Kereskedelmi és Hitelbank Zártkörűen Működő Részvénytársaság

ANNUAL REPORT

31 December 2013

CONTENT

Statement of the Issuer

K&H Bank Zrt., as the Issuer (represented by Hendrik Scheerlinck, CEO and Attila Gombás, CFO) hereby declare that the Year 2013 Annual Report and the Year 2013 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 companies involved in the consolidation, and the Management Report and Consolidated Management Report show a true and fair picture of the position, development and performance of K&H Bank Zrt. and the companies involved in the consolidation, including the major risks and uncertainties factors.

Budapest, April 29 2014

Hendrik Scheerlinck	Attila Gombás
Chief Executive Officer	Chief Financial Officer

Building a better working world

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This is a translation of the Hungarian Report

Independent Auditors' Report

To the Shareholder of Kereskedelmi és Hitelbank Zártkörűen Működő Részvénytársaság

Report on financial statements

1.) We have audited the accompanying 2013 annual financial statements of Kereskedelmi és Hitelbank Zártkörűen Működő Részvénytársaság ("the Company"), which comprise the balance sheet as at 31 December 2013 - showing a balance sheet total of HUF 2,573,629 million and a profit for the year of HUF 0 (nil) million -, the related profit and loss account for the year then ended and a summary of significant accounting policies and other explanatory information.

Management's responsibility for the financial statements

2.) Management is responsible for the preparation and presentation of financial statements that give a true and fair view in accordance with the Hungarian Accounting Law, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' responsibility

3.) Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Hungarian National Auditing Standards and with applicable laws and regulations in Hungary. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

4.) An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments the auditor considers internal control relevant to the entity's preparation of financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

5.) We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

6.) In our opinion the annual financial statements give a true and fair view of the equity and financial position of Kereskedelmi és Hitelbank Zártkörűen Működő Részvénytársaság as at 31 December 2013 and of the results of its operations for the year then ended in accordance with the Hungarian Accounting Law.

Emphasis of matter

7.) We draw attention to note IV/10. in the supplementary notes. In 2003 a significant fraud was discovered at K&H Equities Zártkörűen Működő Részvénytársaság, an investment of the Bank. The Bank has recorded an impairment of HUF 2,686 million on its investment for the expected losses. The ultimate outcome of this matter cannot presently be determined and due to the fundamental uncertainty involved the actual loss might be significantly different from the impairment recorded by the Bank. Our opinion is not qualified in respect of this matter.

Other matters

8.) This independent auditor's report has been issued for consideration by the forthcoming shareholders' meeting for decision making purposes and, as such, does not reflect the impact, if any, of the resolutions to be adopted at that meeting.

Other reporting requirement - Report on the business report

9.) We have reviewed the business report of Kereskedelmi és Hitelbank Zártkörűen Működő Részvénytársaság for 2013. Management is responsible for the preparation of the business report in accordance with the Hungarian Accounting Law. Our responsibility is to assess whether the business report is consistent with the financial statements for the same financial year. Our work regarding the business report has been restricted to assessing whether the business report is consistent with the financial statements and did not include reviewing other information originated from non-audited financial records. In our opinion, the business report of Kereskedelmi és Hitelbank Zártkörűen Működő Részvénytársaság for 2013 corresponds to the disclosures in the 2013 financial statements of Kereskedelmi és Hitelbank Zártkörűen Működő Részvénytársaság.

Budapest, 8 April 2014

(The original Hungarian language version has been signed.)

Szabó Gergely
Ernst & Young Kft.
Registration No.: 001165

Sulyok Krisztina
Registered auditor
Chamber membership No.: 006660

10195664-6419-114-01
statistical number

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

HUF millions

No.	Description	Previous year 31.12.2012.	Reporting year 31.12.2013.
a	b	c	d
01.	**1. CASH AND EQUIVALENTS**	**78 627**	**153 022**
02.	**2. GOVERNMENT SECURITIES**	**871 035**	**980 089**
03.	a) held for trading	497 121	542 371
04.	b) held for investment	373 914	437 718
05.	**2/A. VALUATION DIFFERENCE OF GOVERNMENT SECURITIES**	**367**	**155**
06.	**3. AMOUNTS DUE FROM CREDIT INSTITUTIONS**	**71 068**	**77 757**
07.	a) on demand	38 915	37 836
08.	b) other receivables from financial services	32 153	39 921
09.	ba) short-term	19 144	26 086
10.	of which: - from affiliated undertakings		
11.	- from other associated undertakings		
12.	- from the NBH		
13.	- from the clearing house		
14.	bb) long-term	13 009	13 835
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**	**1 205 826**	**1 177 082**
25.	a) from financial services	1 201 057	1 176 581
26.	aa) short-term	427 257	421 997
27.	of which: - from affiliated undertakings	8 826	8 653
28.	- from other associated undertakings		
29.	ab) long-term	773 800	754 584
30.	of which: - from affiliated undertakings	31 421	28 560
31.	- from other associated undertakings		
32.	b) from investment services	4 769	501
33.	of which: - from affiliated undertakings		
34.	- from other associated undertakings		
35.	ba) receivables from stock exchange investment services	1	
36.	bb) receivables from over-the-counter investment services		
37.	bc) amounts due from clients, arising from investment services	4 763	496
38.	bd) amounts due from the clearing house	5	5
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**	**67 783**	**30 187**
42.	a) securities issued by local municipalities and other administrative institutions (excluding government securities)	62 076	29 029
43.	aa) held for trading		602
44.	ab) held for investment	62 076	28 427
45.	b) securities issued by third-party issuers	5 707	1 158
46.	ba) held for trading	5 707	1 158
47.	of which: - issued by affiliated undertakings		
48.	- issued by other associated undertakings		
49.	- Treasury stock	2 485	506
50.	bb) held for investment		
51.	of which: - issued by affiliated undertakings		
52.	- issued by other associated undertakings		
53.	**5/A. VALUATION DIFFERENCE OF DEBT SECURITIES**	**320**	**147**

HUF millions

No.	Description	Previous year 31.12.2012.	Reporting year 31.12.2013.
a	b	c	d
54.	**6. SHARES AND OTHER VARIABLE YIELD SECURITIES**	**6 112**	**4 050**
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	6 112	4 050
59.	ba) held for trading	6 112	4 050
60.	bb) held for investment		
61.	**6/A. VALUATION DIFFERENCE OF SHARES AND OTHER VARIABLE YIELD SECURITIES**	**272**	**477**
62.	**7. SHARES AND PARTICIPATIONS HELD FOR INVESTMENT**	**926**	**646**
63.	a) shares and participations held for investment	926	646
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**	**3 967**	**4 169**
69.	a) shares and participations held for investment	3 967	4 169
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**	**11 729**	**13 012**
74.	a) intangible assets	11 729	13 012
75.	b) adjustments to the value of intangible assets		
76.	**10. TANGIBLE ASSETS**	**42 936**	**40 514**
77.	a) tangible assets used in financial and investment services	42 866	40 452
78.	aa) land and buildings	35 716	34 034
79.	ab) technical equipment, machinery and vehicles	5 612	5 193
80.	ac) capital expenditure	1 538	1 225
81.	ad) advances for capital investments		
82.	b) tangible assets not directly used in financial and investment services	70	62
83.	ba) land and buildings		
84.	bb) technical equipment, machinery and vehicles	70	62
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**	**18 243**	**9 654**
90.	a) inventories	903	1 764
91.	b) other receivables	17 340	7 890
92.	of which: - amounts due from affiliated undertakings	54	513
93.	- amounts due from other associated undertakings		
94.	**12/A. VALUATION DIFFERENCE OF OTHER RECEIVABLES**		
95.	**12/b. POSITIVE VALUATION DIFFERENCE OF DERIVATIVE TRANSACTIONS**	**30 077**	**24 441**
96.	**13. PREPAYMENTS AND ACCRUED INCOME**	**60 799**	**58 227**
97.	a) accrued income	58 804	57 141
98.	b) prepayments	1 995	1 086
99.	c) deferred expense		
100.	**TOTAL ASSETS**	**2 470 087**	**2 573 629**
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]**	1 126 931	1 222 497
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]**	1 282 357	1 292 905

Budapest, 8th April 2014

Hendrik Scheerlinck
Chief Executive Officer

Attila Gombás
Chief Financial Officer

10195664-6419-114-01
statistical number

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

HUF millions

No.	Description	Previous year 31.12.2012.	Reporting year 31.12.2013.
a	b	c	d
103.	**1. AMOUNTS DUE TO CREDIT INSTITUTIONS**	**339 539**	**436 661**
104.	a) on demand	18 263	10 319
105.	b) fixed-term liabilities from financial services	321 276	426 342
106.	ba) short-term	204 688	250 976
107.	of which: - from affiliated undertakings	171 414	186 305
108.	- from other associated undertakings		
109.	- from the NBH		4 089
110.	- from the clearing house		
111.	bb) long-term	116 588	175 366
112.	of which: - from affiliated undertakings	1 456	1 316
113.	- from other associated undertakings		
114.	- from the NBH		89 085
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**	**1 688 896**	**1 767 953**
122.	a) savings deposits		
123.	aa) on demand		
124.	ab) short-term		
125.	ac) long-term		
126.	b) other liabilities from financial services	1 680 702	1 759 428
127.	ba) on demand	617 237	768 205
128.	of which: - from affiliated undertakings	14 994	14 901
129.	- from other associated undertakings		
130.	bb) short-term	899 266	801 157
131.	of which: - from affiliated undertakings	2 650	2 630
132.	- from other associated undertakings		
133.	bc) long-term	164 199	190 066
134.	of which: - from affiliated undertakings	23 925	23 887
135.	- from other associated undertakings		
136.	c) from investment services	8 194	8 525
137.	of which: - from affiliated undertakings		
138.	- from other associated undertakings		
139.	ca) liabilities from stock exchange investment services		
140.	cb) liabilities from over-the-counter investment services		
141.	cc) amounts due to clients from investment services	8 194	8 525
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**	**13 409**	**7 953**
146.	a) bonds issued	13 149	7 701
147.	aa) short-term	9 862	3 684
148.	of which: - from affiliated undertakings		
149.	- from other associated undertakings		
150.	ab) long-term	3 287	4 017
151.	of which: - from affiliated undertakings		
152.	- from other associated undertakings		

