Kereskedelmi és Hitelbank Zrt.

CONSOLIDATED SEMI-ANNUAL REPORT

1H 2011

Budapest, 30 August 2011

CONTENT

Statement of the Issuer

K&H Bank Zrt., as the Issuer (represented by Hendrik Scheerlinck, CEO and Attila Gombás, CFO hereby declare that K&H Bank Zrt.'s consolidated 2011 Semi-annual Report has been prepared in compliance with the applicable accounting laws and regulations, to the best of the Issuer's knowledge, and that the financial details contained therein reflect a true and reliable status of the assets, liabilities, financial position and profit of K&H Bank Zrt. and of the companies involved in the consolidation, and that the consolidated management report shows a true and fair picture of the position, development and performance of K&H Bank Zrt. and the companies involved in the consolidation, also including the major risks and uncertainties pertaining to the remaining six months of the financial year.

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

Budapest, 30 August 2011

Hendrik Scheerlinck
Chief Executive Officer

Attila Gombás
Chief Financial Officer

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

in million HUF	Not audited	Reclassified Audited
CONSOLIDATED STATEMENT OF FINANCIAL POSITION	**30 June 2011**	**31 December 2010**
ASSETS		
Cash and cash balances with central banks	38 467	115 351
Financial assets	2 791 042	3 036 013
Held for trading	233 285	177 952
Designated at fair value through profit or loss	4 109	6 416
Available for sale	596 503	758 909
Loans and receivables (reclassified)	1 530 475	1 684 086
Held to maturity	426 670	408 601
Hedging derivatives	0	49
Tax assets	3 165	3 244
Current tax assets	2 318	2 312
Deferred tax assets	847	932
Investments in associated companies	1 859	2 104
Investment property	21	0
Property and equipment	41 281	35 333
Intangible assets	8 185	8 175
Other assets (reclassified)	37 957	28 720
Total assets	**2 921 977**	**3 228 940**

in million HUF	Not audited	Reclassified Audited
CONSOLIDATED STATEMENT OF FINANCIAL POSITION	**30 June 2011**	**31 December 2010**
LIABILITIES AND SHAREHOLDERS' EQUITY		
Financial liabilities	2 616 586	2 940 518
Held for trading	156 794	170 853
Designated at fair value through profit or loss	216 580	193 069
Measured at amortised cost (reclassified)	2 242 982	2 575 731
Hedging derivatives	230	865
Tax liabilities	1 215	285
Current tax liabilities	421	160
Deferred tax liabilies	794	125
Provisions for risks and charges	33 673	34 736
Other liabilities (reclassified)	56 931	32 157
Total liabilities	**2 708 405**	**3 007 696**

in million HUF **CONSOLIDATED STATEMENT OF FINANCIAL POSITION**	**Not audited** **30 June 2011**	**Reclassified Audited** **31 December 2010**
Share capital	140 978	73 709
Share premium	48 775	48 775
Statutory risk reserve	15 429	15 429
Available for sale reserve	-3 562	-9 285
Cash flow hedge reserve	-128	-293
Retained earnings	12 080	92 909
Total equity	**213 572**	**221 244**
Total liabilities and equity	**2 921 977**	**3 228 940**

Budapest, 30 August 2011

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Chief Executive Officer

Attila Gombás
Chief Financial Officer

in million HUF **CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME**	**Not audited** **1st half of year 2011**	**Reclassified** **Not audited** **1st half of year 2010**
Interest income (reclassified)	100 136	98 644
Interest expense (reclassified)	-47 052	-48 047
Net interest income	**53 084**	**50 597**
Fee and commission income	21 715	23 194
Fee and commission expense	-7 289	-7 618
Net fee and commission income	**14 426**	**15 576**
Net gains / (losses) from financial instruments at fair value through profit or loss and foreign exchange (reclassified)	3 391	5 197
Net realised gains / (losses) from available-for-sale assets	192	669
Dividend income	1	2
Other net income	1 084	8 292
Total income	**72 178**	**80 333**
Operating expenses	-42 179	-33 858
staff expenses	-15 537	-15 013
general administrative expenses	-15 442	-15 277
depreciation and amortisation of fixed assets	-3 261	-3 568
bank tax	-7 939	0
Impairment:	-12 480	-17 241
loans and receivables	-12 442	-17 141
other	-38	-100
Share in results of associated companies	185	235
Profit before tax	**17 704**	**29 469**
Income tax expense	-5 226	-6 432
Profit after tax	**12 478**	**23 037**

