation of another branch;
- o the partial or total reconstruction of 8 branches was completed, and the reconstruction/expansion of 5 branches was in progress at the end of the year.

In relation to the construction of branches and also as part of the ATM project, 46 machines were set up at new locations (branches), and 42 were installed at external, non-branch locations.
The Bank is continuously working on making its network accessible to disabled people – as a result of its construction/reconstruction efforts, at present 230 of its 241 branches are accessible.
K&H Bank also began to ensure compliance with environmental regulations (to create a CFC-free environment), both as part of some building equipment renovation projects and as a separate

program. At the moment 185 branches are completely CFC-free – some have already been built with CFC-free technology.
The Bank also continued its “green branch” initiative, which began with 2 units in 2008. In 2009 – as part of the above list – another 3 “green” branches were created (Fehérgyarmat; Budapest, Róna utca; Budapest, Krisztina körút). These units do not use any direct fossil fuel.

The most important IT developments in 2009 were as follows:

- Aimed at Basle II compliance and more efficient risk management, a data market was created for the retail and corporate segments each at the Data Warehouse, which mean effective help in the modeling and monitoring of lending risks.
- The functionality of the retail CRM system was expanded.
- The debtor rating (AM2) application was improved through the development of special rating models and the integration of automatic segmentation, plus the rating process can now handle debtor groups and covenants.
- The Card Mailing and PIN Change project was completed successfully, as a result of which renewed (extended) cards are now mailed to clients, who can also change their existing PIN through an ATM.
- The pilot of the new Retail Lending Front End (LHFE) system was run successfully, and now the application is available in the entire branch network.

Budapest, 26 March 2010

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

Kereskedelmi és Hitelbank
Zártkörűen Működő Részvénytársaság

Business Report

31 December 2009

K&H Bank's 2009 business activities, results and operating conditions are summarized below.

1. Economic environment

Preliminary figures suggest that the output of the Hungarian economy dropped by more than 6% in 2009. In relation to the narrowing export markets, industrial production fell by almost 20% year on year, while both household consumption and corporate investment activity remained at a low level. While some key countries of the global economy were already showing signs of recovery in the second half of 2009 – in part as a result of artificial measures to stimulate the economy – analysts say that Hungary's economy will not see any significant GDP growth until 2011.
The economy's external and internal equilibrium improved considerably from the previous period: in accordance with the undertakings made to international organizations, the public finance balance basically remained at the previous year's level, while both the current account balance and the external financing requirement decreased perceptibly from the high levels seen in preceding years (the reason being the reduced consumption and investment activity mentioned above).

	2008 actual	2009 preliminary
GDP growth	0.6%	-6.5%
CPI (average)	6.1%	4.2%
Investment growth	-2.6%	-6.0%
Household consumption growth	-0.1%	-6.7%
Public finance deficit	3.4%	3.6%
Current account balance (as a % of GDP)	-7.2%	0.4%

Sources: National Bank of Hungary, Central Statistics Office, GKI Research

2. Monetary trends

As a result of the improving equilibrium of the economy, Hungary's vulnerability lessened and its risk assessment improved considerably during the year, but the money market trends in the country continued to be driven primarily by global investor sentiment. That is why the risk premium of Hungarian investments responded sensitively again, this time to the surfacing of the problems related to Greece's public finance deficit and national debt in the last quarter of the year.
As both the inflation rate and future inflation expectations were in accordance with the central bank's medium-term goals during the year, everything was set for a continuous reduction in the prime rate (the central bank's benchmark rate slid to 6.25% by the end of the year from 11.50% in October 2008).
In order to manage the impact of the crisis on the Hungarian banking sector, the monetary toolkit was changed and expanded considerably in the second half of 2008. At the same time, as the market consolidated and credit institutions eased the limits set for each other, it became possible for the central bank in 2009 to gradually bring its monetary policy tools back to the pre-crisis state (terminating the FX swap quick tenders, broadening the interest rate corridor, etc.).

3. The Bank's market position

	31 Dec 2008	31 Dec 2009
Total assets	10.9%	10.8%
Corporate loans	10.1%	9.5%
Retail loans	9.3%	9.1%
Corporate deposits	10.3%	11.4%
Retail deposits and investment funds	10.9%	10.7%

** preliminary figures*
Source: NBH

Hungarian financial institutions found themselves in a far more adverse operating environment than before as a result of high funding costs and the deteriorating quality of their loan portfolios due to the unfavorable economic environment. The majority of banks responded to the changing conditions by cutting costs, but the profitability of the banking sector still showed a significant decrease as compared to earlier years.
K&H Bank's market position was in accordance with expectations during the year: although it lost market share in both corporate and retail lending (as a result of its admittedly cautious lending policy),

in terms of total assets the Bank held on to its second place, while in terms of total savings it increased its market share further in 2009.

4. Balance sheet and profit & loss account

4.1. Balance sheet

HUF billions	31 Dec 2008	31 Dec 2009	Change
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Equity: the Bank will pay dividends of HUF 10.0bn from its 2009 earnings of HUF 18.3bn. The almost HUF 16bn increase in equity is the result of the capital increase completed in the first half of the year (HUF 7.4bn) and the addition of net earnings less dividends (HUF 8.3bn) to reserves.

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    - in addition to volume growth, increased margins also had a positive impact on margin income from client loans.
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- The Bank's *operating costs* basically remained flat from the previous year (HUF 67.3bn in 2009 vs. HUF 67.4bn in 2008), but there were some changes in the cost structure.
  The costs related to facilities and properties (+1.1bn HUF) and IT costs (+0.9bn HUF) rose, while costs related to management (-1.1bn HUF), consulting costs (-0.5bn HUF) and marketing costs (-0.7bn HUF) fell considerably.
  Personnel expenses increased by HUF 1.0bn, or 3.5%.
  Depreciation dropped by HUF 0.3bn (3.8%) year on year.