HUF millions

No.	Description	Previous year 31.12.2012.	Reporting year 31.12.2013.
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	260	252
161.	ca) short-term	260	252
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**	**126 844**	**81 929**
168.	a) short-term	126 844	81 929
169.	of which: - from affiliated undertakings	15	20
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**	**25 101**	**19 154**
176.	**5. ACCRUALS AND DEFERRED INCOME**	**55 037**	**36 632**
177.	a) accrued income	102	27
178.	b) accrued cost and expense	54 689	36 313
179.	c) deferred income	246	292
180.	**6. PROVISIONS**	**16 395**	**6 524**
181.	a) provisions for retirement benefits and severance pay	195	69
182.	b) risk provisions for contingent and future liabilities	3 212	4 243
183.	c) general risk provisions	10 034	-
184.	d) other provisions	2 954	2 212
185.	**7. SUBORDINATED LIABILITIES**	**22 192**	**22 529**
186.	a) subordinated debt	22 192	22 529
187.	of which: - from affiliated undertakings	17 478	17 815
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**	**140 978**	**140 978**
194.	- repurchased ownership interest at par value		
195.	**9. SUBSCRIBED CAPITAL UNPAID (-)**		
196.	**10. CAPITAL RESERVE**	**23 179**	**23 179**
197.	a) differences between the par value and offering price of shares and participations (premium)	14 393	14 393
198.	b) other	8 786	8 786
199.	**11. GENERAL RESERVE**	**18 517**	**20 422**
200.	**12. PROFIT RESERVE (+/-)**		**9 715**
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 (+/-)**	**-**	**-**
206.	**TOTAL LIABILITIES & EQUITY**	**2 470 087**	**2 573 629**
207.	**of which: - SHORT-TERM LIABILITIES [1.a)+1.ba)+1.c)+1/A+2.aa)+2.ab)+2.ba)+2.bb)+2.c)+2/A+3.aa)+3.ba)+3.ca)+4.a)+4/A]**	1 909 715	1 944 201
208.	**- LONG-TERM LIABILITIES [1.bb)+2.ac)+2.bc)+3.ab)+3.bb)+3.cb)+4.b)+7]**	306 266	391 978
209.	**- EQUITY (8-9+10+11+12+13+14+15)**	182 674	194 294

Budapest, 8th April 2014

Hendrik Scheerlinck
Chief Executive Officer

Attila Gombás
Chief Financial Officer

10195664-6419-114-01
statistical number

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

HUF millions

No.	Description	Previous year 31.12.2012.	Reporting year 31.12.2013.
a	b	c	d
01.	**1. Interest received and similar income**	**163 199**	**136 569**
02.	a) interest received (receivable) on fixed-interest debt securities	61 115	56 484
03.	of which: - from affiliated undertakings		
04.	- from other associated undertakings		
05.	b) other interest received and similar income	102 084	80 085
06.	of which: - from affiliated undertakings	3 683	2 168
07.	- from other associated undertakings		
08.	**2. Interest paid and similar expense**	**94 416**	**66 850**
09.	of which: - from affiliated undertakings	5 118	3 125
10.	- from other associated undertakings		
11.	**NET INTEREST INCOME (1-2)**	**68 783**	**69 719**
12.	**3. Income from securities**	**2 765**	**2 002**
13.	a) income from shares and participations held for trading (dividend, minority interest)		
14.	b) income from participations in affiliated undertakings (dividend, minority interest)	2 765	2 002
15.	c) income from other participations (dividend, minority interest)		
16.	**4. Fees and commissions received (receivable)**	**39 094**	**60 122**
17.	a) income from other financial services	33 409	52 163
18.	of which: - from affiliated undertakings	339	184
19.	- from other associated undertakings		
20.	b) income from investment services (excluding income from trading operations)	5 685	7 959
21.	of which: - from affiliated undertakings	32	255
22.	- from other associated undertakings		
23.	**5. Fees and commissions paid (payable)**	**14 287**	**15 192**
24.	a) expense on other financial services	13 789	14 634
25.	of which: - from affiliated undertakings	1 091	1 182
26.	- from other associated undertakings		
27.	b) expense on investment services (excluding expense on trading operations)	498	558
28.	of which: - from affiliated undertakings	169	199
29.	- from other associated undertakings		
30.	**6. Profit/loss on financial transactions [6.a)-6.b)+6.c)-6.d)]**	**28 417**	**30 203**
31.	a) income from other financial services	15 809	14 962
32.	of which: - from affiliated undertakings		
33.	- from other associated undertakings		
34.	- valuation difference		
35.	b) expense on other financial services	975	2 201
36.	of which: - from affiliated undertakings		
37.	- from other associated undertakings		
38.	- valuation difference		
39.	c) income from investment services (income from trading operations)	76 124	72 645
40.	of which: - from affiliated undertakings		
41.	- from other associated undertakings		
42.	- reversal of impairment on securities held for trading		
43.	- valuation difference	23 416	13 985
44.	d) expense on investment services (expense on trading operations)	62 541	55 203
45.	of which: - to affiliated undertakings		
46.	- to other associated undertakings		
47.	- impairment on securities held for trading		
48.	- valuation difference	- 2 864	7 364

HUF millions

No.	Description	Previous year 31.12.2012.		Reporting year 31.12.2013.	
a	b	c		d	
49.	**7. Other income from business activities**		**13 227**		**19 500**
50.	a) income from non-financial and investment services		6 679		11 391
51.	of which: - from affiliated undertakings		491		446
52.	- from other associated undertakings				
53.	b) other income		6 548		8 109
54.	of which: - from affiliated undertakings		1 045		433
55.	- from other associated undertakings				
56.	- reversal of impairment on inventories				17
57.	**8. General and administrative expenses**		**56 348**		**52 863**
58.	a) personnel expense		29 683		27 522
59.	aa) salaries and wages		20 644		19 169
60.	ab) other personnel expense		2 548		2 398
61.	of which: - social security expense		375		365
62.	- retirement expense		224		206
63.	ac) contributions payable on salaries and wages		6 491		5 955
64.	of which: - social security expense		358		368
65.	- retirement expense				
66.	b) other administrative expenses (material-type expenses)		26 665		25 341
67.	**9. Depreciation**		**7 131**		**7 380**
68.	**10. Other expenses on business activities**		**55 501**		**67 270**
69.	a) expense on non-financial and investment services		4 279		8 765
70.	of which: - to affiliated undertakings				
71.	- to other associated undertakings				
72.	b) other expense		51 222		58 505
73.	of which: - to affiliated undertakings		10		9
74.	- to other associated undertakings				
75.	- impairment on inventories				15
76.	**11. Impairment on receivables and risk provisioning for contingent and future liabilities**		**51 693**		**52 276**
77.	a) impairment on receivables		49 733		50 215
78.	b) risk provisioning for contingent and future liabilities		1 960		2 061
79.	**12. Reversal of impairment on receivables and risk provisions used for contingent and future liabilities**		**73 041**		**44 912**
80.	a) reversal of impairment on receivables		71 336		43 887
81.	b) risk provisions used for contingent and future liabilities		1 705		1 025
82.	**12/A. Difference between general risk provisions made and used**		**1 888**		**319**
83.	**13. Impairment on debt securities held for investment and shares and participations in affiliated and other associated undertakings**		**821**		**195**
84.	**14. Reversal of impairment on debt securities held for investment and shares and participations in affiliated and other associated undertakings**		**52**		**1 172**
85.	**15. Profit/loss on ordinary activities**		**41 486**		**32 773**
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]**		39 086		30 147
87.	**- profit/loss on non-financial and investment services [7.a)-10.a)]**		2 400		2 626
88.	**16. Extraordinary income**		**59**		**72**
89.	**17. Extraordinary expense**		**492**		**234**
90.	**18. Extraordinary profit/loss (16-17)**	-	**433**	-	**162**
91.	**19. Pretax profit/loss (±15±18)**		**41 053**		**32 611**
92.	**20. Taxation**		**14 612**		**13 559**
93.	**21. Net profit/loss (±19-20)**		**26 441**		**19 052**
94.	**22. General provisions made/used (±)**	-	**2 644**	-	**1 905**
95.	**23. Profit reserve used for dividend and minority interest**				
96.	**24. Dividend and minority interest approved**		**23 797**		**17 147**
97.	of which: - to affiliated undertakings				
98.	- to other associated undertakings				
99.	**25. Retained earnings (±21-/+22+23-24)**		-		-

Budapest, 8th April 2014

Hendrik Scheerlinck
Chief Executive Officer

Attila Gombás
Chief Financial Officer

Kereskedelmi és Hitelbank Zártkörűen Működő Részvénytársaság

Notes to the Financial Statements

31 December 2013

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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 2012		31 December 2013	
	Subscribed capital (HUF m)	Stake (%)	Subscribed capital (HUF m)	Stake (%)
KBC Bank N.V. Havenlaan 2, 1080 Brussels, Belgium	140 978	100	140 978	100
Total subscribed capital	**140 978**	**100**	**140 978**	**100**

Activities:

Financial leasing

Other monetary intermediation — Principal activity

Insurance agent and broker activities

Financial mediation n.e.c.

Stock and commodities market agent activities

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 CCXXXVII of 2013 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 are generally integrated 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 monthly 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 2 percent of the balance sheet total.

It follows from the above that if the findings are not significant, i.e. the errors remain below the above stated threshold of 2 percent of the balance sheet total, then the Bank includes these in its figures for the reporting year.

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 valuation of the derivatives is based on the yield curves including the market liquidity spread

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 amount of the fair value which is calculated on transaction level is adjusted (MVA - Market Value Adjustment) by the Bank taking into account the elements listed below. The adjustment according to the following elements is calculated by instrument / transaction types or on customer level:

- close-out cost of the transactions,
- illiquidity of the markets,
- counterparty risk.

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.

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 if that prevails for at least one year on the basis of historical events and future expectations. Furthermore, the difference is considered permanent - irrespective of its duration - if that appears final relying on the information available at the time of evaluation.

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 original cost.

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 2012			31 December 2013		
		HUF	Foreign currency	Total	HUF	Foreign currency	Total
Cash and equivalents	Line 1	75 686	2 941	78 627	149 817	3 205	153 022
Government securities	Line 2	867 500	3 535	871 035	939 093	40 996	980 089
Valuation difference of government securities	Line 5	367	0	367	200	-45	155
Amounts due from credit institutions	Line 6	16 662	54 406	71 068	32 785	44 972	77 757
Valuation difference of amounts due from credit institutions	Line 23	0	0	0	0	0	0
Amounts due from clients	Line 24	417 098	788 728	1 205 826	458 711	718 371	1 177 082
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	5 220	62 563	67 783	1 154	29 033	30 187
- of which foreign securities		0	0	0	0	0	0
Valuation difference of debt securities	Line 53	320	0	320	146	1	147
- of which foreign securities		0	0	0	0	0	0
Shares and other variable yield securities	Line 54	4 388	1 724	6 112	2 422	1 628	4 050
- of which foreign securities		0	0	0	0	0	0
Valuation difference of shares and other variable yield securities	Line 61	213	59	272	306	171	477
Shares and participations held for investment	Line 62	640	286	926	640	6	646
- of which foreign securities		0	286	286	0	0	0
Valuation difference of shares and participations	Line 67	0	0	0	0	0	0
Shares and participations in affiliated undertakings	Line 68	3 967	0	3 967	4 169	0	4 169
Intangible assets	Line 73	11 729	0	11 729	13 012	0	13 012
Tangible assets	Line 76	42 936	0	42 936	40 514	0	40 514
Treasury stock	Line 88	0	0	0	0	0	0
Other assets	Line 89	17 291	952	18 243	9 126	528	9 654
Valuation difference on other assets	Line 94	0	0	0	0	0	0
Positive valuation difference of derivative transactions	Line 95	30 077	0	30 077	24 441	0	24 441
Prepayments and accrued income	Line 96	56 200	4 599	60 799	54 127	4 100	58 227
Total assets		**1 550 294**	**919 793**	**2 470 087**	**1 730 663**	**842 966**	**2 573 629**