in million HUF **CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME**	**Not audited** **1st half of year 2011**	**Reclassified** **Not audited** **1st half of year 2010**
Other comprehensive income		
Net change in revaluation reserve for available-for-sale equity instruments	0	4
Fair value adjustments before tax	0	5
Deferred tax on fair value changes	0	-1
Net change in revaluation reserve for available-for-sale debt instruments	5 723	2 542
Fair value adjustments before tax	6 725	3 871
Deferred tax on fair value changes	-834	-798
Transfer from available for sale reserve to net profit	-168	-531
(Losses)/ gains on disposal	-192	-669
Deferred income tax	24	138
Net change in cash flow hedge reserve	165	-721
Fair value adjustments before tax	-322	-1 057
Deferred tax on fair value changes	66	218
Transfer from cash flow hedge reserve to net profit	421	118
Gross amount	530	149
Deferred income tax	-109	-31
Total other comprehensive income	**5 888**	**1 825**
Total comprehensive income	**18 366**	**24 862**

Budapest, 30 August 2011

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Chief Executive Officer

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Consolidated Management Report

1. Macro-economic Environment

Although the global economy has continued to experience a slow recovery from recession in H1 2011, the uncertainties related to the sustainability of US and European debt levels resulted in increased volatility in FX and MM markets.
Following the 1.1% growth in 2010 the Hungarian economy achieved a 2% growth in H1 2011 based on a structural duality: economic growth is driven by industrial export benefiting from an upward trend in Western Europe, while internal consumption remains to be limited (given the uncertain macro environment and FX mortgages' high debt burden of households).
The external balance of the Hungarian economy continues to improve primarily on the back of the favourable trade balance, while the stabilisation of state budget requires additional measures to be adopted by the government.

	2010	2011*
GDP growth	1.1%	2.6%
State budget balance (as % of GDP)	-4.3%	2.4%
CPI (average)	4,9%	3,9%
Balance of payments (as % of GDP)	2,1%	1,9%

* forecast (source: MNB, KSH)

The relatively favourable investor sentiment in H1 was primarily due to the positive reception of Széll Kálmán Plan and Converge Programme, which was also reflected in the Fitch statement (outlook of Hungary's debt was upgraded from "negative" to "stable") in June. Following the increasing risk awareness of foreign investors, there was a perceptible increase in country specific risk premiums in the 2nd quarter (although Hungary's relative position compared to the benchmark countries within the region has not changed considerably).
Following the 25bp increase in January, the base rate remained unchanged in the subsequent months, as the Monetary Council considered the actual increasing trend of inflation to be stopped without additional monetary tightening (pressure from commodity prices to be eased in mid term and offset by the weak domestic demand).

2. The Strategic Objectives of the Bank

K&H Bank Group is a universal bancassurer, providing banking, leasing, asset management and insurance services for individuals and corporate (focusing on SME and Mid-cap) customers.
In order to fulfil our mandate by our shareholder and our clients:

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

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

<u>Product strategy:</u>
Retail:

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

SME:

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

Corporate:

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

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

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

3. Key Consolidated Figures of the Bank Group

The balance sheet total of the Bank Group dropped by nearly 10% in H1 2011.

HUF billion	December 31, 2010	June 30, 2011	Change
Balance Sheet Total	3 229	2 922	-9.5%
Loans and receivables	1 684	1 530	-9.1%
Deposits*	2 729	2 425	-11.1%
of which client deposits	*1 591*	*1 572*	*-2.1%*
Equity	221	214	-3.5%

*includes "liabilities measured at fair value" and "liabilities measured at amortised cost"

Key items in the consolidated balance sheet:

- During H1 *loans and receivables* decreased by 9%. Both the corporate and retail loan portfolios shrank (by 14 and 6%, respectively), because — as a result of the low demand for loans — new loans granted did not offset the negative effect of loans, which have matured or been repaid during H1.
- The shrinking of the *total deposit portfolio* is mainly related to the interbank deposits originating from the owner. In terms of the most significant business segments, retail deposits have increased by 2% and SME deposits achieved a 10% growth, whereas corporate deposits (as result of changes to a few items) went down by nearly 10% compared to December of the previous year.
- The HUF 7.7 billion drop in *equity* in H1 is comprised of the following items: dividends paid to the owner for 2010 (HUF 93.3 billion), capital raised by the owner in H1 2011 (HUF 67.3 billion), accounting of the current year's profit (+ HUF 12.5 billion in H1 2011), increase in cash flow and the revaluation reserve related to available for sale reserve (HUF +5.9 billion).

