



**Kereskedelmi és Hitelbank Zártkörűen Működő
Részvénytársaság**

ANNUAL REPORT

31 December 2016

K&H BANK ZRT.

ANNUAL REPORT
31 DECEMBER 2016

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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 2016 Annual Report and the Year 2016 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 28 2017

Hendrik Scheerlinck
Chief Executive Officer

Attila Gombás
Chief Financial Officer



INDEPENDENT AUDITOR'S REPORT
(Free translation)

To the shareholder of K&H Bank Zrt.

Opinion

We have audited the accompanying financial statements of K&H Bank Zrt. ("the Company") which comprise the balance sheet as at 31 December 2016 (in which the balance sheet total is MHUF 2,863,253, the profit or loss for the year is MHUF 42,420), the related income statement for the year then ended, and the notes to the financial statements, which include a summary of significant accounting policies.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Company as at 31 December 2016, and of the results of its operations for the year then ended in accordance with the provisions of Act C of 2000 on Accounting ("Accounting Act"), in force in Hungary.

Basis for Opinion

We conducted our audit in accordance with Hungarian National Standards on Auditing ("HNSA") and with applicable laws and regulations in force in Hungary. Our responsibilities under those standards are further described in the "Auditor's Responsibilities for the Audit of the Financial Statements" section of our report.

We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in Hungary. We have fulfilled our other ethical responsibilities in accordance with those requirements.

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

Other Information: the Business Report

The other information comprises the business report of the Company. Management is responsible for the preparation of the business report in accordance with the provisions of the Accounting Act and other relevant regulations. Our opinion on the financial statements expressed in the "Opinion" section of our report does not cover the business report.

In connection with our audit of the financial statements, our responsibility is to read the business report and, in doing so, consider whether the business report is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

Based on the Accounting Act, in respect of the business report, our responsibility is to read the business report and, in doing so, consider whether the business report has been prepared in accordance with the provisions of the Accounting Act and other relevant regulations, if any.

In our opinion, the 2016 business report of the Company is consistent with the 2016 financial statements and the business report has been prepared in accordance with the provisions of the Accounting Act.

As there is no other regulation prescribing further requirements for the business report, in respect of this, our opinion on the business report does not express the opinion required by Section (5) h) of 156 of the Accounting Act.



In addition, in light of the knowledge and understanding of the entity and its environment obtained in the course of the audit, we are required to report if we have identified material misstatements in the business report, and shall give an indication of the nature of any such misstatements. We have nothing to report in this respect.

Responsibilities of Management and those charged with governance for the Financial Statements

Management is responsible for the preparation of the financial statements that give a true and fair view in accordance with the Accounting Act, 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.

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HNSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with HNSAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that gives a true and fair view.



We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Budapest, 13 April 2017

Balázs Árpád
Partner
Statutory auditor
Licence number: 006931
PricewaterhouseCoopers Könyvvizsgáló Kft.
1055 Budapest, Bajcsy-Zsilinszky út 78.
Licence Number: 001464

Translation note:

Our report has been prepared in Hungarian and in English. In all matters of interpretation of information, views or opinions, the Hungarian version of our report takes precedence over the English version. The accompanying financial statements are not intended to present the financial position and results of operations and cash flows in accordance with accounting principles generally accepted in jurisdictions other than Hungary.

10195664-6419-114-01

statistical number

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

HUF millions

| No. | Description | Previous year 31.12.2015. | Reporting year 31.12.2016. |
|-----|--|------------------------------|-------------------------------|
| a | b | c | d |
| 01. | 1. CASH AND EQUIVALENTS | 580 907 | 302 270 |
| 02. | 2. GOVERNMENT SECURITIES | 600 233 | 653 321 |
| 03. | a) held for trading | 114 267 | 94 244 |
| 04. | b) held for investment | 485 966 | 559 077 |
| 05. | 2/A. VALUATION DIFFERENCE OF GOVERNMENT SECURITIES | - 28 | 39 |
| 06. | 3. AMOUNTS DUE FROM CREDIT INSTITUTIONS | 84 482 | 527 031 |
| 07. | a) on demand | 26 449 | 12 589 |
| 08. | b) other receivables from financial services | 58 033 | 514 442 |
| 09. | ba) short-term | 55 032 | 466 987 |
| 10. | of which: - from affiliated undertakings | 46 618 | 399 219 |
| 11. | - from undertakings with substantial ownership participation | | |
| 12. | - from other associated undertakings | | |
| 13. | - from the NBH | | |
| 14. | - from the clearing house, central counterparty | | |
| 15. | bb) long-term | 3 001 | 47 455 |
| 16. | of which: - from affiliated undertakings | | 37 000 |
| 17. | - from undertakings with substantial ownership participation | | |
| 18. | - from other associated undertakings | | |
| 19. | - from the NBH | | |
| 20. | - from the clearing house, central counterparty | | |
| 21. | c) from investment services | | |
| 22. | of which: - from affiliated undertakings | | |
| 23. | - from undertakings with substantial ownership participation | | |
| 24. | - from other associated undertakings | | |
| 25. | - from the clearing house, central counterparty | | |
| 26. | 3/A. VALUATION DIFFERENCE OF AMOUNTS DUE FROM CREDIT INSTITUTIONS | | |
| 27. | 4. AMOUNTS DUE FROM CLIENTS | 1 163 434 | 1 205 670 |
| 28. | a) from financial services | 1 162 909 | 1 205 044 |
| 29. | aa) short-term | 393 229 | 410 189 |
| 30. | of which: - from affiliated undertakings | 4 219 | 12 376 |
| 31. | - from undertakings with substantial ownership participation | | 90 |
| 32. | - from other associated undertakings | | |
| 33. | ab) long-term | 769 680 | 794 855 |
| 34. | of which: - from affiliated undertakings | 25 210 | 25 251 |
| 35. | - from undertakings with substantial ownership participation | | 90 |
| 36. | - from other associated undertakings | | |
| 37. | b) from investment services | 525 | 626 |
| 38. | of which: - from affiliated undertakings | | |
| 39. | - from undertakings with substantial ownership participation | | |
| 40. | - from other associated undertakings | | |
| 41. | ba) receivables from stock exchange investment services | | |
| 42. | bb) receivables from over-the-counter investment services | | |
| 43. | bc) amounts due from clients, arising from investment services | 520 | 619 |
| 44. | bd) amounts due from the clearing house, central counterparty | 5 | 7 |
| 45. | be) other receivables from investment services | | |
| 46. | 4/A. VALUATION DIFFERENCE OF AMOUNTS DUE FROM CLIENTS | | |