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

HUF millions

Description	Balance Sheet	31 December 2012			31 December 2013		
		HUF	Foreign currency	Total	HUF	Foreign currency	Total
Amounts due to credit institutions	Line 103	93 759	245 780	339 539	260 409	176 252	436 661
Valuation difference of amounts due to credit institutions	Line 120	0	0	0	0	0	0
Amounts due to clients	Line 121	1 354 340	334 556	1 688 896	1 410 113	357 840	1 767 953
Valuation difference of amounts due to clients	Line 144	0	0	0	0	0	0
Liabilities from securities issued	Line 145	11 902	1 507	13 409	7 953	0	7 953
Other liabilities	Line 167	111 311	15 533	126 844	76 685	5 244	81 929
Negative valuation difference of derivative transactions	Line 175	25 101	0	25 101	19 154	0	19 154
Accruals and deferred income	Line 176	52 715	2 322	55 037	34 595	2 037	36 632
Provisions	Line 180	15 030	1 365	16 395	3 429	3 095	6 524
Subordinated liabilities	Line 185	4 714	17 478	22 192	4 714	17 815	22 529
Subscribed capital	Line 193	140 978	0	140 978	140 978	0	140 978
Subscribed capital unpaid (-)	Line 195	0	0	0	0	0	0
Capital reserve	Line 196	23 179	0	23 179	23 179	0	23 179
General reserve	Line 199	18 517	0	18 517	20 422	0	20 422
Profit reserve (+/-)	Line 200	0	0	0	9 715	0	9 715
Earmarked reserve	Line 201	0	0	0	0	0	0
Valuation reserve	Line 202	0	0	0	0	0	0
Retained earnings	Line 205	0	0	0	0	0	0
Total liabilities & equity		**1 851 546**	**618 541**	**2 470 087**	**2 011 346**	**562 283**	**2 573 629**

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

31 December 2013

HUF millions

Description	31 December 2012				
	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)	17 143	2 001	9 898	3 111	32 153
Amounts due from clients, arising from financial services (Balance Sheet line 25)	223 593	203 664	350 923	422 877	1 201 057
Total	**240 736**	**205 665**	**360 821**	**425 988**	**1 233 210**

HUF millions

Description	31 December 2013				
	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)	20 196	5 890	11 721	2 114	39 921
Amounts due from clients, arising from financial services (Balance Sheet line 25)	225 819	196 178	359 257	395 327	1 176 581
Total	**246 015**	**202 068**	**370 978**	**397 441**	**1 216 502**

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

31 December 2013

HUF millions

Description	31 December 2012				
	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)	185 281	19 407	82 781	33 807	321 276
Amounts due to clients – other short-term liabilities from financial services (Balance Sheet line 130)	655 811	243 455	0	0	899 266
Amounts due to clients – other long-term liabilities from financial services (Balance Sheet line 133)	0	0	132 026	32 173	164 199
Subordinated liabilities (Balance Sheet line 185)	0	0	22 192	0	22 192
Total	**841 092**	**262 862**	**236 999**	**65 980**	**1 406 933**

HUF millions

Description	31 December 2013				
	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)	202 917	48 059	135 634	39 732	426 342
Amounts due to clients – other short-term liabilities from financial services (Balance Sheet line 130)	622 360	178 797	0	0	801 157
Amounts due to clients – other long-term liabilities from financial services (Balance Sheet line 133)	0	0	158 517	31 549	190 066
Subordinated liabilities (Balance Sheet line 185)	0	4 714	17 815	0	22 529
Total	**825 277**	**231 570**	**311 966**	**71 281**	**1 440 094**

II/5. Gross value of intangible and tangible assets

2013

HUF millions

Description	Balance Sheet	Change in gross value				
		Opening value	Reclassification (+/-)	Increase (+)	Decrease (-)	Closing value
Intangible assets	Line 73	**37 193**	**0**	**4 475**	**-96**	**41 572**
- rights		9 267	0	1 602	-1	**10 868**
- trademarks and patents		27 926	0	2 873	-95	**30 704**
Tangible assets used in financial services	Line 77	**74 273**	**0**	**2 107**	**-3 568**	**72 812**
- land and buildings	Line 78	46 956	0	604	-381	**47 179**
- technical equipment, machinery	Line 79	25 779	0	1 805	-3 176	**24 408**
- capital expenditure	Line 80	1 538	0	-302	-11	**1 225**
- advances for capital investments	Line 81	0	0	0	0	**0**
Tangible assets not directly used in financial services	Line 82	**92**	**0**	**1**	**-15**	**78**
- land and buildings	Line 83	0	0	0	0	**0**
- technical equipment, machinery and vehicles	Line 84	92	0	1	-15	**78**
- capital expenditure	Line 85	0	0	0	0	**0**
- advances for capital investments	Line 86	0	0	0	0	**0**

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

II/6. Accumulated depreciation of intangible and tangible assets

2013

HUF millions

Description	Balance Sheet	Accumulated depreciation				
		Opening value	Reclassification (+/-)	Increase (+)	Decrease (-)	Closing value
Intangible assets	Line 73	**25 464**	**0**	**3 097**	**-1**	**28 560**
- rights		4 720	0	1 551	-1	6 270
- trademarks and patents		20 744	0	1 546	0	22 290
Tangible assets used in financial services	Line 77	**31 407**	**0**	**4 281**	**-3 328**	**32 360**
- land and buildings	Line 78	11 240	0	2 141	-236	13 145
- technical equipment, machinery and vehicles	Line 79	20 167	0	2 140	-3 092	19 215
Tangible assets not directly used in financial services	Line 82	**22**	**0**	**2**	**-8**	**16**
- land and buildings	Line 83	0	0	0	0	0
- technical equipment, machinery and vehicles	Line 84	22	0	2	-8	16

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

HUF millions

Description	Balance sheet	31.12.2012. Closing value	31.12.2013. Closing value
Intangible assets	Line 73	**11 729**	**13 012**
- rights		4 547	4 598
- trademarks and patents		7 182	8 414
Tangible assets used in financial services	Line 77	**42 866**	**40 452**
- land and buildings	Line 78	35 716	34 034
- technical equipment, machinery and vehicles	Line 79	5 612	5 193
- capital expenditure	Line 80	1 538	1 225
- advances for capital investments	Line 81	0	0
Tangible assets not directly used in financial services	Line 82	**70**	**62**
- land and buildings	Line 83	0	0
- technical equipment, machinery and vehicles	Line 84	70	62
- capital expenditure	Line 85	0	0
- advances for capital investments	Line 86	0	0

II/8. Annual depreciation of intangible and tangible assets

2013

HUF millions

Description	Ordinary	Extraordinary	Total
Intangible assets	3 097	0	3 097
Tangible assets used in financial services	4 281	0	4 281
- land and buildings	2 141	0	2 141
- technical equipment, machinery and vehicles	2 140	0	2 140
Tangible assets not directly used in financial services	2	0	2
- land and buildings	0	0	0
- technical equipment, machinery and vehicles	2	0	2
Depreciation of tangible assets with a value of less than HUF 100,000	0	0	0
Adjustment due to self-audit	0	0	0
Total	**7 380**	**0**	**7 380**

Linear method is in use for calculation the depreciation in the Bank. There was not extraordinary depreciation written back.

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

In 2013 the Bank did not change the depreciation method used with intangible and tangible assets.

II/10. Contingent-, future liabilities and receivables

a., Liabilities

HUF millions

Description	31.12.2012.	31.12.2013.
Guarantees and warranties issued	99 105	120 789
Loans, guarantees and letters of credit	301 539	336 172
Export letters of credit	712	469
Import letters of credit	4 761	4 153
Liabilities from lawsuits	10 942	4 522
Liabilities from options	219 437	220 144
Other contingent liabilities	982	923
Total contingent liabilities	**637 478**	**687 172**

HUF millions

Description	31.12.2012.	31.12.2013.
Swaps (foreign currency and other)	933 904	910 884
Foreign currency forwards	111 287	130 290
Liabilities from the sale/purchase of securities	1 407	17 036
Future liabilities on payments	1 060	638
Other future liabilities	4 783	4 707
Interbank deposits	0	93 000
Total future liabilities	**1 052 441**	**1 156 555**

The Bank had contingent-, future liabilities of HUF 865 147 million to its affiliates.

b., Receivables

HUF millions

Description	31.12.2012.	31.12.2013.
Received guarantees and coverages	1 321 238	1 264 777
Interests, extra interests receivables	29 440	28 785
Receivables from lawsuits	675	876
Receivables from options	219 437	220 144
Other contingent receivables	1 334	1 575
Total contingent receivables	**1 572 124**	**1 516 157**

HUF millions

Description	31.12.2012.	31.12.2013.
Swaps (foreign currency and other)	858 996	862 577
Foreign currency forwards	107 503	127 441
Liabilities from the sale/purchase of securities	3 835	26 706
Future receivables on payments	1 067	643
Other future receivables	536	468
Total future receivables	**971 937**	**1 017 835**

The Bank had contingent-, future receivables of HUF 708 558 million to its affiliates.

II/11. Impairment and risk provisioning
2013

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)	108 495	48 520	43 063	349	114 301
Impairment recognized on financial leasing receivables	3 322	1 695	1 250	6	3 773
Impairment recognized on financial fixed assets	4 389	195	1 685	35	2 934
Impairment recognized on administrative risks	0	211	0	0	211
Impairment recognized on other receivables (operating)	286	4	9	-1	280
Impairment recognized on received in debt settlement	31	10	17	0	24
Total impairment recognized on assets	**116 523**	**50 635**	**46 024**	**389**	**121 523**
Risk provisions for contingent and future liabilities	3 212	2 061	1 025	-5	4 243
General risk provisions	10 034	715	1 034	-9 715	0
Provisions for future expenses	0	0	0	0	0
Provisions for anticipated liabilities	2 745	295	838	10	2 212
Provisions for administrative risks	209	0	209	0	0
Provisions for payment obligations due to early retirement and severance pay	195	0	126	0	69
Total provisions	**16 395**	**3 071**	**3 232**	**-9 710**	**6 524**

The “Other changes” column shows the change resulting from revaluation in 2013, except for the change in general risk provision. The balance of general risk provision as of 31.Dec.2013 has been transferred to the profit reserve.
Provision was not created for liabilities to affiliates.