In the first half of 2011 the Bank Group's operating profit (before credit impairments) dropped by 35% compared to H1 last year (2011: HUF 30.0 billion, 2010: HUF 46.5 billion). The most important operating profit items developed favourably:

- The net interest and interest-type income rose by 4.9% compared to the same period in 2010: as a result of the increasing retail and SME deposit portfolios margin income on deposits has increased, whereas the higher income related to lending activity is primarily due to FX impact (the income generated from FX loans expressed in HUF has gone up).

- Compared to the same period of the previous year, *commission income* decreased by 7% (2011: HUF 14.4 billion; 2010: HUF 15.6 billion): income generated from the sales of *investment funds* dropped (the related sales results were exceptionally good in 2010), whereas income levels generated on transactional and account fees were also below previous year's levels (as a result of the increased sales of account packages with more favourable conditions).
- The *net profit/loss on financial instruments valued at fair value* decreased significantly (2011: HUF 5.2 billion, 2010: 3.4 billion) and it included income generated from the outstanding Treasury trading activity during H1 of last year.
- The drop in *other revenues* is primarily linked to the reversals / recoveries associated with the litigations that took place over the preceding years (accounted for in previous year).

In the first half of 2011, the *operating expenses* of the Bank Group amounted to HUF 42.2 billion of which the special bank tax accounted for HUF 7.9 billion. The operating expenses of the Bank Group excluding the bank tax were by HUF 0.4 billion higher than in the same period of the previous year (H1 2011: HUF 34.3 billion; H1 2010: HUF 33.9 billion). Of which:

- *Personnel costs* went up by HUF 0.5 billion.
- Change in *deprecation* is HUF -0.3 billion.
- Other costs rose by HUF 0.2 billion (primarily due to higher official fees).

The lending impairment booked in H1 of 2011 was HUF 12.4 billion (H1 2010: HUF 17.1 billion). As a result, the lending costs indicator has improved as compared to the previous period (2011: 1.38%; 2010: 1.83%). The ratio of non-performing loans amounted to 9.4% of the lending portfolio at the end of the period (June 30, 2010: 7.5%).

The business performance of the Bank Group is characterized by the following figures:

	2010 H1	**2011 H1**	**change**
Costs/ income	42.1 %	58.4 %	+16.3%
Costs/ income (without bank tax)	42.1 %	47.4 %	+5.3%
Commission income / total income	19.4 %	20.0 %	+0.6%
Credit cost ratio*	1.8 %	1.4 %	-0.4%
Operating income / average headcount	44.0	41.2	-6.4%
Operating costs (without bank tax) / average headcount	18.5	19.5	+5.4%
Operating profit (without bank tax) / average headcount	25.5	21.7	-14.9%
Loan / deposit	97.5 %	86.7 %	-8.8%
Capital**/ total liabilities	7.5 %	8.0 %	+0.5%
Solvency ratio (Basel II)***	12.33 %	10.83 %	-1.5%
ROE (calculated with the average balance of equity)	21.1 %	11.1 %	-10.0%
ROA (calculated with average balance sheet total)	1.4 %	0.8 %	-0.6%

* Impairment / (Loan portfolio + guarantee), annualized
** in addition to equity it also includes subordinated debt capital
*** according to the rules prescribed by the Hungarian Supervisory Authority

The bank tax and the subdued business activity held back by the adverse economic environment have both impacted on the profitability indicators of the Bank Group. At the same time, the credit cost indicator of the Bank improved significantly compared to the preceding year. The lower capital adequacy indicator is primarily linked to the methodology change: as of January 1, 2011 K&H Bank has officially transposed the IRB Foundation based capital adequacy methodology (the Bank Group used standardized calculation methods to calculate capital adequacy earlier).

4. Strategic Subsidiaries

Leasing Group

K&H Leasing Group at present comprises 9 legal entities. The following table reveals the activities of the various entities of Leasing Group:

Name	Core activity	Assets:
K&H Pannonlízing Zrt.	Lending	Cars and trucks, machinery, equipment, fleet
K&H Autófinanszírozó Zrt.	Financial leasing	Cars and trucks, machinery, equipment, fleet
K&H Autópark Kft.	Operating lease, fleet management (leasing)	Cars and trucks, machinery, equipment, fleet
K&H Eszközfinanszírozó Zrt.	Financial leasing	Cars and trucks, machinery, equipment, fleet
K&H Eszközlízing Kft.	Operating lease (leasing)	Cars and trucks, machinery, equipment, fleet
K&H Ingatlanlízing Zrt.	Financial leasing	real properties
K&H Autópark Kft.	Insurance mediation	

K&H Lízing Zrt. and K&H Lízingház Zrt. play a passive role in the operation of the Leasing Group:[1].