HUF millions

| No. | Description | Previous year 31.12.2015. | Reporting year 31.12.2016. |
|-----|--|------------------------------|-------------------------------|
| a | b | c | d |
| 47. | 5. DEBT SECURITIES, INCLUDING THOSE WITH A FIXED INTEREST RATE | 16 295 | 16 474 |
| 48. | a) securities issued by local municipalities and other administrative institutions (excluding government securities) | 1 428 | 1 176 |
| 49. | aa) held for trading | | |
| 50. | ab) held for investment | 1 428 | 1 176 |
| 51. | b) securities issued by third-party issuers | 14 867 | 15 298 |
| 52. | ba) held for trading | 431 | 481 |
| 53. | of which: - issued by affiliated undertakings | | |
| 54. | - issued by undertakings with substantial ownership participation | | |
| 55. | - issued by other associated undertakings | | |
| 56. | - Treasury stock | | |
| 57. | bb) held for investment | 14 436 | 14 817 |
| 58. | of which: - issued by affiliated undertakings | | |
| 59. | - issued by undertakings with substantial ownership participation | | |
| 60. | - issued by other associated undertakings | | |
| 61. | 5/A. VALUATION DIFFERENCE OF DEBT SECURITIES | 150 | 168 |
| 62. | 6. SHARES AND OTHER VARIABLE YIELD SECURITIES | 464 | - |
| 63. | a) shares and participations held for trading | | |
| 64. | of which: - issued by affiliated undertakings | | |
| 65. | - issued by undertakings with substantial ownership participation | | |
| 66. | - issued by other associated undertakings | | |
| 67. | b) variable yield securities | 464 | - |
| 68. | ba) held for trading | 464 | |
| 69. | bb) held for investment | | |
| 70. | 6/A. VALUATION DIFFERENCE OF SHARES AND OTHER VARIABLE YIELD SECURITIES | - 3 | |
| 71. | 7. SHARES AND PARTICIPATIONS HELD FOR INVESTMENT | 646 | 1 534 |
| 72. | a) shares and participations held for investment | 646 | 1 534 |
| 73. | of which: - participations in credit institutions | | |
| 74. | b) adjustments to the value of shares and participations held for investment | | |
| 75. | of which: - participations in credit institutions | | |
| 76. | 7/A. VALUATION DIFFERENCE OF SHARES AND PARTICIPATIONS | | |
| 77. | 8. SHARES AND PARTICIPATIONS IN AFFILIATED UNDERTAKINGS | 7 206 | 10 616 |
| 78. | a) shares and participations held for investment | 7 206 | 10 616 |
| 79. | of which: - participations in credit institutions | | 3 500 |
| 80. | b) adjustments to the value of shares and participations held for investment | | |
| 81. | of which: - participations in credit institutions | | |
| 82. | 9. INTANGIBLE ASSETS | 14 258 | 15 753 |
| 83. | a) intangible assets | 14 258 | 15 753 |
| 84. | b) adjustments to the value of intangible assets | | |
| 85. | 10. TANGIBLE ASSETS | 38 087 | 37 912 |
| 86. | a) tangible assets used in financial and investment services | 38 023 | 37 850 |
| 87. | aa) land and buildings | 30 917 | 30 003 |
| 88. | ab) technical equipment, machinery and vehicles | 5 242 | 6 824 |
| 89. | ac) capital expenditure | 1 864 | 1 023 |
| 90. | ad) advances for capital investments | | |
| 91. | b) tangible assets not directly used in financial and investment services | 64 | 62 |
| 92. | ba) land and buildings | | |
| 93. | bb) technical equipment, machinery and vehicles | 64 | 62 |
| 94. | bc) capital expenditure | | |
| 95. | bd) advances for capital investments | | |
| 96. | c) adjustments to the value of tangible assets | | |
| 97. | 11. TREASURY STOCK | | |

HUF millions

| No. | Description | Previous year 31.12.2015. | Reporting year 31.12.2016. |
|------|--|------------------------------|-------------------------------|
| a | b | c | d |
| 98. | 12. OTHER ASSETS | 21 884 | 13 309 |
| 99. | a) inventories | 5 558 | 1 783 |
| 100. | b) other receivables | 16 326 | 11 526 |
| 101. | of which: - amounts due from affiliated undertakings | 14 | 43 |
| 102. | - amounts due from undertakings with substantial ownership participation | | |
| 103. | - amounts due from other associated undertakings | | |
| 104. | 12/A. VALUATION DIFFERENCE OF OTHER RECEIVABLES | | |
| 105. | 12/B. POSITIVE VALUATION DIFFERENCE OF DERIVATIVE TRANSACTIONS | 34 309 | 39 779 |
| 106. | 13. PREPAYMENTS AND ACCRUED INCOME | 44 893 | 39 377 |
| 107. | a) accrued income | 43 122 | 37 983 |
| 108. | b) prepayments | 1 771 | 1 394 |
| 109. | c) deferred expense | | |
| 110. | TOTAL ASSETS | 2 607 217 | 2 863 253 |
| 111. | 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] | 1 227 616 | 1 340 681 |
| 112. | - 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] | 1 334 708 | 1 483 195 |

Budapest, 13th April 2017

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 31.12.2015. | Reporting year 31.12.2016. |
|------|--|------------------------------|-------------------------------|
| a | b | c | d |
| 113. | 1. AMOUNTS DUE TO CREDIT INSTITUTIONS | 362 155 | 324 245 |
| 114. | a) on demand | 22 442 | 40 251 |
| 115. | b) fixed-term liabilities from financial services | 339 713 | 283 994 |
| 116. | ba) short-term | 124 241 | 82 765 |
| 117. | of which: - from affiliated undertakings | 31 312 | 747 |
| 118. | - from undertakings with substantial ownership participation | | |
| 119. | - from other associated undertakings | | |
| 120. | - from the NBH | 8 269 | 43 992 |
| 121. | - from the clearing house, central counterparty | | |
| 122. | bb) long-term | 215 472 | 201 229 |
| 123. | of which: - from affiliated undertakings | | |
| 124. | - from undertakings with substantial ownership participation | | |
| 125. | - from other associated undertakings | | |
| 126. | - from the NBH | 192 307 | 138 706 |
| 127. | - from the clearing house, central counterparty | | |
| 128. | c) from investment services | | |
| 129. | of which: - from affiliated undertakings | | |
| 130. | - from undertakings with substantial ownership participation | | |
| 131. | - from other associated undertakings | | |
| 132. | - from the clearing house, central counterparty | | |
| 133. | 1/A. VALUATION DIFFERENCE OF AMOUNTS DUE TO CREDIT INSTITUTIONS | | |
| 134. | 2. AMOUNTS DUE TO CLIENTS | 1 895 672 | 2 155 083 |
| 135. | a) savings deposits | | |
| 136. | aa) on demand | | |
| 137. | ab) short-term | | |
| 138. | ac) long-term | | |
| 139. | b) other liabilities from financial services | 1 874 460 | 2 101 981 |
| 140. | ba) on demand | 1 302 199 | 1 659 970 |
| 141. | of which: - from affiliated undertakings | 3 767 | 13 419 |
| 142. | - from undertakings with substantial ownership participation | | 64 |
| 143. | - from other associated undertakings | | 166 |
| 144. | bb) short-term | 339 801 | 269 498 |
| 145. | of which: - from affiliated undertakings | 720 | 22 |
| 146. | - from undertakings with substantial ownership participation | | |
| 147. | - from other associated undertakings | | |
| 148. | bc) long-term | 232 460 | 172 513 |
| 149. | of which: - from affiliated undertakings | 23 849 | 23 824 |
| 150. | - from undertakings with substantial ownership participation | | |
| 151. | - from other associated undertakings | | |
| 152. | c) from investment services | 21 212 | 53 102 |
| 153. | of which: - from affiliated undertakings | | |
| 154. | - from undertakings with substantial ownership participation | | |
| 155. | - from other associated undertakings | | |
| 156. | ca) liabilities from stock exchange investment services | | |
| 157. | cb) liabilities from over-the-counter investment services | | |
| 158. | cc) amounts due to clients from investment services | 21 212 | 53 102 |
| 159. | cd) amounts due to the organization performing clearing house activities | | |
| 160. | ce) other liabilities from investment services | | |

HUF millions

| No. | Description | Previous year 31.12.2015. | Reporting year 31.12.2016. |
|------|--|------------------------------|-------------------------------|
| a | b | c | d |
| 161. | 2/A. VALUATION DIFFERENCE OF AMOUNTS DUE TO CLIENTS | | |
| 162. | 3. LIABILITIES FROM SECURITIES ISSUED | 5 723 | 7 798 |
| 163. | a) bonds issued | 5 482 | 7 562 |
| 164. | aa) short-term | 1 705 | 1 055 |
| 165. | of which: - from affiliated undertakings | | |
| 166. | - from undertakings with substantial ownership participation | | |
| 167. | - from other associated undertakings | | |
| 168. | ab) long-term | 3 777 | 6 507 |
| 169. | of which: - from affiliated undertakings | | |
| 170. | - from undertakings with substantial ownership participation | | |
| 171. | - from other associated undertakings | | |
| 172. | b) other debt securities issued | - | - |
| 173. | ba) short-term | | |
| 174. | of which: - from affiliated undertakings | | |
| 175. | - from undertakings with substantial ownership participation | | |
| 176. | - from other associated undertakings | | |
| 177. | bb) long-term | | |
| 178. | of which: - from affiliated undertakings | | |
| 179. | - from undertakings with substantial ownership participation | | |
| 180. | - from other associated undertakings | | |
| 181. | c) debt instruments treated as securities for accounting purposes but not deemed securities under the Securities Act | 241 | 236 |
| 182. | ca) short-term | 241 | 236 |
| 183. | of which: - from affiliated undertakings | | |
| 184. | - from undertakings with substantial ownership participation | | |
| 185. | - from other associated undertakings | | |
| 186. | cb) long-term | | |
| 187. | of which: - from affiliated undertakings | | |
| 188. | - from undertakings with substantial ownership participation | | |
| 189. | - from other associated undertakings | | |
| 190. | 4. OTHER LIABILITIES | 48 166 | 30 229 |
| 191. | a) short-term | 48 166 | 30 229 |
| 192. | of which: - from affiliated undertakings | 95 | 13 |
| 193. | - from undertakings with substantial ownership participation | | |
| 194. | - from other associated undertakings | | |
| 195. | - other financial contributions made by members of co-operative credit institutions | | |
| 196. | b) long-term | | |
| 197. | of which: - from affiliated undertakings | | |
| 198. | - from undertakings with substantial ownership participation | | |
| 199. | - from other associated undertakings | | |
| 200. | 4/A. NEGATIVE VALUATION DIFFERENCE OF DERIVATIVE TRANSACTIONS | 20 318 | 21 982 |
| 201. | 5. ACCRUALS AND DEFERRED INCOME | 27 192 | 32 660 |
| 202. | a) accrued income | 74 | 98 |
| 203. | b) accrued cost and expense | 26 860 | 32 336 |
| 204. | c) deferred income | 258 | 226 |
| 205. | 6. PROVISIONS | 8 315 | 3 836 |
| 206. | a) provisions for retirement benefits and severance pay | 24 | 10 |
| 207. | b) risk provisions for contingent and future liabilities | 6 438 | 2 130 |
| 208. | c) general risk provisions | | |
| 209. | d) other provisions | 1 853 | 1 696 |