II/12. Other notes to the Balance Sheet

a., Listed securities held by the Bank

- Under financial fixed assets:

HUF millions

Description	31 December 2012		31 December 2013	
	Par value	**Book value**	**Par value**	**Book value**
Government bonds	422 814	404 471	453 818	438 619
Total:	**422 814**	**404 471**	**453 818**	**438 619**

- Under current assets:

HUF millions

Description	31 December 2012		31 December 2013	
	Par value	**Book value**	**Par value**	**Book value**
Government bonds	22 611	23 076	5 710	5 934
Discounted Treasury bills	44 558	42 654	60 038	58 560
Investment units	1 061	1 085	413	413
Total:	**68 230**	**66 815**	**66 161**	**64 907**

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 984 509 million as at the balance sheet date.

c., As at 31 December 2013 the Bank's liabilities included subordinated debt of HUF 22 529 million (HUF 4 714 million, maturity date 20.12.2014., 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, 0.844%), 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., The balance of general risk provision as of 31.Dec.2013 has been transferred to the profit reserve in Bank's book according to the modification in Act CXII. of 1996.

f., The amount of accrued interest (including transaction interest and late interest), interest-type commission and fees receivable totaled HUF 14 345 million on 31 December 2013, versus HUF 11 028 million on 31 December 2012.

g., The HUF equivalent of receivables and liabilities arising from spot foreign exchange trades totaled HUF 12 120 million and HUF 12 113 million, respectively, at the balance sheet date, 31 December 2013.

h., On 31 December 2013, the balances of currency swap buy and sell trades made in the interbank market stood at HUF 834 613 million and HUF 786 570 million, respectively, while the balances of currency swap buy and sell trades made with clients were HUF 75 268 million and HUF 75 004 million, respectively. The balances of forward sell and buy trades made in the interbank market stood at HUF 11 390 million and HUF 12 441 million, respectively, while the balances of FX forward sell and buy trades made with clients were HUF 102 893 million and HUF 104 743 million, respectively. The transactions served (exchange rate) hedging as well as trading purposes.

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

HUF millions

Start date	Maturity date	Security	Par value	Transaction value
18DEC2013	08JAN2014	2018/A	5 000	5 443
23DEC2013	08JAN2014	2017/A_X	500	547
23DEC2013	08JAN2014	2022/A	1 500	1 698
30DEC2013	15JAN2014	2015/C	3 000	3 231
31DEC2013	15JAN2014	2020/A_X	1 000	1 141
31DEC2013	15JAN2014	2022/A	1 500	1 696
31DEC2013	15JAN2014	2023/A	1 500	1 554
Total active special delivery repos			**14 000**	**15 310**

HUF millions

Start date	Maturity date	Security	Par value	Transaction value
30DEC2013	15JAN2014	2015/C	3 000	3 231
31DEC2013	15JAN2014	2020/A_X	1 000	1 141
31DEC2013	15JAN2014	2023/A	1 500	1 554
11DEC2013	13JAN2014	2014/C_X	700	735
23DEC2013	08JAN2014	2022/A	1 500	1 698
31DEC2013	15JAN2014	2022/A	1 500	1 695
18DEC2013	08JAN2014	2018/A	5 000	5 443
23DEC2013	08JAN2014	2017/A_X	500	547
18DEC2013	03JAN2014	2018/A	5 000	5 410
Total passive special delivery repos			**19 700**	**21 454**

j., K&H Bank Zrt. participates, for a commission, in the distribution of investment units issued by various open-end investment funds. The Bank had no debts to these funds on 31 December 2013.
The par value of investment units posted as off-balance sheet items (held on securities accounts) – expressed in Hungarian forints – totaled HUF 569 646 million at the end of the year.

k., The Bank did not have any earmarked reserves on 31 December 2013.

l., On 31 December 2013 the adjusted balance sheet total was HUF 1 314 937 million.

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

n., The Bank manages securities with a total par value of HUF 1 325 199 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 7 602 million as at 31 December 2013. Clients had receivables of HUF 8 098 million and payables of HUF 496 million on their client accounts at the end of the year.

o., The Bank did not provide any asset management services for pension or health funds in 2013.

p., On 31 December 2013 the Bank had a total amount of HUF 543 million due from its parent company; at the same time, the Bank had liabilities of HUF 206 967 million to its parent of which short-term liabilities of HUF 187 837 million.
On 31 December 2013, amounts due from subsidiaries totaled HUF 37 722 million, while short-term liabilities amounted to HUF 17 549 million, and long-term liabilities to HUF 23 889 million come from open-end financial leasing.
The Bank had no subordinated liabilities to its subsidiaries.

q., 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

HUF millions*

Description	Par value		Comments
	31.12.2012.	31.12.2013.	
Dematerialized	**1 095 623**	**1 284 786**	
In safekeeping at the Bank's depository	43 086	40 413	
Total physical	**43 086**	**40 413**	
Total	**1 138 709**	**1 325 199**	

* converted into HUF at the NBH exchange rate for 31.12.2013.

II/14. Securities portfolio held by the Bank

- Stated in fixed assets

HUF millions

Description	Par value		Book value	
	31.12.2012.	31.12.2013.	31.12.2012.	31.12.2013.
Dematerialized	**455 234**	**480 611**	**437 731**	**467 947**
In safekeeping at the Bank's depository	1 305	1 305	2 783	2 924
Total physical	**1 305**	**1 305**	**2 783**	**2 924**
Total	**456 539**	**481 916**	**440 514**	**470 871**

- Stated in current assets

HUF millions *

Description	Par value		Book value	
	31.12.2012.	31.12.2013.	31.12.2012.	31.12.2013.
Dematerialized	511 300	547 825	508 940	548 181
Total physical	0	0	0	0
Total	**511 300**	**547 825**	**508 940**	**548 181**

* converted into HUF at the NBH exchange rate for 31.12.2013.

II/15. Accruals

HUF millions

Prepayments and accrued income	31.12.2012.	31.12.2013.
Accrued interest and interest-type commissions	41 153	34 879
IR swaps fair market value interest accrual	15 607	19 946
IR arbitrage transactions interest accrual	780	639
Other accrued income	1 264	1 677
Accrued income	**58 804**	**57 141**
Prepaid costs and expenses	**1 995**	**1 086**
Deferred expense	**0**	**0**
Total (Balance Sheet line 96)	**60 799**	**58 227**

HUF millions

Accruals and deferred income	31.12.2012.	31.12.2013.
Accrued income	**102**	**27**
Accrued interest	35 777	22 914
IR swaps fair market value interest accrual	8 348	5 768
IR arbitrage transactions interest accrual	404	279
Other accrued expenses	0	0
Accrued costs	10 160	7 352
Accrued costs and expenses	**54 689**	**36 313**
Deferred income	**246**	**292**
Total (Balance Sheet line 176)	**55 037**	**36 632**

II/16. Changes in equity

HUF millions

Description	Subscribed capital	Capital reserve	Profit reserve	General reserve	Retained earnings for the year	Total
Balance 31.12.2012.	140 978	23 179	0	18 517	0	**182 674**
General reserve				1 905		**1 905**
General risk provision transferred to the profit reserve			9 715			**9 715**
Balance 31.12.2013.	**140 978**	**23 179**	**9 715**	**20 422**	**0**	**194 294**

II/17. Rights and concessions concerning properties stated in intangible and tangible assets by type

a) Intangible assets by type

HUF millions

Description	31.12.2012.	31.12.2013.
Licenses	4 515	4 575
Other	32	23
Rights	**4 547**	**4 598**
Basic software	79	79
User software	7 101	8 333
Trademarks	2	2
Patents	**7 182**	**8 414**
Total:	**11 729**	**13 012**

b) Rights and concessions concerning properties stated in tangible assets by type

HUF millions

Description	31.12.2012.	31.12.2013.
Lease rights	37	27
Acquired rights from payment contribution of public utility	38	38
Total:	**75**	**65**

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

HUF millions

Description	31.12.2012.	31.12.2013.
Materials	67	10
Goods	315	1 126
Inventories purchased	**382**	**1 136**
Land and buildings	483	619
Technical equipment, machinery and vehicles	38	9
Received in debt settlement	**521**	**628**
Total (Balance Sheet line 90)	**903**	**1 764**

II/19. Risk-free securities at par value

HUF millions

Issue currency	Description	2012	2013
HUF	Government bonds for loan consolidation	110 676	12 349
HUF	Bonds issued by the NBH	265 000	410 404
HUF	Securities issued by the State of Hungary	512 786	533 423
HUF Total		**888 462**	**956 176**
JPY	Bonds issued by the NBH	2 896	2 315
JPY Total		**2 896**	**2 315**
EUR	Securities issued by the State of Hungary	0	38 124
EUR Total		**0**	**38 124**

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	
	2012	2013	2012	2013	2012	2013
Asset swap	0	0	-450	-221	-1 449	-711
CCIRS	1 009	581	-1 133	121	-28 488	-33 617
Forward	685	325	-1 605	-2 327	-2 806	-2 901
FRA	164	121	-578	-38	-414	84
IRS	23 991	20 263	-17 034	-13 238	13 497	16 058
Option	3 999	2 981	-4 253	-3 380	0	4
Currency swap	227	166	-42	-56	1 528	1 806
Futures	2	4	-6	-15	-16	18
Total	**30 077**	**24 441**	**-25 101**	**-19 154**	**-18 148**	**-19 259**

Accruals related to the fair market valuation of derivative transactions amounted to HUF 20 585 million in interest income and HUF 6 047 million in interest expense.
The HUF 48 906 million price difference of interest arbitrage-like swap transactions is stated under other liabilities.

b., Securities

HUF millions

Securities held for trading	Book value		Fair market value		Valuation difference	
	31.12.2012	31.12.2013	31.12.2012	31.12.2013	31.12.2012	31.12.2013
Government bonds	333 945	457 707	334 136	457 747	191	40
of which: reclassified from securities held for investment and maturing in 2014	46 441	34 308	46 441	34 308	0	0
Government bonds for loan consolidation	98 022	12 349	98 028	12 349	6	0
of which: reclassified from securities held for investment and maturing in 2014	98 006	12 349	98 006	12 349	0	0
Treasury bills	65 154	72 315	65 324	72 430	170	115
Total government securities:	**497 121**	**542 371**	**497 488**	**542 526**	**367**	**155**
Closed-end investment units	3 222	653	3 542	800	320	147
Bonds	2 485	1 107	2 485	1 107	0	0
of which: reclassified from securities held for investment and maturing in 2014	0	602	0	602	0	0
Total debt securities:	**5 707**	**1 760**	**6 027**	**1 907**	**320**	**147**
Open-end investment units	6 112	4 050	6 384	4 527	272	477
Total shares and other variable-yield securities	**6 112**	**4 050**	**6 384**	**4 527**	**272**	**477**

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

HUF millions

Description	Book value	Fair market value
	31.12.2013	31.12.2013
Securities held to maturity and securities included in available for sale	513 404	551 409
Receivables	1 254 839	1 240 406
Liabilities	2 234 590	2 226 829

II/21. Reclassification of financial instruments

The Bank did not reclassify any financial instruments into another category in 2013.