The largest group member is K&H Pannonlízing Zrt., with a weight of 63% in the portfolio. **K&H Leasing Group**'s portfolio amounted to HUF 92 billion on June 30, 2011, which is a 26% decrease compared to the end of the previous year. In addition to this, the termination of retail motor vehicle financing at the end of 2008 resulted in the gradual decrease of the retail car and dealer financing portfolio.

Based on the new financing placement data K&H Leasing Group acquired a market share of 2.3% in the overall leasing market and a 2.7% market share in the Fleet, TME and real estate business lines with HUF 3.6 billion in new financing arrangements granted.
In H1 2011 a negative result of 2.5 billion has been accounted for in Leasing Group primarily due to the high level of credit impairments incurred. At the end of June the equity of K&H Autópark Kft., K&H Eszközlízing Kft. and K&H Autófinanszírozó Zrt. was negative, the settlement of Leasing Group's equity situation is in progress.

K&H Investment Fund Zrt.

Although the money and capital market environment has improved somewhat in H1 2011, the Company still operates under difficult market conditions. Assets managed in investment funds decreased by 1.4%, while total assets managed dropped by 1.1%.

3 new capital and yield guaranteed funds have been launched in H1 2011 and 10 closed-ended funds have been reclassified as open-ended. Thanks partially to the sales campaigns related to the maturing funds, the larger part of the released savings remained in the investment funds. We continued implementing our recent innovation strategy (products based on new concepts and themes are currently under development).

In terms of institutional portfolio management our client numbers have improved and our cooperation with our existing clients has been reinforced further. At the end of June 2011, Fund Management managed assets worth HUF 787 billion (at the start of the year HUF 793 billion), of which investment

[1] These companies do not conclude new contracts any longer; their existing portfolio has been already phased out, or the Companies have been merged with an active company, or – as they are companies without an outstanding portfolio – they will be liquidated. K&H Lízing Zrt. was in final liquidation at the end of June 2011.

funds represented HUF 633 billion (HUF 642 billion at the beginning of the year), still ranking second on the market of investment funds with a market share of 19.8%. The Company has reinforced its market leading position in the segment of capital protected investment funds (52%).

The Company's H1 profit amounted to 0.9 bln.

K&H Csoportszolgáltató Kft. (K&H Shared Service Centre Kft.)

In 2005, K&H Group – headed by K&H Bank, which is the sole owner of K&H Csoportszolgáltató Kft. (KHCSK) – decided to establish a shared service centre, the purpose of which was to centralise and efficiently organise certain service and auxiliary service activities closely related to the intra-group core activities. Full services provided to the Bank Group: real estate management, logistics and bank security tasks, financial/accounting/taxation related tasks (accounts receivable, accounts payable, tangible assets, etc. book-keeping; taxes, payroll services).

The Company concludes service level agreements and contracts with the individual group members concerning each type of service. As of 2007 the services provided by KHCSK are also available for K&H Insurance and K&H Leasing Group. At present KHCSK is the service centre for over 10 Companies, including the Bank as well. Since 2008, KHCSK is also responsible for the financial and accounting tasks, and operations services for the Hungarian branch office of KBC Global Services N.V. (KBC GSC). The Tendering Directorate provides consultancy and support in connection with EU tenders also since 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 to the risk management system of KBC Group, the sole shareholder, both in terms of methodology and organisation.

Credit risk refers to the possibility of a loss that the Bank sustains if its client becomes insolvent or is unable to meet its payment obligation on time. Credit risks are managed using risk mitigation techniques approved by the Bank's Board of Directors. The applicable regulations cover the entire lending process. The Bank is continuously monitoring its loan portfolio; this monitoring activity serves as basis for the reports prepared for the Bank's senior management.
The continued strengthening of the Swiss Franc against the Hungarian forint, the protracted economic crisis and the uncertain economic environment continues to have a negative effect on the general quality of the Bank's loan portfolio. As a result, the ratio of delinquent loans has increased further in the overall loan portfolio of the Bank.