HUF millions

| No. | Description | Previous year 31.12.2015. | Reporting year 31.12.2016. |
|------|--|------------------------------|-------------------------------|
| a | b | c | d |
| 210. | 7. SUBORDINATED LIABILITIES | 28 181 | 27 992 |
| 211. | a) subordinated debt | 28 181 | 27 992 |
| 212. | of which: - from affiliated undertakings | 28 181 | 27 992 |
| 213. | - from undertakings with substantial ownership participation | | |
| 214. | - from other associated undertakings | | |
| 215. | b) other financial contributions made by members of co-operative credit institutions | | |
| 216. | c) other subordinated liabilities | | |
| 217. | of which: - from affiliated undertakings | | |
| 218. | - from undertakings with substantial ownership participation | | |
| 219. | - from other associated undertakings | | |
| 220. | - from other undertakings | | |
| 221. | 8. SUBSCRIBED CAPITAL | 140 978 | 140 978 |
| 222. | - repurchased ownership interest at par value | | |
| 223. | 9. SUBSCRIBED CAPITAL UNPAID (-) | | |
| 224. | 10. CAPITAL RESERVE | 23 179 | 23 179 |
| 225. | a) differences between the par value and offering price of shares and participations (premium) | 14 393 | 14 393 |
| 226. | b) other | 8 786 | 8 786 |
| 227. | 11. GENERAL RESERVE | 8 750 | 13 463 |
| 228. | 12. RETAINED EARNINGS (+/-) | 9 715 | 39 388 |
| 229. | 13. EARMARKED RESERVE | | |
| 230. | 14. VALUATION RESERVE | | |
| 231. | a) valuation reserve for value adjustments | | |
| 232. | b) valuation reserve for fair market valuation | | |
| 233. | 15. PROFIT OR LOSS FOR THE YEAR (+/-) | 28 873 | 42 420 |
| 234. | TOTAL LIABILITIES & EQUITY | 2 607 217 | 2 863 253 |
| 235. | 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] | 1 880 325 | 2 159 088 |
| 236. | - LONG-TERM LIABILITIES [1.bb)+2.ac)+2.bc)+3.ab)+3.bb)+3.cb)+4.b)+7] | 479 890 | 408 241 |
| 237. | - EQUITY (8-9+10+11+12+13+14+15) | 211 495 | 259 428 |

Budapest, 13th April 2017

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 31.12.2015. | Reporting year 31.12.2016. |
|-----|---|------------------------------|-------------------------------|
| a | b | c | d |
| 01. | 1. Interest received and similar income | 95 442 | 87 708 |
| 02. | a) interest received (receivable) on fixed-interest debt securities | 33 093 | 33 648 |
| 03. | of which: - from affiliated undertakings | | |
| 04. | - from undertakings with substantial ownership participation | | |
| 05. | - from other associated undertakings | | |
| 06. | b) other interest received and similar income | 62 349 | 54 060 |
| 07. | of which: - from affiliated undertakings | 1 232 | 1 478 |
| 08. | - from undertakings with substantial ownership participation | | 9 |
| 09. | - from other associated undertakings | | |
| 10. | 2. Interest paid and similar expense | 24 070 | 17 369 |
| 11. | of which: - to affiliated undertakings | 1 661 | 1 807 |
| 12. | - to undertakings with substantial ownership participation | | |
| 13. | - to other associated undertakings | | |
| 14. | NET INTEREST INCOME (1-2) | 71 372 | 70 339 |
| 15. | 3. Income from securities | 2 438 | 2 575 |
| 16. | a) income from shares and participations held for trading (dividend, minority interest) | | |
| 17. | b) income from participations in affiliated undertakings (dividend, minority interest) | 2 438 | 2 573 |
| 18. | c) income from other participations (dividend, minority interest) | | 2 |
| 19. | 4. Fees and commissions received (receivable) | | |
| 20. | a) income from other financial services | 63 601 | 64 471 |
| 21. | of which: - from affiliated undertakings | 54 023 | 55 446 |
| 22. | - from other associated undertakings | 283 | 388 |
| 23. | - from undertakings with substantial ownership participation | | 4 |
| 24. | - from other associated undertakings | | |
| 25. | b) income from investment services (excluding income from trading operations) | 9 578 | 9 025 |
| 26. | of which: - from affiliated undertakings | 3 | 2 |
| 27. | - from undertakings with substantial ownership participation | | |
| 28. | - from other associated undertakings | | |
| 29. | 5. Fees and commissions paid (payable) | 17 837 | 16 671 |
| 30. | a) expense on other financial services | 17 328 | 15 966 |
| 31. | of which: - to affiliated undertakings | 805 | 676 |
| 32. | - to undertakings with substantial ownership participation | | |
| 33. | - to other associated undertakings | | |
| 34. | b) expense on investment services (excluding expense on trading operations) | 509 | 705 |
| 35. | of which: - to affiliated undertakings | 174 | 177 |
| 36. | - to undertakings with substantial ownership participation | | |
| 37. | - to other associated undertakings | | |
| 38. | 6. Profit/loss on financial transactions [6.a)-6.b)+6.c)-6.d)] | 20 520 | 26 768 |
| 39. | a) income from other financial services | 14 525 | 17 382 |
| 40. | of which: - from affiliated undertakings | | |
| 41. | - from undertakings with substantial ownership participation | | |
| 42. | - from other associated undertakings | | |
| 43. | - valuation difference | | |

HUF millions

| No. | Description | Previous year 31.12.2015. | Reporting year 31.12.2016. |
|-----|---|------------------------------|-------------------------------|
| a | b | c | d |
| 44. | b) expense on other financial services | 4 467 | 5 243 |
| 45. | of which: - to affiliated undertakings | | |
| 46. | - to undertakings with substantial ownership participation | | |
| 47. | - to other associated undertakings | | |
| 48. | - valuation difference | | |
| 49. | c) income from investment services (income from trading operations) | 45 486 | 46 416 |
| 50. | of which: - from affiliated undertakings | | |
| 51. | - from undertakings with substantial ownership participation | | |
| 52. | - from other associated undertakings | | |
| 53. | - reversal of impairment on securities held for trading | | |
| 54. | - valuation difference | 6 193 | 8 063 |
| 55. | d) expense on investment services (expense on trading operations) | 35 024 | 31 787 |
| 56. | of which: - to affiliated undertakings | | |
| 57. | - to undertakings with substantial ownership participation | | |
| 58. | - to other associated undertakings | | |
| 59. | - impairment on securities held for trading | | |
| 60. | - valuation difference | 4 681 | 5 675 |
| 61. | 7. Other income from business activities | 44 808 | 38 121 |
| 62. | a) income from non-financial and investment services | 29 904 | 29 123 |
| 63. | of which: - from affiliated undertakings | 484 | 447 |
| 64. | - from undertakings with substantial ownership participation | | |
| 65. | - from other associated undertakings | | |
| 66. | b) other income | 14 904 | 8 998 |
| 67. | of which: - from affiliated undertakings | 332 | 283 |
| 68. | - from undertakings with substantial ownership participation | | |
| 69. | - from other associated undertakings | | |
| 70. | - reversal of impairment on inventories | 17 | 4 |
| 71. | 8. General and administrative expenses | 51 921 | 53 297 |
| 72. | a) personnel expense | 31 099 | 33 661 |
| 73. | aa) salaries and wages | 21 482 | 23 546 |
| 74. | ab) other personnel expense | 2 866 | 2 955 |
| 75. | of which: - social security expense | 335 | 328 |
| 76. | - retirement expense | 178 | 185 |
| 77. | ac) contributions payable on salaries and wages | 6 751 | 7 160 |
| 78. | of which: - social security expense | 484 | 488 |
| 79. | - retirement expense | | |
| 80. | b) other administrative expenses (material-type expenses) | 20 822 | 19 636 |
| 81. | 9. Depreciation | 8 214 | 9 064 |
| 82. | 10. Other expenses on business activities | 93 856 | 86 574 |
| 83. | a) expense on non-financial and investment services | 27 004 | 26 786 |
| 84. | of which: - to affiliated undertakings | | |
| 85. | - to undertakings with substantial ownership participation | | |
| 86. | - to other associated undertakings | | |