II/22. Data of restructured loan

HUF millions

Description	2012	2013
Conditional equity claim	171 868	150 307
Impairment	44 546	52 300
Book value of receivables	127 322	98 007

II. 23. Items managed in frame of special rating procedure

a., Net value of receivables

HUF millions

Description	2012				2013			
	Corporate loans	Retail loans	Credit institutions	Total	Corporate loans	Retail loans	Credit institutions	Total
Performing	572 343	385 211	71 067	**1 028 621**	608 473	373 542	77 757	**1 059 772**
Monitor	54 535	71 754	0	**126 289**	36 397	42 837	0	**79 234**
Substandard	4 100	12 519	0	**16 619**	15 351	7 680	0	**23 031**
Doubtful	14 508	46 159	0	**60 667**	12 670	36 757	0	**49 427**
Bad	1 813	34 503	0	**36 316**	1 250	40 565	0	**41 815**
Total	**647 299**	**550 146**	**71 067**	**1 268 512**	**674 141**	**501 381**	**77 757**	**1 253 279**

b., Net value of securities

HUF millions

Description	2012			2013		
	Investments	Debt securities	Total	Investments	Debt securities	Total
Performing	2 698	54 446	**57 144**	2 418	24 128	**26 546**
Monitor	0	3 496	**3 496**	0	4 901	**4 901**
Substandard	0	4 134	**4 134**	0	0	**0**
Doubtful	2 195	0	**2 195**	2 397	0	**2 397**
Bad	0	0	**0**	0	0	**0**
Total	**4 893**	**62 076**	**66 969**	**4 815**	**29 029**	**33 844**

c., Received in debt settlement

HUF millions

Description	2012			2013		
	Land and buildings	Technical equipment, machinery and vehicles	Total	Land and buildings	Technical equipment, machinery and vehicles	Total
Performing	483	0	**483**	602	0	**602**
Monitor	0	38	**38**	0	9	**9**
Substandard	0	0	**0**	0	0	**0**
Doubtful	0	0	**0**	17	0	**17**
Bad	0	0	**0**	0	0	**0**
Total	**483**	**38**	**521**	**619**	**9**	**628**

d., Net value of off balance sheet liabilities

HUF millions

Description	2012			2013		
	Corporate	Retail	Total	Corporate	Retail	Total
Performing	380 762	14 081	**394 843**	450 538	16 120	**466 658**
Monitor	8 337	6	**8 343**	1 398	7	**1 405**
Substandard	5 668	5	**5 673**	3 372	9	**3 381**
Doubtful	188	9	**197**	5 186	9	**5 195**
Bad	34	192	**226**	5	106	**111**
Total	**394 989**	**14 293**	**409 282**	**460 499**	**16 251**	**476 750**

II. 24 Financial leasing receivables

On 31 December 2013 the financial leasing receivables amounts was HUF 21 324 million.

III. NOTES TO THE PROFIT & LOSS ACCOUNT

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

HUF millions

No.	Description	31.12.2012.	31.12.2013.
1.	Re-invoiced value of third-party services	465	277
2.	Book value of inventories sold	3 814	8 488
Total (Profit & Loss Account line 69)		**4 279**	**8 765**

III/2. Income from and expense on investment services

HUF millions

Income from investment services	31.12.2012.	31.12.2013.
1. Income from custody services	517	579
2. Income from trading operations	76 124	72 645
3. Income from brokerage activities	4 507	6 415
4. Income from organizing activities on securities issue	0	0
5. Other income	661	965
Total (Profit & Loss Account lines 20 + 39)	**81 809**	**80 604**

HUF millions

Expense on investment services	31.12.2012.	31.12.2013.
1. Expense on custody services	100	110
2. Expense on trading operations	62 541	55 203
3. Expense on brokerage activities	398	448
4. Expense on organizing activities on securities issue	0	0
Total (Profit & Loss Account lines 27 + 44)	**63 039**	**55 761**

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 2013.

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

a) Contributions to deposit insurance and institutional protection funds

HUF millions

Description	Amount		Purpose
	2012	2013	
National Deposit Insurance Fund	669	657	Cost of other services
Investor Protection Fund	155	144	Contribution

b) Financial assistance received

The non-repayable grant was given for extension of tools of cashless payment transactions was received by the Bank in amount of HUF 141 million in 2013, from which HUF 108 million was used in the reference year.

c) Geographic breakdown of income

In 2012

HUF millions

Profit & Loss Account lines	Geographical breakdown			Breakdown of non-EU countries		
	Domestic	EU member states	Non-EU countries	United States of America	Switzerland	Other
1. Interest received and similar income	155 223	7 950	26	0	26	0
3. Income from securities	2 757	0	8	8	0	0
4. Fees and commissions received (receivable)	39 019	69	6	2	0	4
6. Profit/loss from financial transactions						
a) income from other financial services	15 809	0	0	0	0	0
c) income from investment services	15 138	60 756	230	226	4	0
7. Other income from business activities	13 039	187	1	0	0	1

In 2013

HUF millions

Profit & Loss Account lines	Geographical breakdown			Breakdown of non-EU countries		
	Domestic	EU member states	Non-EU countries	United States of America	Switzerland	Other
1. Interest received and similar income	134 470	1 971	128	21	107	0
3. Income from securities	1 999	0	3	3	0	0
4. Fees and commissions received (receivable)	60 051	64	7	1	1	5
6. Profit/loss from financial transactions						
a) income from other financial services	14 962	0	0	0	0	0
c) income from investment services	11 562	61 071	12	12	0	0
7. Other income from business activities	16 235	3 250	15	0	0	15

d) Financial institutions' special tax

Other expenditures in amount of HUF 4 511 million was recorded by the Bank in 2013 due to financial institutions' special tax.

III/5. Extraordinary expense and extraordinary income recognized in 2013

HUF millions

Extraordinary expense	Amount		Extraordinary income	Amount	
	31.12.2012.	31.12.2013.		31.12.2012.	31.12.2013.
Amounts not deemed uncollectible but forgiven	492	234	Financial assistance received definitively for development purposes	56	52
			Lapsed liabilities	1	1
			Extraordinary income related to assets taken over as refund	1	0
			Other extraordinary income	1	19
Total (Profit & Loss Account line 89)	**492**	**234**	**Total (Profit & Loss Account line 88)**	**59**	**72**

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

HUF millions

Description		31.12.2012.	31.12.2013.
Futures / forwards	Forward	-2 343	-1 649
	FRAs	-344	-253
	FX futures	-151	-241
Options	Options	369	282
Swaps	Asset swaps	-158	-129
	Currency swaps	6 318	483
	Index swaps	-2	24
	Interest rate swaps	9 981	9 599
Total		**13 670**	**8 116**

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

HUF millions

Profit/loss	2012		2013	
	Parent	Affiliate	Parent	Affiliate
Interest difference	-1 422	-14	-572	-385
Fees and commissions	-807	-81	-1 005	62
Profit/loss from financial transactions	N/A	0	N/A	0
Other	-6	1 527	-31	870
Extraordinary	49	0	21	0

IV. ADDITIONAL INFORMATION

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

I.	Name:	Hendrik Scheerlinck
	Address:	Budapest
II.	Name:	Attila Gombás
	Address:	Szolnok

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.
MKVK registration number: 001165
Authorized signatory: Krisztina Sulyok (Budapest (006660))

b., Fees charged by the auditors in 2013

HUF millions

Megnevezés	**Összeg**
	Ernst & Young
Auditing	146
Other certification services	
Tax consulting services	
Other, non-auditor services	4
Összesen	**150**

IV/3. Person in charge of accounting tasks

Name: Paula Ecsedi

Registration number: 140573

IV/4. Registered office and website

Registered office: 1095 Budapest, Lechner Ödön fasor 9.
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: 140 978 164 412 shares

par value: HUF 140 978 164 412

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)* 31.12.2012.	Subscribed capital (HUF m) * 31.12.2012.	Reserves (HUF m) * 31.12.2012.	Retained earnings for the last financial year (HUF m)* 31.12.2012.
1	K&H Befektetési Alapkezelő Zrt.	1095 Budapest, Lechner Ödön fasor 9.	100	2 647	850	151	1 647
2	K&H Autópark Kft.	1095 Budapest, Lechner Ödön fasor 9.	100	-169	10	2	-181
3	K&H Alkusz Kft.	1095 Budapest, Lechner Ödön fasor 9.	100	59	5	39	15
4	K&H Lízingház Zrt. "v.a."	1095 Budapest, Lechner Ödön fasor 9.	100	16	20	-89	85
5	K&H Lízing Zrt.	1095 Budapest, Lechner Ödön fasor 9.	100	130	50	83	-3
6	K&H Csoportszolgáltató Kft.	1095 Budapest, Lechner Ödön fasor 9.	100	529	60	440	30
7	K&H Equities Zrt.	1095 Budapest, Lechner Ödön fasor 9.	100	1 944	38	1 927	-21
8	K&H Eszközlízing Kft.	1095 Budapest, Lechner Ödön fasor 9.	100	112	5	26	81
9	Risk Kft. f.a.	1087 Budapest, Könyves Kálmán krt. 76.	100	N/A	444	N/A	N/A
10	K&H Ingatlanlízing Zrt.	1095 Budapest, Lechner Ödön fasor 9.	100	61	50	-49	60
11	K&H Faktor Pénzügyi Szolgáltató Zrt.	1095 Budapest, Lechner Ödön fasor 9.	100	250	51	148	52

* Corresponding to the annual report for previous year

No.	Company name	Registered office	Stake (%)	Equity (HUF m)* 31.12.2013.	Subscribed capital (HUF m) 31.12.2013.	Reserves (HUF m) 31.12.2013.	Retained earnings for the last financial year (HUF m)* 31.12.2013.
1	K&H Befektetési Alapkezelő Zrt.	1095 Budapest, Lechner Ödön fasor 9.	100	3 075	850	151	2 074
2	K&H Autópark Kft.	1095 Budapest, Lechner Ödön fasor 9.	100	-43	10	-256	203
3	K&H Alkusz Kft.	1095 Budapest, Lechner Ödön fasor 9.	100	54	5	54	-5
4	K&H Lízingház Zrt. "v.a."	1095 Budapest, Lechner Ödön fasor 9.	100	16	20	-89	85
5	K&H Lízing Zrt.	1095 Budapest, Lechner Ödön fasor 9.	100	126	50	79	-3
6	K&H Csoportszolgáltató Kft.	1095 Budapest, Lechner Ödön fasor 9.	100	622	60	461	100
7	K&H Equities Zrt.	1095 Budapest, Lechner Ödön fasor 9.	100	2 161	38	2 105	18
8	K&H Eszközlízing Kft.	1095 Budapest, Lechner Ödön fasor 9.	100	106	5	107	-5
9	K&H Ingatlanlízing Zrt.	1095 Budapest, Lechner Ödön fasor 9.	100	82	50	25	7
10	K&H Faktor Pénzügyi Szolgáltató Zrt.	1095 Budapest, Lechner Ödön fasor 9.	100	312	51	200	61

* Unaudited

b, Participations in jointly managed undertakings

The Bank holds no ownership interest in any jointly managed undertaking either in this year not in the previous year.