Non-performing loans	30 June 2010	31 Dec 2010	30 June 2011
Retail	6.9%	8.7%	**9.7%**
Corporate	7.4%	7.7%	**8.3%**
Leasing	11.9%	13.0%	**14.6%**
Total	**7.5%**	**8.6%**	**9.4%**

The future evolution of FX rates and unemployment rate may have a significant influence on the quality of the loan portfolio.
The Bank supports its retail clients in preserving their solvency via offering various solutions for restructuring their credit obligations: at the end of June the balance of restructured loans amounted to 92 bln related to retail portfolio (12.3% of the retail portfolio).

In the interest of being able to quantify credit risks the Group has worked out several rating models to assess the credit worthiness of clients on the one hand and to estimate the expected losses of the different types of transactions. These models support credit risk management in areas such as pricing, the credit management process (admission and monitoring) as well as the establishment of portfolio-based impairment. Some of the models in use are uniform and applicable on Group level (for examples models concerning governments, banks, large corporations and project financing), whereas others have been tailored to the local markets (small-, and medium-sized enterprises, individuals, etc.). The same internal rating system is used across the whole of KBC Group.
As of 2011, the credit risk related capital requirements prescribed by the relevant regulators are being calculated on the basis of these models. In other words, K&H Bank has fully implemented the Internal Rating Based (IRB) model as of January 1, 2011. Currently, we are using the Advanced IRB model in our retail segment and the Foundation Approach IRB method in our non-retail segment, where the Advanced model is expected to be taken over in 2013. The methodological transition has been preceded by several years of preparatory work within the framework of the Basel II program. As part of the Basel II program, the Bank revised all client rating models and credit risk management processes and enhanced them in line with the new principles.
K&H Leasing Group — a major subsidiary of K&H Bank — is expected to shift to the Advanced IRB model in 2013 directly from the standard methodology in use since 2008 (pending the approval of the supervisory authority).

Market risk is the possibility of loss arising from the unexpected change in the value of the Bank's currency and interest rate positions. Interest rate and exchange rate risks, as well as the financial instruments are supervised by the Capital and Risk Oversight Committee (CROC), whereas the same supervisory role is assumed by the Trade Risk Committee (TRC) in terms of the Trading book.
The Bank's asset/liability management is based on the methodology applied by its majority shareholder, KBC Group. Accordingly, CROC and the relevant decision making forums of the bank are continuously monitoring the risk exposure of the banking and trading books and control it by setting up limits (in line with KBC's limit policy). Interest rate risk is measured and controlled using a combination of various methods and limits (gap analysis, interest sensitivity, duration, BPV).

Liquidity risk refers to the risk that a financial institution is unable to meet its net financing requirements. Liquidity risk may result from market disturbances or credit downgrading, which can cause certain financing resources to dry up immediately. In order to prevent this risk, management has diversified the financing sources and manages assets with a focus on liquidity, maintaining a sound balance of cash, liquid assets and marketable securities. The Value and Risk Management Directorate submits regular reports to K&H Bank's executive bodies on the various liquidity ratios and limits.

Operating risk refers to the possibility that the Bank sustains a loss as a result of inadequate system or procedures, human errors or external events. Improving the management of operating risks is a key element in the preparation of the KBC Group for the Basel II Capital Accord. In order to measure operating risks accurately and in detail, a data collection system – covering the entire K&H Bank Group – has been put in place, which allows the Bank to monitor, categorise and analyse the operating loss events. The Bank applies the standard method of capital requirement calculation for operating risks as of 1 January 2008.

6. The Operating Conditions of the Bank

The most important IT development projects of H1 2011 were the following:

- The development and introduction of a system allowing SME and corporate clients to download bank statements electronically have been completed.
- The functions of the applications available on the Bank's website have been fully enhanced.
- Token-based user identification has been implemented on the corporate client terminals.
- The bank started to make the preparations for the migration to the new Central European Regional Datacenter established by KBC in Hungary.

Capital investments in branches:

In H1 2011, 55 branches were opened, closed, partially or fully restored as per the following:

- 4 new branches are currently under development;
- 5 branches were fully or partially renewed and the remodelling/expansion of 10 branches were in progress at the end of the first half of the year;
- The preparation or the actual relocation of 3 branches are underway
- Some remodelling was done in 25 of our branches.
- 8 branches were closed.

Number of branches on June 30, 2011 was 235.

Number of available ATMs: 451.

Budapest, 30 August 2011

Hendrik Scheerlinck
Chief Executive Officer

Attila Gombás
Chief Financial Officer