HUF millions

| No. | Description | Previous year 31.12.2015. | Reporting year 31.12.2016. |
|------|--|------------------------------|-------------------------------|
| a | b | c | d |
| 87. | b) other expense | 66 852 | 59 788 |
| 88. | of which: - to affiliated undertakings | 5 | |
| 89. | - to undertakings with substantial ownership participation | | |
| 90. | - to other associated undertakings | | |
| 91. | - impairment on inventories | 11 | 7 |
| 92. | 11. Impairment on receivables and risk provisioning for contingent and future liabilities | 69 148 | 15 433 |
| 93. | a) impairment on receivables | 66 587 | 14 780 |
| 94. | b) risk provisioning for contingent and future liabilities | 2 561 | 653 |
| 95. | 12. Reversal of impairment on receivables and risk provisions used for contingent and future liabilities | 86 675 | 35 772 |
| 96. | a) reversal of impairment on receivables | 85 220 | 30 859 |
| 97. | b) risk provisions used for contingent and future liabilities | 1 455 | 4 913 |
| 98. | 12/A. Difference between general risk provisions made and used | - | - |
| 99. | 13. Impairment on debt securities held for investment and shares and participations in affiliated and other associated undertakings | - | 17 |
| 100. | 14. Reversal of impairment on debt securities held for investment and shares and participations in affiliated and other associated undertakings | 2 778 | - |
| 101. | 15. Profit/loss on ordinary activities | 51 216 | 56 990 |
| 102. | 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] | 48 316 | 54 653 |
| 103. | - profit/loss on non-financial and investment services [7.a)-10.a)] | 2 900 | 2 337 |
| 104. | 16. Extraordinary income | 68 067 | 333 |
| 105. | 17. Extraordinary expense | 72 602 | 76 |
| 106. | 18. Extraordinary profit/loss (16-17) | - | 257 |
| 107. | 19. Pretax profit/loss (+15+18) | 46 681 | 57 247 |
| 108. | 20. Taxation | 14 600 | 10 114 |
| 109. | 21. Net profit/loss (+19-20) | 32 081 | 47 133 |
| 110. | 22. General provisions made/used (+) | - | 4 713 |
| 111. | 23. Profit or loss for the year (+21+22) | 28 873 | 42 420 |

Budapest, 13th April 2017

Hendrik Scheerlinck
Chief Executive Officer

Attila Gombás
Chief Financial Officer

Kereskedelmi és Hitelbank Zártkörűen Működő Részvénytársaság

Notes to the Financial Statements

31 December 2016

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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 2015 | | 31 December 2016 | |
|--|-------------------------------|--------------|-------------------------------|--------------|
| | 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 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 inputs of the general ledger of the Bank.

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 accounting schemes 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 in the Bank’s accounting records at the time of the funds movement in case of cash transactions, on the T-day of economic events and transactions are not related to cash transactions, after the economic events occurred in case of other type of economic events and transactions but no later than the third workday following the reference month.

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 Profit or loss for the year through various profit/loss categories.

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

The structure and content of the annual report as of 2016 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. K&H Bank Zrt. as „parent company” shall prepare consolidated financial statements.

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, unless the legislation exempts the Bank from this regulation. 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.

The Bank switches from HAS to IFRS-based bookkeeping as of 1 January 2017 in compliance with requirements of the Accounting Law 9./A.§ 2017 and complies its solo Annual Report according to the International Reporting Standards from 2017.

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,
- funding value adjustment,
- 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.

The Bank does not apply hedge accounting.

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 2015 | | | 31 December 2016 | | |
|--|---------------|------------------|------------------|------------------|------------------|------------------|------------------|
| | | HUF | Foreign currency | Total | HUF | Foreign currency | Total |
| Cash and equivalents | Line 1 | 578 552 | 2 355 | 580 907 | 299 384 | 2 886 | 302 270 |
| Government securities | Line 2 | 554 245 | 45 988 | 600 233 | 605 641 | 47 680 | 653 321 |
| Valuation difference of government securities | Line 5 | -30 | 2 | -28 | 120 | -81 | 39 |
| Amounts due from credit institutions | Line 6 | 28 419 | 56 063 | 84 482 | 70 064 | 456 967 | 527 031 |
| Valuation difference of amounts due from credit institutions | Line 26 | 0 | 0 | 0 | 0 | 0 | 0 |
| Amounts due from clients | Line 27 | 905 386 | 258 048 | 1 163 434 | 930 943 | 274 727 | 1 205 670 |
| Valuation difference of amounts due from clients | Line 46 | 0 | 0 | 0 | 0 | 0 | 0 |
| Debt securities, including those with a fixed interest rate | Line 47 | 16 289 | 6 | 16 295 | 16 473 | 1 | 16 474 |
| - of which foreign securities | | 0 | 0 | 0 | 0 | 0 | 0 |
| Valuation difference of debt securities | Line 61 | 149 | 1 | 150 | 168 | 0 | 168 |
| - of which foreign securities | | 0 | 0 | 0 | 0 | 0 | 0 |
| Shares and other variable yield securities | Line 62 | 0 | 464 | 464 | 0 | 0 | 0 |
| - of which foreign securities | | 0 | 0 | 0 | 0 | 0 | 0 |
| Valuation difference of shares and other variable yield securities | Line 70 | 0 | -3 | -3 | 0 | 0 | 0 |
| Shares and participations held for investment | Line 71 | 640 | 6 | 646 | 640 | 894 | 1 534 |
| - of which foreign securities | | 0 | 0 | 0 | 0 | 888 | 888 |
| Valuation difference of shares and participations | Line 76 | 0 | 0 | 0 | 0 | 0 | 0 |
| Shares and participations in affiliated undertakings | Line 77 | 7 206 | 0 | 7 206 | 10 616 | 0 | 10 616 |
| Intangible assets | Line 82 | 14 258 | 0 | 14 258 | 15 753 | 0 | 15 753 |
| Tangible assets | Line 85 | 38 087 | 0 | 38 087 | 37 912 | 0 | 37 912 |
| Treasury stock | Line 97 | 0 | 0 | 0 | 0 | 0 | 0 |
| Other assets | Line 98 | 21 354 | 530 | 21 884 | 12 262 | 1 047 | 13 309 |
| Valuation difference on other assets | Line 104 | 0 | 0 | 0 | 0 | 0 | 0 |
| Positive valuation difference of derivative transactions | Line 105 | 34 309 | 0 | 34 309 | 39 779 | 0 | 39 779 |
| Prepayments and accrued income | Line 106 | 42 274 | 2 619 | 44 893 | 35 543 | 3 834 | 39 377 |
| Total assets | | 2 241 138 | 366 079 | 2 607 217 | 2 075 298 | 787 955 | 2 863 253 |