c, Participations in affiliated undertakings

No.	Company name	Registered office	Stake (%)*	Equity (HUF m)* 31.12.2012.	Subscribed capital (HUF m) * 31.12.2012.	Reserves (HUF m) * 31.12.2012.	Retained earnings for the last financial year (HUF m)* 31.12.2012.
1	HAGE Zrt.	4181 Nádudvar, Kossuth u. 2.	25,00	6 453	2 689	4 742	-978
2	GIRO Elszámolásforgalmi Zrt.	1054 Budapest, Vadász u. 31.	20,99	7 482	2 496	3 626	1 360
3	Garantiqa Hitelgarancia Zrt.	1063 Budapest, Szép u. 2.	13,30	12 759	4 812	9 605	-1 658

* Corresponding to the annual report for previous year

No.	Company name	Registered office	Stake (%)	Equity (HUF m)* 31.12.2013.	Subscribed capital (HUF m) 31.12.2013.	Reserves (HUF m) 31.12.2013.	Retained earnings for the last financial year (HUF m)* 31.12.2013.
1	HAGE Zrt.	4181 Nádudvar, Kossuth u. 2.	25,00	6 391	2 689	3 369	333
2	GIRO Elszámolásforgalmi Zrt.	1054 Budapest, Vadász u. 31.	20,99	7 174	2 496	3 628	1 051
3	Garantiqa Hitelgarancia Zrt.	1082 Budapest, Kisfaludy u. 32.	8,16	20 295	7 840	6 863	5 592

* Unaudited

d, Participations in other associated undertakings

No.	Company name	Registered office	Stake (%)*	Equity (HUF m) * 31.12.2012.	Subscribed capital (HUF m) * 31.12.2012.	Reserves (HUF m) * 31.12.2012.	Retained earnings for the last financial year (HUF m) * 31.12.2012.
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.	0,02	N/A	N/A	N/A	N/A
3	VISA Europe Limited	London, W2 6TT, Sheldon square 1	0,095	N/A	N/A	N/A	N/A
4	VISA Inc.	USA	0,004	N/A	N/A	N/A	N/A

* Corresponding to the annual report for previous year

No.	Company name	Registered office	Stake (%)	Equity (HUF m) 31.12.2013.	Subscribed capital (HUF m) 31.12.2013.	Reserves (HUF m) 31.12.2013.	Retained earnings for the last financial year (HUF m) 31.12.2013.
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.	0,02	N/A	14	N/A	N/A
3	VISA Europe Limited	London, W2 6TT, Sheldon square 1	1,28	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.	1095 Budapest, Lechner Ödön fasor 9.	850	100,00%
K&H Equities Zrt.	1095 Budapest, Lechner Ödön fasor 9.	38	100,00%
K&H Csoportszolgáltató Kft.	1095 Budapest, Lechner Ödön fasor 9.	60	100,00%
K&H Ingatlanlízing Zrt.	1095 Budapest, Lechner Ödön fasor 9.	50	100,00%
K&H Lízing Zrt. "v.a."	1095 Budapest, Lechner Ödön fasor 9.	50	100,00%
K&H Eszközlízing Kft.	1095 Budapest, Lechner Ödön fasor 9.	5	100,00%
K&H Lízingház Zrt. "v.a."	1095 Budapest, Lechner Ödön fasor 9.	20	100,00%
K&H Autópark Kft.	1095 Budapest, Lechner Ödön fasor 9.	10	100,00%
K&H Alkusz Kft.	1095 Budapest, Lechner Ödön fasor 9.	5	100,00%
K&H Faktor Pénzügyi Szolgáltató Zrt.	1095 Budapest, Lechner Ödön fasor 9.	51	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.

As at 31.12.2013. the impairment recognized by the Bank on its investment totaled HUF 2 686 million, after an decrease of HUF 141 million in 2013.

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 co-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., Debtor relief programs

In the course of 2011 and 2012 the debtor relief programs were initiated by the government in the following steps from which the following elements had an effect on the income statement as of the year end 2013.

Special ("buffer") account scheme

The already existing scheme of special ("buffer") account under which loan instalments are paid based on a fixed foreign exchange rates was modified and is accessible on a voluntary basis for qualifying customers.

According to the related regulation, the difference between the current spot rate and the preferential fixed foreign exchange rate (180 HUF/CHF, 250 HUF/EUR, 2,5 HUF/JPY) for the principal part of the monthly instalment is recorded in a "buffer" account and may be deferred for repayment until the end of a 60 month long period starting from the application date (or until the maturity of the underlying loan contract, if the latter is shorter than 60 months). During this period the buffer account is bearing 3 month BUBOR rate representing a below market interest rate.

The interest part of the monthly instalment above the preferential foreign exchange rates is borne entirely by the Hungarian government although 50% of this difference is refunded by the banks in form of additional tax charge in amount of HUF 1 168 million in case of K&H Bank.
Should the foreign exchange rate exceed the levels of HUF/CHF 270, HUF/EUR 340 and HUF/JPY 3,3 the excess amounts will be borne by the Hungarian state.

Measures to assist defaulted retail foreign exchange mortgage debtors

Retail foreign exchange mortgage debtors whose loans were overdue by more than 90 days on 30 September 2011 and the market value of the collateral was less than HUF 20 million were able to request to have their foreign exchange mortgage loans converted into HUF mortgage loans. For all loans converted, the Bank was required to waive 25% of the converted total obligations at the date of conversion. Further as part of this regulation, 30% of the obligation waived by the Bank was deducted from the bank tax due for 2012. In connection with this measure the Bank waived HUF 2 967 million claim (resulted in a bank tax reduction of HUF 890 million) in 2012.

This part of the measure had no substantial impact on the 2013 figures.

c., Miscellaneous

The main part of the provision of HUF 2 212 million (see table II/11.)has been created on contingent liabilities relating to commercial litigations as a consequence of the sale of investment products to clients in the past.
Management believes that 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 and other personnel expenses

Employees by category	Average statistical number of employees		Salaries and wages (HUF m)	
	2012	2013	2012	2013
Full-time	3 223	3 125	20 366	18 839
Part-time	70	75	243	268
Retired	7	7	34	61
Not on payroll	0*	0*	1	1
Total **Profit & Loss Account line 59**	**3 300**	**3 207**	**20 644**	**19 169**

* rounded figure

The amounts of other personnel expenses were in 2012 HUF 2 548 million, in 2013 HUF 2 398 million.

IV/12. 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	
	31.12.2012.	31.12.2013.	31.12.2012.	31.12.2013.
Board of Directors	3	2	239	225
Executive Management	38	40	1 370	1 664
Supervisory Board	1	2	6	17
Total:	**42**	**44**	**1 615**	**1 906**

IV/13. Loans granted to members of the Board of Directors, Executive Management and the Supervisory Board

31 December 2013

Members of the Board of Directors, the Executive Management and the Supervisory Board have a total debt of HUF 252 million to the Bank in loans and interest/charges.

IV/14. Adjustments to the Bank's taxable income 31 December 2013

HUF millions

Items decreasing taxable income	Amount	Items increasing taxable income	Amount
Income from the use of provisions	1 173	Expense arising from provisioning	295
Depreciation according to the Corporation Tax Act	7 074	Depreciation according to the Accounting Act	7 318
Book value of tangible assets removed from the books	362	Book value of tangible assets removed from the books	340
Dividends received	2 002	Fines	18
Reversal of impairment	26	Depreciations	231
Income and expenses related to previous years	62	Income and expenses related to previous years	296
Donations	23	Taxes paid abroad	47
Bank tax	11 137	Expenses not incurred in the interest of the company	1 820
Total:	**21 859**	**Total:**	**10 365**

The transfer of the amount of self-revision and general risk provision to the profit reserve had an effect on the amount of corporate tax (one-time credit institutes' contribution).
Extraordinary expense and extraordinary income had no material impact on the adjustments to the Bank's taxable income.

IV/15. 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	163 199	136 569
02.	+ Income from other financial services (excluding reversal of impairment on securities)	49 218	67 125
03.	+ Other income (excluding use of provisions, reversal of surplus provisions, reversal of impairment on inventories and reversal of extraordinary depreciation)	2 499	5 893
04.	+ Income from investment services (excluding reversal of impairment on securities)	58 095	66 186
05.	+ Income from non-financial and investment services	6 679	11 391
06.	+ Dividend income	2 765	2 002
07.	+ Extraordinary income	59	72
08.	- Interest expense	94 416	66 850
09.	- Expense on other financial services (excluding impairment on securities)	14 764	16 835
10.	- Other expense (excluding provisioning, impairment on inventories and extraordinary depreciation)	47 909	56 617
11.	- Expense on investment services (excluding impairment on securities)	65 903	48 397
12.	- Expense on non-financial and investment services	4 279	8 765
13.	- General and administrative expense	56 348	52 863
14.	- Extraordinary expense (excluding corporation tax liability for the year)	492	234
15.	- Corporation tax liability for the year	14 612	13 559
16.	- Dividend paid	23 797	17 147
17.	**CASH FLOW FROM OPERATIONS (lines 01-16)**	**-40 006**	**7 971**
18.	Change in liabilities (+ if increase, - if decrease)	-434 851	126 150
19.	Change in receivables (- if increase, + if decrease)	289 135	24 970
20.	Change in inventories (- if increase, + if decrease)	-600	-855
21.	Change in securities stated under current assets (- if increase, + if decrease)	-1 192	-39 237
22.	Change in securities stated under fixed assets (- if increase, + if decrease)	104 181	-29 100
23.	Change in capital expenditure (including advances) (- if increase, + if decrease)	2 148	302
24.	Change in intangible assets (- if increase, + if decrease)	-5 175	-4 475
25.	Change in tangible assets (excluding capital expenditure and advances for capital investments) (- if increase, + if decrease)	-4 358	-2 410
26.	Change in prepayments and accrued income (- if increase, + if decrease)	-359	6 911
27.	Change in accruals and deferred income (+ if increase, - if decrease)	10 088	-15 825
28.	Share offering at sale price	0	0
29.	Cash and equivalents received definitively under applicable law	0	0
30.	Cash and equivalents transferred definitively under applicable law	-48	-7
31.	Par value of Treasury stock and equity bonds retired	0	0
32.	**NET CASH FLOW (lines 17-34)**	**-82 517**	**74 395**
33.	of which: - change in cash (HUF and foreign currency cash and checks)	5 111	8 045
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)	-87 628	66 350

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

1. Key balance sheet and performance data

1.1. Balance sheet

billion HUF	31. Dec. 2012	31. Dec 2013	Change
Balance sheet total	2 470	2 574	+4,2%
Receivables from customers	1 206	1 177	-2,4%

K&H Bank's total assets amounted to 2 574 billion on 31 Dec 2013.
In 2013, there was a turning point in the lending activity. Although loan demand remained subdued in retail segment (and the retail loan portfolio contracted by 4% during the year), the decreasing trend started in 2008 came to a stand in corporate sector and loan portfolio started to increase again from the middle of the year. The returning corporate loan demand was attributable primarily to the 1st phase of the Hungarian National Bank's "Funding for growth" scheme, in the scope of which the Bank's concluded loan contracts in a value of 93 billion HUF with SME clients in 2013.

billion HUF	31. Dec. 2012	31. Dec 2013	Change
Liabilities to customers	1 689	1 768	+4,7%
Equity	183	194	+6,0%

The volume of *liabilities to customers* increased by 79 billion (4,7%) during the year.
The Bank improved its market position in the savings market for both retail and corporate segments.