[1] The changes in accounting regulations passed in October 2008 mean that delivery repos can now be posted as standard lending deals (as opposed to the previous practice of posting a purchase/sale transaction), and financial assets held for trading can now be reclassified into another category if certain conditions are met. Due to poor returns, the Bank sustained a substantial loss on such deals according to Hungarian accounting regulations in the first half of 2008.

5. RISK MANAGEMENT

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

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  The adverse change in the HUF exchange rate and the increase in unemployment in the reporting period boosted the volume of non-performing loans in retail banking. In early July 2009 K&H Bank suspended the acceptance of foreign currency loan applications for an indefinite period.
  As part of its Basle II program, the Bank set the objective of implementing an IRB Foundation model. Within the scope of the Basle II program, all client rating models were reviewed and improved pursuant to the new guidelines. The Bank developed a procedure for the maintenance and regular backtesting of the models in accordance with group standards, and began to review the various models according to this methodology. The next round of model reviews started in 2009. In 2008 the capital calculation software selected at group level (Fermat) was implemented on the basis of the data warehouse and the credit risk database created within that; the software can manage Hungary's national characteristics, and allows capital requirement calculations that are in accordance with applicable Hungarian law.
  In 2009 the Bank placed considerable emphasis on developing the risk management methodology in use, and primarily on testing the sensitivity of the loan portfolio to various stress scenarios. In accordance with that, management reports were revised, and the various quantitative risk measures were given much greater significance in the management information system.
- **Market risk** is the possibility of a loss arising from change in the value of the Bank's currency and interest rate positions. Interest rate and exchange rate risks and financial instruments are monitored by the Asset Liability Committee (ALCO), which is made up of the Bank's senior executives and the representatives of the Treasury and Risk Management functions.
  The Bank's asset-liability management is based on the methodology used by its shareholder, the KBC Group. Accordingly, the ALCO continuously monitors the risk exposure of the banking and trading books and controls it by setting up limits (in harmony with the KBC limit policy). Interest rate risk is measured and controlled using a combination of various methods and limits (gap analysis, interest sensitivity, duration, BPV).
- **Liquidity risk** refers to the risk that an institution is unable to comply with the applicable net financing requirements. Liquidity risk may result from market disturbances or credit rating downgrades, which can cause certain sources of financing to dry up immediately. In order to prevent this risk, the management has diversified the sources of financing, and manages assets with a focus on liquidity, maintaining a healthy balance of cash, cash equivalents and immediately marketable securities. Short-term liquidity risk is measured using the operational liquidity limit, which measures whether the 30-day cumulative liquidity gap is sufficiently covered. Structured liquidity is measured by the loan-deposit ratio, plus the Bank also employs a liquidity stress test to measure liquidity risk, in compliance with KBC's guidelines. The Risk Management Directorate submits regular reports to K&H Bank's ALCO on the various liquidity ratios and limits.
- **Operating risk** refers to the possibility that the Bank sustains a loss as a result of inadequate systems or procedures, human error or external events. Improving the management of operating risks is a key element in the preparations of the KBC Group for the Basle II Capital Accord. In order to measure operating risks accurately and in detail, a data collection system covering the entire K&H Bank Group has been put in place, which allows the Bank to monitor, categorize and analyze all operating loss events. In December 2007 the Bank received permission from the HFSA to use the standard method of capital requirement calculated for operating risks as of 1 January 2008.

6. THE BANK'S OPERATING CONDITIONS

Capital investments in branches:

33 branches were opened, altered or completely reconstructed in 2009 – the projects completed and those still in progress at the end of the year were as follows:

- 10 new branches/sub-branches were completed and opened, and another one was under construction;
- 8 branches were relocated, and technical preparations were completed for the relocation of another branch;
- the partial or total reconstruction of 8 branches was completed, and the reconstruction/expansion of 5 branches was in progress at the end of the year.

In relation to the construction of branches and also as part of the ATM project, 46 machines were set up at new locations (branches), and 42 were installed at external, non-branch locations.

The Bank is continuously working on making its network accessible to disabled people – as a result of its construction/reconstruction efforts, at present 230 of its 241 branches are accessible.

K&H Bank also began to ensure compliance with environmental regulations (to create a CFC-free environment), both as part of some building equipment renovation projects and as a separate program. At the moment 185 branches are completely CFC-free – some have already been built with CFC-free technology.

The Bank also continued its "green branch" initiative, which began with 2 units in 2008. In 2009 – as part of the above list – another 3 "green" branches were created (Fehérgyarmat; Budapest, Róna utca; Budapest, Krisztina körút). These units do not use any direct fossil fuel.

The most important IT developments in 2009 were as follows:

- Aimed at Basle II compliance and more efficient risk management, a data market was created for the retail and corporate segments each at the Data Warehouse, which mean effective help in the modeling and monitoring of lending risks.
- The functionality of the retail CRM system was expanded.
- The debtor rating (AM2) application was improved through the development of special rating models and the integration of automatic segmentation, plus the rating process can now handle debtor groups and covenants.
- The Card Mailing and PIN Change project was completed successfully, as a result of which renewed (extended) cards are now mailed to clients, who can also change their existing PIN through an ATM.
- The pilot of the new Retail Lending Front End (LHFE) system was run successfully, and now the application is available in the entire branch network.

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