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

HUF millions

| Description | Balance Sheet | 31 December 2015 | | | 31 December 2016 | | |
|--|---------------|------------------|------------------|------------------|------------------|------------------|------------------|
| | | HUF | Foreign currency | Total | HUF | Foreign currency | Total |
| Amounts due to credit institutions | Line 113 | 239 216 | 122 939 | 362 155 | 218 748 | 105 497 | 324 245 |
| Valuation difference of amounts due to credit institutions | Line 133 | 0 | 0 | 0 | 0 | 0 | 0 |
| Amounts due to clients | Line 134 | 1 551 031 | 344 641 | 1 895 672 | 1 729 027 | 426 056 | 2 155 083 |
| Valuation difference of amounts due to clients | Line 161 | 0 | 0 | 0 | 0 | 0 | 0 |
| Liabilities from securities issued | Line 162 | 5 723 | 0 | 5 723 | 7 798 | 0 | 7 798 |
| Other liabilities | Line 190 | 18 762 | 29 404 | 48 166 | 19 675 | 10 554 | 30 229 |
| Negative valuation difference of derivative transactions | Line 200 | 20 318 | 0 | 20 318 | 21 982 | 0 | 21 982 |
| Accruals and deferred income | Line 201 | 26 019 | 1 173 | 27 192 | 30 729 | 1 931 | 32 660 |
| Provisions | Line 205 | 2 657 | 5 658 | 8 315 | 2 369 | 1 467 | 3 836 |
| Subordinated liabilities | Line 210 | 0 | 28 181 | 28 181 | 0 | 27 992 | 27 992 |
| Subscribed capital | Line 221 | 140 978 | 0 | 140 978 | 140 978 | 0 | 140 978 |
| Subscribed capital unpaid (-) | Line 223 | 0 | 0 | 0 | 0 | 0 | 0 |
| Capital reserve | Line 224 | 23 179 | 0 | 23 179 | 23 179 | 0 | 23 179 |
| General reserve | Line 227 | 8 750 | 0 | 8 750 | 13 463 | 0 | 13 463 |
| Profit reserve (+/-) | Line 228 | 9 715 | 0 | 9 715 | 39 388 | 0 | 39 388 |
| Earmarked reserve | Line 229 | 0 | 0 | 0 | 0 | 0 | 0 |
| Valuation reserve | Line 230 | 0 | 0 | 0 | 0 | 0 | 0 |
| Profit or loss for the year | Line 233 | 28 873 | 0 | 28 873 | 42 420 | 0 | 42 420 |
| Total liabilities & equity | | 2 075 221 | 531 996 | 2 607 217 | 2 289 756 | 573 497 | 2 863 253 |

II/3. Amounts due from credit institutions and clients, by maturity**31 December 2016**

HUF millions

| Description | 31 December 2015 | | | | |
|---|------------------|------------------|----------------|----------------|------------------|
| | 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) | 36 331 | 18 701 | 3 001 | 0 | 58 033 |
| Amounts due from clients, arising from financial services (Balance Sheet line 28) | 214 444 | 178 785 | 408 791 | 360 889 | 1 162 909 |
| Total | 250 775 | 197 486 | 411 792 | 360 889 | 1 220 942 |

HUF millions

| Description | 31 December 2016 | | | | |
|---|------------------|------------------|----------------|----------------|------------------|
| | 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) | 426 022 | 40 965 | 47 455 | 0 | 514 442 |
| Amounts due from clients, arising from financial services (Balance Sheet line 28) | 225 395 | 184 794 | 432 502 | 362 353 | 1 205 044 |
| Total | 651 417 | 225 759 | 479 957 | 362 353 | 1 719 486 |

II/4. Amounts due to credit institutions and clients, by maturity**31 December 2016**

HUF millions

| Description | 31 December 2015 | | | | |
|--|------------------|------------------|----------------|----------------|----------------|
| | 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 115) | 55 662 | 68 579 | 188 621 | 26 851 | 339 713 |
| Amounts due to clients – other short-term liabilities from financial services (Balance Sheet line 144) | 254 920 | 84 881 | 0 | 0 | 339 801 |
| Amounts due to clients – other long-term liabilities from financial services (Balance Sheet line 148) | 0 | 0 | 173 908 | 58 552 | 232 460 |
| Subordinated liabilities (Balance Sheet line 210) | 0 | 0 | 0 | 28 181 | 28 181 |
| Total | 310 582 | 153 460 | 362 529 | 113 584 | 940 155 |

HUF millions

| Description | 31 December 2016 | | | | |
|--|------------------|------------------|----------------|----------------|----------------|
| | 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 115) | 30 662 | 52 103 | 170 058 | 31 171 | 283 994 |
| Amounts due to clients – other short-term liabilities from financial services (Balance Sheet line 144) | 153 541 | 115 957 | 0 | 0 | 269 498 |
| Amounts due to clients – other long-term liabilities from financial services (Balance Sheet line 148) | 0 | 0 | 121 669 | 50 844 | 172 513 |
| Subordinated liabilities (Balance Sheet line 210) | 0 | 0 | 0 | 27 992 | 27 992 |
| Total | 184 203 | 168 060 | 291 727 | 110 007 | 753 997 |

II/5. Gross value of intangible and tangible assets**2016**

HUF millions

| Description | Balance Sheet | Change in gross value | | | | Closing value |
|--|---------------|-----------------------|------------------------|--------------|---------------|---------------|
| | | Opening value | Reclassification (+/-) | Increase (+) | Decrease (-) | |
| Intangible assets | Line 82 | 49 306 | 0 | 6 326 | -168 | 55 464 |
| - rights | | 12 174 | 0 | 535 | -3 | 12 706 |
| - trademarks and patents | | 37 132 | 0 | 5 791 | -165 | 42 758 |
| Tangible assets used in financial services | Line 86 | 69 755 | 0 | 5 789 | -6 107 | 69 437 |
| - land and buildings | Line 87 | 45 792 | 0 | 1 901 | -1 688 | 46 005 |
| - technical equipment, machinery | Line 88 | 22 099 | 0 | 3 888 | -3 578 | 22 409 |
| - capital expenditure | Line 89 | 1 864 | 0 | 0 | -841 | 1 023 |
| - advances for capital investments | Line 90 | 0 | 0 | 0 | 0 | 0 |
| Tangible assets not directly used in financial services | Line 91 | 70 | 0 | 1 | -4 | 67 |
| - land and buildings | Line 92 | 0 | 0 | 0 | 0 | 0 |
| - technical equipment, machinery and vehicles | Line 93 | 70 | 0 | 1 | -4 | 67 |
| - capital expenditure | Line 94 | 0 | 0 | 0 | 0 | 0 |
| - advances for capital investments | Line 95 | 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**2016**

HUF millions

| Description | Balance Sheet | Accumulated depreciation | | | | |
|---|---------------|--------------------------|------------------------|--------------|---------------|---------------|
| | | Opening value | Reclassification (+/-) | Increase (+) | Decrease (-) | Closing value |
| <u>Intangible assets</u> | Line 82 | 35 048 | 0 | 4 666 | -3 | 39 711 |
| - rights | | 9 210 | 0 | 1 362 | -3 | 10 569 |
| - trademarks and patents | | 25 838 | 0 | 3 304 | 0 | 29 142 |
| <u>Tangible assets used in financial services</u> | Line 86 | 31 732 | 0 | 4 450 | -4 595 | 31 587 |
| - land and buildings | Line 87 | 14 875 | 0 | 2 253 | -1 126 | 16 002 |
| - technical equipment, machinery and vehicles | Line 88 | 16 857 | 0 | 2 197 | -3 469 | 15 585 |
| <u>Tangible assets not directly used in financial services</u> | Line 91 | 6 | 0 | 1 | -2 | 5 |
| - land and buildings | Line 92 | 0 | 0 | 0 | 0 | 0 |
| - technical equipment, machinery and vehicles | Line 93 | 6 | 0 | 1 | -2 | 5 |

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 | 31.12.2015. | 31.12.2016. |
|---|---------------|---------------|---------------|
| | | Closing value | Closing value |
| <u>Intangible assets</u> | Line 82 | 14 258 | 15 753 |
| - rights | | 2 964 | 2 137 |
| - trademarks and patents | | 11 294 | 13 616 |
| <u>Tangible assets used in financial services</u> | Line 86 | 38 023 | 37 850 |
| - land and buildings | Line 87 | 30 917 | 30 003 |
| - technical equipment, machinery and vehicles | Line 88 | 5 242 | 6 824 |
| - capital expenditure | Line 89 | 1 864 | 1 023 |
| - advances for capital investments | Line 90 | 0 | 0 |
| <u>Tangible assets not directly used in financial services</u> | Line 91 | 64 | 62 |
| - land and buildings | Line 92 | 0 | 0 |
| - technical equipment, machinery and vehicles | Line 93 | 64 | 62 |
| - capital expenditure | Line 94 | 0 | 0 |
| - advances for capital investments | Line 95 | 0 | 0 |

II/8. Annual depreciation of intangible and tangible assets**2016**

HUF millions

| Description | Ordinary | Extraordinary | Total |
|---|--------------|---------------|--------------|
| <u>Intangible assets</u> | 4 497 | 0 | 4 497 |
| <u>Tangible assets used in financial services</u> | 4 327 | 3 | 4 330 |
| - land and buildings | 2 249 | 3 | 2 252 |
| - technical equipment, machinery and vehicles | 2 078 | 0 | 2 078 |
| <u>Tangible assets not directly used in financial services</u> | 1 | 0 | 1 |
| - land and buildings | 0 | 0 | 0 |
| - technical equipment, machinery and vehicles | 1 | 0 | 1 |
| <u>Depreciation of tangible assets with a value of less than HUF 100,000</u> | 97 | 0 | 97 |
| <u>Adjustment due to self-audit</u> | 142 | 0 | 142 |
| Total | 9 064 | 3 | 9 067 |

The Bank applies a straight-line depreciation method and recognizes the depreciation on a monthly basis. 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 2016 the Bank did not change the depreciation method used with intangible and tangible assets.