Market share	2012	2013 *
Total assets	9,4%	10,1%
Corporate loans	7,9%	8,3%
Retail loans	8,7%	8,7%
Corporate deposits	11,1%	11,7%
Retail deposits+mutual funds	10,2%	10,7%

** Preliminary figures*
Source: MNB, K&H

The HUF 11,6 billion increase in shareholders' equity is primarily driven by changes in the related regulations: in line with the new Act on Credit Institutions and Financial Enterprises effective from 1 January 2014 pre-tax value of general risk reserve (9,7 billion HUF) was reclassified to retained earnings to ensure future compliance with CRD IV. regulations. Pursuant to a shareholder's decision the bank will pay 17,1 billion dividend after its profit of 2013 (1,9 billion being the remaining part of the profit of 2013 increases the general reserves within equity).

	31. Dec. 2012	31. Dec 2013	Difference
Guarantee capital (bln HUF)	188,2	186,4	-0,85%
Capital adequacy ratio (%)	12,9	14,2	+1,28

1.2. Profit

billion HUF	2012	2013	Change
Profit after taxation	26,4	19,1	-27,7%

In 2013 the bank reached 19,1 billion in profit after taxation (2012: 26,4 billion). The decreasing profit is partly due to the newly introduced sector specific taxes and higher level of impairments on loans: the Bank paid 23,2 billion HUF in the state budget as Financial Transaction Levy (whereof 15,3 billion for regular and 7,9 billion for one-off transaction levy).

- In comparison with previous year *net interest and interest-type income* increased by 1,3% (2013: 69,7 billion; 2012: 68,8 billion). If we consider the interest type result of FX swaps (reported under the heading of "profit/loss on financial operations"), net interest income would remain at the level of previous year.
- The increase i*n net income from fees and commission* (2013: 44,9 billion; 2012: 24,8 billion) is not reflecting the real business performance, since the regular and one-off Financial Transactional Levy paid by the Bank is reported under a separate heading ("other results from business activity"). Considering these items, net income from fees and commissions show 12% decrease compared to previous year on a comparable basis.
- *Profit/loss on financial transactions* increased slightly in 2013 (2013: 30,2 billion; 2012: 28,4 billion). Description of the financial instruments' valuation is included in the Bank's financial statements (II/19, II/20, II/21, III/6).
- There was a 3,3 billion reduction in *operating expenses* (2013: 60,2 billion; 2012: 63,5 billion) as a result of strict cost management.

2. Risk Management

Banks are exp*osed to several ty*pes of risks due to their operations. K&H Bank has a system in place for the accurate measurement and appropriate management and limitation of these risks. The system has been adjusted to the risk management system of the shareholder KBC Group both in terms of methodology and work organisation.

2.1 Risk management governance model

The risk management governance model seeks to define the responsibilities and tasks of various bodies and persons within the organisations with a view to ensuring the sound management of value creation and all the associated risks to which the banking and insurance businesses are exposed. The Group's risk governance model is organised in three tiers:

- Overarching company and risk committees are the Board of Directors (BoD), the Audit Risk and Compliance Committee (ARCC), the Supervisory Board (SB), the Executive Committee (ExCo), the Country Team (CT) and the Capital and Risk Oversight Committee (CROC). These committees concentrate on overarching risk management and on monitoring value creation.
- Specialised risk councils (Credit Risk Council (CRC), Trading Risk Councils (TRC), Operational Risk Councils (ORC)) concentrate on implementing a group-wide framework for one particular type of risk and monitoring the associated risk management process. The risk councils are composed of representatives from line management and Value and Risk Management Division.
- Line management and activity-specific committees have primary responsibility for value and risk management on the operational level. Whereas Value and Risk Management Division measures risks, economic capital and value creation for all relevant business entities and reports its findings directly to line management and the relevant activity-specific committees.
- Within Risk Management Division the Integrated Value and Risk Department is dedicated to overarch the three existing risk centers of competence (Credit Risk, Market and Liquidity Risk and Non-financial Risks), enhance coordination and transfer synthesized message to senior management regarding value creation, risk and capital.

The Board of Directors and the Audit, Risk and Compliance Committee have an important role to play in value creation and risk governance. Regular reporting to the Audit, Risk and Compliance Committee ensures that there is an ample flow of information to the members of the Board over the course of the year. Moreover, through the involvement of the Board in the annual round of approvals of risk-tolerance limits, the Board is able to take informed decisions on the degree of risk it finds acceptable for the Group and on the adequacy of the risk management structure.

2.2 Risk types

- **Credit risk** means the potential loss sustained by the bank if a customer becomes insolvent or cannot perform their payment obligations in due time. Credit risks are managed by risk mitigating techniques approved by the Management of the bank. Regulations cover the entirety of the lending process. The bank constantly monitors the credit portfolio and prepares reports on the findings to the senior management of the Bank.

  In the framework of the Basel II program, late 2010 the Bank was granted the permission of HFSA to use the internal rating model (IRB Foundation) which has been applied for regulatory capital calculation for credit risk since 1 January 2011. During the program, the Bank reviewed all debtor rating models and upgraded them in line with the new uniform group-level methodology.

  In the subsequent years, the bank paid special attention to the enhancement of the applied risk management methodology, with special regard to the analyses of the various stress scenarios affecting the credit portfolio (macro-economic indicators, foreign exchange rate changes and the changes in real estate values). An additional instrumental component of the further development of the risk management methodology was the revision of the management reports to better highlight the various quantitative risk indicators in order to allow the continuous monitoring of the credit portfolio.

  The economic conditions, especially the expected evolution of unemployment can have a considerably influence the future quality of the credit portfolio.

  During 2012 and 2013 management reports were completely revised (now they show much more detailed information and more indicators on credit risk). Main conclusions regarding credit risk for 2013: Corporate and SME portfolio remained stable, deterioration of retail portfolio continues but slowed down somewhat.

- **Market risk** means the potential loss suffered by the bank upon a change in the value of foreign currency and interest positions. Both the asset-liability management and market risk management are based on the methodology applied by the shareholder KBC Group. Accordingly, the Capital and Risk Oversight Committee constantly monitors banking and trading book risks and controls them by setting limits (in compliance with the limit policy of KBC). Interest risks are measured and controlled by the joint application of various methods and limits (gap analysis, interest sensitivity, duration, BPV, NII).

  The limit system has been extended by incorporating spread risk measurement in the limit monitoring. For monitoring market risks in the banking book a group-wide platform was implemented.

  The risk taking has been moderate and constantly within the risk playing field in the trading book. The Banking book is characterized by increasing interest rate risk, although it also remains within the comfort zone.

- **Liquidity risk** means the risk of the inability of an institution to comply with net financing requirements. Liquidity risk may be caused by disturbances on the market, credit downgrading, which may result in the constant cessation of certain financing sources. To eliminate this risk, the management seeks to diversify the financing sources and manages assets with due regard to liquidity requirements, maintaining a healthy balance between cash, liquid funds and promptly marketable securities. Short term liquidity risk is measured by the operational liquidity limit which establishes whether there is sufficient coverage for the 30-day cumulative liquidity gap. From 2011 structural liquidity is determined by the application of the coverage ratio, the calculation of the new regulatory and Basel III liquidity rates (LCR, NSFR) as well as by liquidity stress tests conducted in compliance with KBC directives. The Risk Management Directorate prepares regular reports to the K&H Bank Capital and Risk Oversight Committee on the various liquidity indicators and limits.

	31. Dec. 2012	**31. Dec 2013**	**Regulatory requirement**
Deposit coverage ratio (%)	61,9	63,0	20,0
Balance coverage ratio (%)	26,1	27,9	10,0
Foreign currency financing ratio (%)	70,3	70,7	65,0

- K&H Bank group manages **operational risks** (the potential loss that may arise as a result of inappropriately operating systems, processes or human errors or external events) based on uniform principles and methodology. The methodology includes various techniques of risk identification, risk analysis such as self-assessments (top-down and bottom-up), analysis of losses incurred and the assessment and implementation of key control principles defined by KBC group. The risk mitigation measures (or risk acceptance) are decided according to the uniform accountability rules (decision-making authority). The identified exposures and handling of the risk is monitored and followed up by the Capital and Risk Oversight Committee and analyzed by the Operational Risk Councils that are established throughout the organization. K&H Bank group applies the standardized method to calculate the Pillar I. capital requirement for operational risk according to the permission of the Hungarian Financial Supervisory Authority that was granted in December 2007 (from 1 January 2008).

3. Operating Conditions of the Bank

The number of bank employees decreased by 10 during the year and amounted to 3 198 at the end of 2013.

Capital investments in branches:

In 2013 the set-up, full or partial reconstruction of 21 branches was started or completed as follows:
- 2 new branches were completed and opened
- 3 branches are being moved to new locations, construction is still in progress
- 7 branches were fully or partially reconstructed, the reconstruction of 9 branches is still in progress
- 8 branches were closed during of 2013.

In connection with the construction of the branches, 2 ATMs were installed at new locations (in the branches) and 10 ATMs were mounted at other external locations (especially at shopping malls). The Bank installed 2 Cash-In terminals for pilot. (Number of ATMs: 432 at the end of 2013.)

The accessibility improvement of the branch network is being done concurrently with the constructions and reconstructions. Currently 168 of the 220 branches can be accessed without obstruction.

The most important IT development projects of 2013 were the following:

- Several project size developments were completed to align with legal regulations (for example new KHR /Central Credit Information System)
- The implementation of new SME and retail loan origination tools were completed.
- A new, centralized customer data management application was launched, as a first step towards an integrated branch support application.
- New generation e-bank application and mobile bank service was introduced for retail and SME customers.
- ICT implemented developments and system modifications related to Mastercard Paypass contactless bankcard issuing and cash-in ATMs.

Budapest, 8th April 2014

Hendrik Scheerlinck Chief Executive Officer	Attila Gombás Chief Financial Officer

K&H Bank Zrt.

Management Report

31 December 2013

Below we summarise the business operations, the operating conditions and the financial results of K&H Bank Zrt. in 2013.

1. Economic environment

The global economic outlook improved during the year especially in the developed markets. The FED, the ECB, Bank of Japan and Bank of England followed loose monetary policy which helped to stabilise the global market sentiment. Parallel to the improving European economic environment GDP growth started to somewhat accelerate in Hungary. Export remained the main driver of the economic growth and also the domestic consumption started to increase in the second half of the year. In this growth structure both the internal and the external balance of Hungary improved further in 2013. According to analysts' expectations Hungarian economy will continue to grow in 2014 as well.