II/10. Contingent-, future liabilities and receivables

a., Liabilities

| Description | HUF millions | |
|---|----------------|------------------|
| | 31.12.2015. | 31.12.2016. |
| Guarantees and warranties issued | 112 056 | 121 717 |
| Loans, guarantees and letters of credit | 433 477 | 589 364 |
| Export letters of credit | 121 | 0 |
| Import letters of credit | 3 156 | 3 473 |
| Liabilities from lawsuits | 5 660 | 1 333 |
| Liabilities from options | 392 466 | 571 401 |
| Other contingent liabilities | 807 | 730 |
| Total contingent liabilities | 947 743 | 1 288 018 |

| Description | HUF millions | |
|--|----------------|----------------|
| | 31.12.2015. | 31.12.2016. |
| Swaps (foreign currency and other) | 736 665 | 559 904 |
| Foreign currency forwards | 106 964 | 87 335 |
| Liabilities from the sale/purchase of securities | 13 904 | 1 743 |
| Future liabilities on payments | 519 | 751 |
| Other future liabilities | 3 257 | 2 614 |
| Interbank deposits | 0 | 0 |
| Total future liabilities | 861 309 | 652 347 |

The Bank had contingent-, future liabilities of HUF 23 288 million to its affiliates.

b., Receivables

| Description | HUF millions | |
|--|------------------|------------------|
| | 31.12.2015. | 31.12.2016. |
| Received guarantees and coverages | 1 726 741 | 1 751 388 |
| Interests, extra interests receivables | 25 736 | 26 995 |
| Receivables from lawsuits | 3 276 | 4 670 |
| Receivables from options | 391 671 | 570 611 |
| Other contingent receivables | 2 132 | 3 078 |
| Total contingent receivables | 2 149 556 | 2 356 742 |

| Description | HUF millions | |
|--|----------------|----------------|
| | 31.12.2015. | 31.12.2016. |
| Swaps (foreign currency and other) | 736 682 | 559 021 |
| Foreign currency forwards | 105 698 | 86 214 |
| Liabilities from the sale/purchase of securities | 22 369 | 49 |
| Future receivables on payments | 525 | 758 |
| Other future receivables | 350 | 323 |
| Total future receivables | 865 624 | 646 365 |

The Bank had contingent-, future receivables of HUF 62 602 million to its affiliates.

**II/11. Impairment and risk provisioning
2016**

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) | 98 068 | 14 464 | 34 265 | -27 | 78 240 |
| Impairment recognized on financial leasing receivables | 2 599 | 316 | 1 712 | -1 | 1 202 |
| Impairment recognized on financial fixed assets | 0 | 17 | 0 | 0 | 17 |
| Impairment recognized on administrative risks | 209 | 0 | 0 | 0 | 209 |
| Impairment recognized on other receivables (operating) | 257 | 3 | 0 | 0 | 260 |
| Impairment recognized on received in debt settlement | 13 | 7 | 4 | 0 | 16 |
| Total impairment recognized on assets | 101 146 | 14 807 | 35 981 | -28 | 79 944 |
| Risk provisions for contingent and future liabilities | 6 438 | 653 | 4 913 | -48 | 2 130 |
| Provisions for anticipated liabilities | 1 392 | 1 036 | 741 | 0 | 1 687 |
| Provisions for administrative risks | 461 | 0 | 452 | 0 | 9 |
| Provisions for payment obligations due to early retirement and severance pay | 24 | 0 | 14 | 0 | 10 |
| Total provisions | 8 315 | 1 689 | 6 120 | -48 | 3 836 |

The "Other changes" column shows the change resulting from revaluation in 2016, except for the change in general risk provision.

Impairment on receivables was recognized in total amount of HUF 14 464 million in the reporting year as follows: HUF 9 657 million on amounts due from private customers, HUF 4 139 million on amounts due from corporate clients, HUF 668 million on amounts due from leasing transactions.

Impairment recognized on receivables in the previous year was reversed in amount of HUF 34 265 million, from which the amount of HUF 19 828 million is in connection with the private customers, HUF 9 467 million with corporate clients, HUF 4 970 million with leasing transactions.

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 2015 | | 31 December 2016 | |
|------------------|------------------|----------------|------------------|----------------|
| | Par value | Book value | Par value | Book value |
| Government bonds | 448 978 | 460 669 | 483 791 | 507 803 |
| Total: | 448 978 | 460 669 | 483 791 | 507 803 |

- Under current assets:

HUF millions

| Description | 31 December 2015 | | 31 December 2016 | |
|---------------------------|------------------|---------------|------------------|---------------|
| | Par value | Book value | Par value | Book value |
| Government bonds | 36 506 | 38 032 | 26 326 | 28 309 |
| Discounted Treasury bills | 226 | 225 | 14 300 | 14 284 |
| Investment units | 163 | 157 | 158 | 151 |
| Total: | 36 895 | 38 414 | 40 784 | 42 744 |

- b., There was no legal lending limit breach in the Bank regarding any single counterparty concerning the large exposure qualifying loans, securities, participations and liabilities in accordance with the Regulation (EU) No 575/2013 as at the balance sheet date. There were no recorded any loans, securities, participations and liabilities above legal lending limits as at 31st of December 2016 after the application of the waivers and credit risk mitigation.
- c., As at 31 December 2016 the Bank's liabilities included subordinated debt of HUF 27 992 million (EUR 60 million, maturity date 30.06.2026., interest rate: 3-month EURIBOR +2.7%, that is, 2,381% and EUR 30 million, maturity date 28.09.2025., interest rate: 3-month EURIBOR +3.05%, that is, 2,732%), 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 amount of accrued interest (including transaction interest and late interest), interest-type commission and fees receivable totalled HUF 15 674 million on 31 December 2016, versus HUF 14 571 million on 31 December 2015.
- f., The HUF equivalent of receivables and liabilities arising from spot foreign exchange trades totalled HUF 20 122 million and HUF 20 115 million, respectively, at the balance sheet date, 31 December 2016.
- g., On 31 December 2016, the balances of currency swap buy and sell trades made in the interbank market stood at HUF 440 106 million and HUF 440 025 million, respectively, while the balances of currency swap buy and sell trades made with clients were HUF 116 874 million and HUF 116 073 million, respectively.

The balances of forward sell and buy trades made in the interbank market stood at HUF 607 million and HUF 604 million, respectively, while the balances of FX forward sell and buy trades made with clients were HUF 65 456 million and HUF 66 587 million, respectively. The transactions served (exchange rate) hedging as well as trading purposes.