	2012 actual	2013 preliminary
GDP growth	-1.7%	+1.1%
CPI (avg)	+5.7%	+1.7%
Investments	-5.2%	+2.7%
Unemployment rate	+10.7%	+9.1%
Budget deficit (ESA) (in a % of GDP)	-1.9%	-2.7%
Balance of payments (in a % of GDP)	+1.7%	+2.3%

Source: MNB, KSH, K&H

Positive market sentiment kept Hungarian risk premia at relatively low level over the year. The FED started to cut back its bond purchasing program (tapering) in December, a couple of months later than the market originally expected. The National Bank of Hungary took advantage of the low global interest rate environment and favourable evolution of inflation and gradually decreased the base rate from 5.75% in January to 3.00% in December.

2. Key balance sheet and performance data

2.1. Balance sheet

billion HUF	**31 Dec 2012**	**31 Dec 2013**	**Change**
Balance sheet total	2 470	2 574	+4.2%
Receivables from customers	1 206	1 177	-2.4%

K&H Bank's total assets amounted to 2,574 billion on 31 Dec 2013.
In 2013, there was a turning point in the lending activity. Although loan demand remained subdued in retail segment (and the retail loan portfolio contracted by 4% during the year), the decreasing trend started in 2008 came to a stand in corporate sector and loan portfolio started to increase again from the middle of the year. The returning corporate loan demand was attributable primarily to the 1st phase of the Hungarian National Bank's "Funding for growth" scheme, in the scope of which the Bank's concluded loan contracts in a value of 93 billion HUF with SME clients in 2013.

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The volume of *liabilities to customers* increased by 79 billion (4.7%) during the year.
The Bank improved its market position in the savings market for both retail and corporate segments.

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Retail loans	8.7%	8.7%
Corporate deposits	11.1%	11.7%
Retail deposits+mutual funds	10.2%	10.7%

** Preliminary figures*
Source: MNB, K&H

The HUF 11.6 billion increase in shareholders' equity is primarily driven by changes in the related regulations: in line with the new Act on Credit Institutions and Financial Enterprises effective from 1 January 2014 pre-tax value of general risk reserve (9.7 billion HUF) was reclassified to retained earnings to ensure future compliance with CRD IV. regulations. Pursuant to a shareholder's decision the bank will pay 17.1 billion dividend after its profit of 2013 (1.9 billion being the remaining part of the profit of 2013 increases the general reserves within equity).

	31 Dec 2012	**31 Dec 2013**	**Difference**
Guarantee capital (bln HUF)	188.2	186.4	-0.85%
Capital adequacy ratio (%)	12.9	14.2	+1.28

2.2. Profit

billion HUF	**2012**	**2013**	**Change**
Profit after taxation	26.4	19.1	-27.7%

In 2013 the bank reached 19.1 billion in profit after taxation (2012: 26.4 billion). The decreasing profit is partly due to the newly introduced sector specific taxes and higher level of impairments on loans: the Bank paid 23.2 billion HUF in the state budget as Financial Transaction Levy (whereof 15.3 billion for regular and 7.9 billion for one-off transaction levy).

- In comparison with previous year *net interest and interest-type income* increased by 1.3% (2013: 69.7 billion; 2012: 68.8 billion). If we consider the interest type result of FX swaps (reported under the heading of "profit/loss on financial operations"), net interest income would remain at the level of previous year.
- The increase i*n net income from fees and commission* (2013: 44.9 billion; 2012: 24.8 billion) is not reflecting the real business performance, since the regular and one-off Financial Transactional Levy paid by the Bank is reported under a separate heading ("other results from business activity"). Considering these items, net income from fees and commissions show 12% decrease compared to previous year on a comparable basis.
- *Profit/loss on financial transactions* increased slightly in 2013 (2013: 30.2 billion; 2012: 28.4 billion). Description of the financial instruments' valuation is included in the Bank's financial statements (II/19, II/20, II/21, III/6).
- There was a 3.3 billion reduction in *operating expenses* (2013: 60.2 billion; 2012: 63.5 billion) as a result of strict cost management.

3. Risk Management

Banks are exp*osed to several ty*pes of risks due to their operations. K&H Bank has a system in place for the accurate measurement and appropriate management and limitation of these risks. The system has been adjusted to the risk management system of the shareholder KBC Group both in terms of methodology and work organisation.

3.1 Risk management governance model

The risk management governance model seeks to define the responsibilities and tasks of various bodies and persons within the organisations with a view to ensuring the sound management of value creation and all the associated risks to which the banking and insurance businesses are exposed. The Group's risk governance model is organised in three tiers:

- Overarching company and risk committees are the Board of Directors (BoD), the Audit Risk and Compliance Committee (ARCC), the Supervisory Board (SB), the Executive Committee (ExCo), the Country Team (CT) and the Capital and Risk Oversight Committee (CROC). These committees concentrate on overarching risk management and on monitoring value creation.
- Specialised risk councils (Credit Risk Council (CRC), Trading Risk Councils (TRC), Operational Risk Councils (ORC)) concentrate on implementing a group-wide framework for one particular type of risk and monitoring the associated risk management process. The risk councils are composed of representatives from line management and Value and Risk Management Division.
- Line management and activity-specific committees have primary responsibility for value and risk management on the operational level. Whereas Value and Risk Management Division measures risks, economic capital and value creation for all relevant business entities and reports its findings directly to line management and the relevant activity-specific committees.
- Within Risk Management Division the Integrated Value and Risk Department is dedicated to overarch the three existing risk centers of competence (Credit Risk, Market and Liquidity Risk and Non-financial Risks), enhance coordination and transfer synthesized message to senior management regarding value creation, risk and capital.

The Board of Directors and the Audit, Risk and Compliance Committee have an important role to play in value creation and risk governance. Regular reporting to the Audit, Risk and Compliance Committee ensures that there is an ample flow of information to the members of the Board over the course of the year. Moreover, through the involvement of the Board in the annual round of approvals of risk-tolerance limits, the Board is able to take informed decisions on the degree of risk it finds acceptable for the Group and on the adequacy of the risk management structure.

3.2 Risk types

- **Credit risk** means the potential loss sustained by the bank if a customer becomes insolvent or cannot perform their payment obligations in due time. Credit risks are managed by risk mitigating techniques approved by the Management of the bank. Regulations cover the entirety of the lending process. The bank constantly monitors the credit portfolio and prepares reports on the findings to the senior management of the Bank.

  In the framework of the Basel II program, late 2010 the Bank was granted the permission of HFSA to use the internal rating model (IRB Foundation) which has been applied for regulatory capital calculation for credit risk since 1 January 2011. During the program, the Bank reviewed all debtor rating models and upgraded them in line with the new uniform group-level methodology.

  In the subsequent years, the bank paid special attention to the enhancement of the applied risk management methodology, with special regard to the analyses of the various stress scenarios affecting the credit portfolio (macro-economic indicators, foreign exchange rate changes and the changes in real estate values). An additional instrumental component of the further development of the risk management methodology was the revision of the management reports to better highlight the various quantitative risk indicators in order to allow the continuous monitoring of the credit portfolio.

  The economic conditions, especially the expected evolution of unemployment can have a considerably influence the future quality of the credit portfolio.

  During 2012 and 2013 management reports were completely revised (now they show much more detailed information and more indicators on credit risk). Main conclusions regarding credit risk for 2013: Corporate and SME portfolio remained stable, deterioration of retail portfolio continues but slowed down somewhat.

- **Market risk** means the potential loss suffered by the bank upon a change in the value of foreign currency and interest positions. Both the asset-liability management and market risk management are based on the methodology applied by the shareholder KBC Group. Accordingly, the Capital and Risk Oversight Committee constantly monitors banking and trading book risks and controls them by setting limits (in compliance with the limit policy of KBC). Interest risks are measured and controlled by the joint application of various methods and limits (gap analysis, interest sensitivity, duration, BPV, NII).

  The limit system has been extended by incorporating spread risk measurement in the limit monitoring. For monitoring market risks in the banking book a group-wide platform was implemented.

  The risk taking has been moderate and constantly within the risk playing field in the trading book. The Banking book is characterized by increasing interest rate risk, although it also remains within the comfort zone.

- **Liquidity risk** means the risk of the inability of an institution to comply with net financing requirements. Liquidity risk may be caused by disturbances on the market, credit downgrading, which may result in the constant cessation of certain financing sources. To eliminate this risk, the management seeks to diversify the financing sources and manages assets with due regard to liquidity requirements, maintaining a healthy balance between cash, liquid funds and promptly marketable securities. Short term liquidity risk is measured by the operational liquidity limit which establishes whether there is sufficient coverage for the 30-day cumulative liquidity gap. From 2011 structural liquidity is determined by the application of the coverage ratio, the calculation of the new regulatory and Basel III liquidity rates (LCR, NSFR) as well as by liquidity stress tests conducted in compliance with KBC directives. The Risk Management Directorate prepares regular reports to the K&H Bank Capital and Risk Oversight Committee on the various liquidity indicators and limits.

	31 Dec 2012	**31 Dec 2013**	**Regulatory requirement**
Deposit coverage ratio (%)	61.9	63.0	20.0
Balance coverage ratio (%)	26.1	27.9	10.0
Foreign currency financing ratio (%)	70.3	70.7	65.0

- K&H Bank group manages **operational risks** (the potential loss that may arise as a result of inappropriately operating systems, processes or human errors or external events) based on uniform principles and methodology. The methodology includes various techniques of risk identification, risk analysis such as self-assessments (top-down and bottom-up), analysis of losses incurred and the assessment and implementation of key control principles defined by KBC group. The risk mitigation measures (or risk acceptance) are decided according to the uniform accountability rules (decision-making authority). The identified exposures and handling of the risk is monitored and followed up by the Capital and Risk Oversight Committee and analyzed by the Operational Risk Councils that are established throughout the organization. K&H Bank group applies the standardized method to calculate the Pillar I. capital requirement for operational risk according to the permission of the Hungarian Financial Supervisory Authority that was granted in December 2007 (from 1 January 2008).

4. Operating Conditions of the Bank

The number of bank employees decreased by 10 during the year and amounted to 3,198 at the end of 2013.

Capital investments in branches:

In 2013 the set-up, full or partial reconstruction of 21 branches was started or completed as follows:

- 2 new branches were completed and opened
- 3 branches are being moved to new locations, construction is still in progress

- 7 branches were fully or partially reconstructed, the reconstruction of 9 branches is still in progress
- 8 branches were closed during of 2013.

In connection with the construction of the branches, 2 ATMs were installed at new locations (in the branches) and 10 ATMs were mounted at other external locations (especially at shopping malls). The Bank installed 2 Cash-In terminals for pilot. (Number of ATMs: 432 at the end of 2013.)

The accessibility improvement of the branch network is being done concurrently with the constructions and reconstructions. Currently 168 of the 220 branches can be accessed without obstruction.

The most important IT development projects of 2013 were the following:

- Several project size developments were completed to align with legal regulations (for example new KHR /Central Credit Information System)
- The implementation of new SME and retail loan origination tools were completed.
- A new , centralized customer data management application was launched, as a first step towards an integrated branch support application.
- New generation e-bank application and mobile bank service was introduced for retail and SME customers.
- ICT implemented developments and system modifications related to Mastercard Paypass contactless bankcard issuing and cash-in ATMs.

Dated: Budapest, 29th April 2014

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