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

HUF millions

| Start date | Maturity date | Security | Par value | Transaction value |
|--|---------------|-----------------------|----------------|-------------------|
| 28DEC2016 | 30JAN2017 | government securities | 93 306 | 101 666 |
| 28DEC2016 | 30JAN2017 | government securities | 77 755 | 80 826 |
| 28DEC2016 | 30JAN2017 | government securities | 68 629 | 81 875 |
| 30DEC2016 | 06JAN2017 | government securities | 37 406 | 38 865 |
| 30DEC2016 | 06JAN2017 | government securities | 37 322 | 38 890 |
| 28DEC2016 | 04JAN2017 | government securities | 1 095 | 1 115 |
| 28DEC2016 | 04JAN2017 | government securities | 2 000 | 1 974 |
| 30DEC2016 | 06JAN2017 | government securities | 35 939 | 37 322 |
| 27DEC2016 | 03JAN2017 | government securities | 905 | 959 |
| 28DEC2016 | 04JAN2017 | government securities | 350 | 357 |
| 28DEC2016 | 04JAN2017 | government securities | 270 | 267 |
| Total active special delivery repos | | | 354 977 | 384 116 |

HUF millions

| Start date | Maturity date | Security | Par value | Transaction value |
|---|---------------|-----------------------|------------|-------------------|
| 28DEC2016 | 04JAN2017 | government securities | 270 | 267 |
| 28DEC2016 | 30JAN2017 | government securities | 700 | 747 |
| Total passive special delivery repos | | | 970 | 1 014 |

- i., 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 2016. The par value of investment units posted as off-balance sheet items (held on securities accounts) – expressed in Hungarian forints – totaled HUF 653 740 million at the end of the year.
- j., The Bank did not have any earmarked reserves on 31 December 2016.
- k., On 31 December 2016 the total risk weighted assets of the Bank was HUF 1 532 832 million.
- l., The Bank did not have any retirement benefit payment obligations to its former Board of Directors or Supervisory Board members.
- m., The Bank manages securities with a total par value of HUF 1 336 503 million for its clients on custody and securities accounts. As part of its investment services, the Bank also maintains cash accounts (client accounts) for its clients, the aggregate balance of which – expressed in Hungarian forints – was HUF 51 836 million as at 31 December 2016. Clients had receivables of HUF 52 514 million and payables of HUF 677 million on their client accounts at the end of the year.
- n., The Bank did not provide any asset management services for pension or health funds in 2016.
- o., On 31 December 2016 the Bank had a total amount of HUF 436 219 million due from its parent company; at the same time, the Bank had liabilities of HUF 747 million to its parent, all liabilities are short-term.

On 31 December 2016, amounts due from subsidiaries totalled HUF 37 671 million, while short-term liabilities amounted to HUF 13 444 million, and long-term liabilities to HUF 23 824 million coming from open-end financial leasing.

The Bank had no subordinated liabilities to its subsidiaries.

- p., 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 | |
|---|------------------|------------------|
| | 31.12.2015. | 31.12.2016. |
| Dematerialized | 1 629 712 | 1 307 172 |
| In safekeeping at the Bank's depository | 28 130 | 29 331 |
| Total physical | 28 130 | 29 331 |
| Total | 1 657 842 | 1 336 503 |

* converted into HUF at the NBH exchange rate for 30.12.2016.

II/14. Securities portfolio held by the Bank

- Stated in fixed assets

HUF millions

| Description | Par value | | Book value | |
|---|----------------|----------------|----------------|----------------|
| | 31.12.2015. | 31.12.2016. | 31.12.2015. | 31.12.2016. |
| Dematerialized | 486 506 | 549 802 | 503 820 | 581 448 |
| In safekeeping at the Bank's depository | 761 | 710 | 5 363 | 5 313 |
| Total physical | 761 | 710 | 5 363 | 5 313 |
| Total | 487 267 | 550 512 | 509 183 | 586 761 |

- Stated in current assets

HUF millions *

| Description | Par value | | Book value | |
|-----------------------|----------------|---------------|----------------|---------------|
| | 31.12.2015. | 31.12.2016. | 31.12.2015. | 31.12.2016. |
| Dematerialized | 116 806 | 92 805 | 115 162 | 84 725 |
| Total physical | 0 | 0 | 0 | 0 |
| Total | 116 806 | 92 805 | 115 162 | 84 725 |

* converted into HUF at the NBH exchange rate for 30.12.2016.

II/15. Accruals

HUF millions

| Prepayments and accrued income | 31.12.2015. | 31.12.2016. |
|--|--------------------|--------------------|
| Accrued interest and interest-type commissions | 27 409 | 21 561 |
| IR swaps fair market value interest accrual | 13 422 | 14 806 |
| IR arbitrage transactions interest accrual | 617 | 261 |
| Other accrued income | 1 674 | 1 355 |
| Accrued income | 43 122 | 37 983 |
| Prepaid costs and expenses | 1 771 | 1 394 |
| Deferred expense | 0 | 0 |
| Total (Balance Sheet line 106) | 44 893 | 39 377 |

HUF millions

| Accruals and deferred income | 31.12.2015. | 31.12.2016. |
|---|--------------------|--------------------|
| Accrued income | 74 | 98 |
| Accrued interest | 15 815 | 20 733 |
| IR swaps fair market value interest accrual | 1 879 | 2 199 |
| IR arbitrage transactions interest accrual | 219 | 144 |
| Other accrued expenses | 0 | 0 |
| Accrued costs | 8 947 | 9 260 |
| Accrued costs and expenses | 26 860 | 32 336 |
| Deferred income | 258 | 226 |
| Total (Balance Sheet line 201) | 27 192 | 32 660 |

II/16. Changes in equity

HUF millions

| Description | Subscribed capital | Capital reserve | Profit reserve | General reserve | Profit or loss for the year | Total |
|---|--------------------|-----------------|----------------|-----------------|-----------------------------|----------------|
| Balance 31.12.2015. | 140 978 | 23 179 | 9 715 | 8 750 | 28 873 | 211 495 |
| General reserves | | | | 4 713 | | 4 713 |
| Allocation of results as of 2015 | | | 28 873 | | -28 873 | 0 |
| Additional payment repaid by affiliated undertakings | | | 800 | | | 800 |
| Profit or loss for the year | | | | | 42 420 | 42 420 |
| Balance 31.12.2016. | 140 978 | 23 179 | 39 388 | 13 463 | 42 420 | 259 428 |

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

a) Intangible assets by type

| Description | HUF millions | |
|----------------|---------------|---------------|
| | 31.12.2015. | 31.12.2016. |
| Licenses | 2 952 | 2 135 |
| Other | 12 | 2 |
| Rights | 2 964 | 2 137 |
| Basic software | 25 | 33 |
| User software | 11 268 | 13 582 |
| Trademarks | 1 | 1 |
| Patents | 11 294 | 13 616 |
| Total: | 14 258 | 15 753 |

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

| Description | HUF millions | |
|---|--------------|-------------|
| | 31.12.2015. | 31.12.2016. |
| Lease rights | 11 | 7 |
| Acquired rights from payment contribution of public utility | 45 | 44 |
| Total: | 56 | 51 |

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

| Description | HUF millions | |
|---|--------------|--------------|
| | 31.12.2015. | 31.12.2016. |
| Materials | 41 | 27 |
| Goods | 4 732 | 644 |
| Inventories purchased | 4 773 | 671 |
| Land and buildings | 785 | 1 070 |
| Technical equipment, machinery and vehicles | 0 | 42 |
| Received in debt settlement | 785 | 1 112 |
| Total (Balance Sheet line 99) | 5 558 | 1 783 |

Impairment was recognized in amount of HUF 16 million on inventories received in debt settlement.

II/19. Risk-free securities at par value

| Issue currency | Description | HUF millions | |
|------------------|---|----------------|----------------|
| | | 2015 | 2016 |
| HUF | Securities issued by the State of Hungary | 540 405 | 579 034 |
| HUF | Other | 14 436 | 14 817 |
| HUF Total | | 554 841 | 593 851 |
| EUR | Securities issued by the State of Hungary | 44 601 | 42 467 |
| EUR Total | | 44 601 | 42 467 |

II/20. The impacts of fair market valuation

a., Derivative transactions

2015.

| Derivative transaction | Positive fair market value | | | Negative fair market value | | | Future cash-flow |
|------------------------|----------------------------|---------------|---------------|----------------------------|----------------|----------------|------------------|
| | In year | Over year | Total | In year | Over year | Total | |
| Forward | 268 | 31 | 299 | -930 | -149 | -1 079 | -1 272 |
| Opció | 3 005 | 623 | 3 628 | -2 999 | -623 | -3 622 | 0 |
| IRS | 1 288 | 28 068 | 29 356 | -231 | -14 424 | -14 655 | 44 144 |
| Currency swap | 935 | 79 | 1 014 | -875 | -51 | -926 | -324 |
| Other | 12 | 0 | 12 | -36 | 0 | -36 | -23 |
| Total | 5 508 | 28 801 | 34 309 | -5 071 | -15 247 | -20 318 | 42 525 |

2016.

| Derivative transaction | Positive fair market value | | | Negative fair market value | | | Future cash-flow |
|------------------------|----------------------------|---------------|---------------|----------------------------|----------------|----------------|------------------|
| | In year | Over year | Total | In year | Over year | Total | |
| Forward | 145 | 0 | 145 | -1 014 | -81 | -1 095 | -1 128 |
| Option | 3 499 | 627 | 4 125 | -3 493 | -624 | -4 117 | 2 |
| IRS | 2 142 | 33 021 | 35 163 | -734 | -15 773 | -16 507 | 38 878 |
| Currency swap | 232 | 17 | 250 | -150 | -6 | -156 | -100 |
| Other | 96 | 0 | 96 | -107 | 0 | -107 | -5 |
| Total | 6 114 | 33 665 | 39 779 | -5 498 | -16 484 | -21 982 | 37 647 |

Accruals related to the fair market valuation of derivative transactions amounted to HUF 15 067 million in interest income and HUF 2 343 million in interest expense.

The HUF 1 121 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 | |
|---|----------------|---------------|-------------------|---------------|----------------------|------------|
| | 31.12.2015 | 31.12.2016 | 31.12.2015 | 31.12.2016 | 31.12.2015 | 31.12.2016 |
| Government bonds | 113 715 | 79 708 | 113 683 | 79 739 | -32 | 31 |
| of which: reclassified from securities held for investment and maturing in 2017 | 74 246 | 40 596 | 74 246 | 40 596 | 0 | 0 |
| Treasury bills | 552 | 14 536 | 556 | 14 544 | 4 | 8 |
| Total government securities: | 114 267 | 94 244 | 114 239 | 94 283 | -28 | 39 |
| Closed-end investment units | 401 | 391 | 551 | 559 | 150 | 168 |
| Bonds | 30 | 90 | 30 | 90 | 0 | 0 |
| Total debt securities: | 431 | 481 | 581 | 649 | 150 | 168 |
| Open-end investment units | 464 | 0 | 461 | 0 | -3 | 0 |
| Total shares and other variable-yield securities | 464 | 0 | 461 | 0 | -3 | 0 |

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

HUF millions

| Description | Book value | Fair market value | Book value | Fair market value |
|---|------------|-------------------|------------|-------------------|
| | 31.12.2015 | 31.12.2015 | 31.12.2016 | 31.12.2016 |
| Securities held to maturity and securities included in available for sale | 561 640 | 624 448 | 600 850 | 664 206 |
| Receivables | 1 247 916 | 1 239 857 | 1 732 701 | 1 724 898 |
| Liabilities | 2 291 731 | 2 292 448 | 2 515 118 | 2 516 423 |

II/21. Reclassification of financial instruments

The Bank did not reclassify any financial instruments into another category in 2016.

II/22. Data of restructured loan

HUF millions

| Description | 2015 | 2016 |
|---------------------------|---------|--------|
| Conditional equity claim | 162 315 | 70 075 |
| Impairment | 45 477 | 31 790 |
| Book value of receivables | 116 838 | 38 285 |

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

a., Net value of receivables

HUF millions

| Description | 31.12.2015 | | | | 31.12.2016 | | | |
|--------------------|-----------------|----------------|---------------------|------------------|-----------------|----------------|---------------------|------------------|
| | Corporate loans | Retail loans | Credit institutions | Total | Corporate loans | Retail loans | Credit institutions | Total |
| Performing | 625 879 | 393 334 | 84 482 | 1 103 695 | 661 867 | 425 722 | 527 031 | 1 614 620 |
| Monitor | 48 358 | 20 572 | 0 | 68 930 | 43 764 | 13 563 | 0 | 57 327 |
| Substandard | 1 536 | 3 581 | 0 | 5 117 | 2 436 | 9 905 | 0 | 12 341 |
| Doubtful | 7 939 | 5 338 | 0 | 13 277 | 6 035 | 4 837 | 0 | 10 872 |
| Bad | 1 947 | 42 604 | 0 | 44 551 | 1 167 | 33 258 | 0 | 34 425 |
| Total | 685 659 | 465 429 | 84 482 | 1 235 570 | 715 269 | 487 285 | 527 031 | 1 729 585 |

b., Net value of securities

HUF millions

| Description | 31.12.2015 | | | 31.12.2016 | | |
|--------------------|--------------|-----------------|--------------|---------------|-----------------|---------------|
| | Investments | Debt securities | Total | Investments | Debt securities | Total |
| Performing | 7 852 | 1 428 | 9 280 | 12 150 | 1 176 | 13 326 |
| Monitor | 0 | 0 | 0 | 0 | 0 | 0 |
| Substandard | 0 | 0 | 0 | 0 | 0 | 0 |
| Doubtful | 0 | 0 | 0 | 0 | 0 | 0 |
| Bad | 0 | 0 | 0 | 0 | 0 | 0 |
| Total | 7 852 | 1 428 | 9 280 | 12 150 | 1 176 | 13 326 |

c., Received in debt settlement

HUF millions

| Description | 31.12.2015 | | | 31.12.2016 | | |
|--------------------|--------------------|---|------------|--------------------|---|--------------|
| | Land and buildings | Technical equipment, machinery and vehicles | Total | Land and buildings | Technical equipment, machinery and vehicles | Total |
| Performing | 721 | 0 | 721 | 985 | 0 | 985 |
| Monitor | 30 | 0 | 30 | 39 | 0 | 39 |
| Substandard | 26 | 0 | 26 | 42 | 0 | 42 |
| Doubtful | 8 | 0 | 8 | 4 | 41 | 45 |
| Bad | 0 | 0 | 0 | 0 | 1 | 1 |
| Total | 785 | 0 | 785 | 1 070 | 42 | 1 112 |

d., Net value of off balance sheet liabilities

HUF millions

| Description | 31.12.2015 | | | 31.12.2016 | | |
|--------------------|----------------|---------------|----------------|----------------|---------------|----------------|
| | Corporate | Retail | Total | Corporate | Retail | Total |
| Performing | 521 994 | 21 532 | 543 526 | 681 594 | 22 584 | 704 178 |
| Monitor | 724 | 3 | 727 | 2 911 | 32 | 2 943 |
| Substandard | 1 296 | 3 | 1 299 | 2 974 | 1 | 2 975 |
| Doubtful | 4 892 | 7 | 4 899 | 494 | 20 | 514 |
| Bad | 0 | 281 | 282 | 4 | 316 | 320 |
| Total | 528 906 | 21 826 | 550 732 | 687 977 | 22 953 | 710 930 |

II. 24 Financial leasing receivables

On 31 December 2016 the financial leasing receivables amounts was HUF 42 104 million.

III. NOTES TO THE PROFIT & LOSS ACCOUNT

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

HUF millions

| No. | Description | 31.12.2015. | 31.12.2016. |
|--|---|---------------|---------------|
| 1. | Re-invoiced value of third-party services | 225 | 9 |
| 2. | Book value of inventories sold | 26 779 | 26 777 |
| Total (Profit & Loss Account line 83) | | 27 004 | 26 786 |

III/2. Income from and expense on investment services

HUF millions

| Income from investment services | 31.12.2015. | 31.12.2016. |
|--|---------------|---------------|
| 1. Income from custody services | 762 | 733 |
| 2. Income from trading operations | 45 486 | 46 416 |
| 3. Income from brokerage activities | 7 969 | 7 330 |
| 4. Income from organizing activities on securities issue | 0 | 0 |
| 5. Other income | 847 | 962 |
| Total (Profit & Loss Account lines 25 + 49) | 55 064 | 55 441 |

HUF millions

| Expense on investment services | 31.12.2015. | 31.12.2016. |
|---|---------------|---------------|
| 1. Expense on custody services | 7 | 41 |
| 2. Expense on trading operations | 35 024 | 31 787 |
| 3. Expense on brokerage activities | 502 | 664 |
| 4. Expense on organizing activities on securities issue | 0 | 0 |
| Total (Profit & Loss Account lines 34 + 55) | 35 533 | 32 492 |

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 2016.

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

a) Contributions to deposit insurance and institutional protection funds

HUF millions

| Description | Amount | |
|---------------------------------------|--------|-------|
| | 2015 | 2016 |
| National Deposit Insurance Fund | 1 414 | 1 445 |
| Investor Protection Fund | 348 | 1 228 |
| Resolution Fund | 985 | 947 |
| Special Settlement Fund for Investors | 0 | 543 |

b) Financial assistance received

The non-repayable grant given for extension of tools of cashless payment transactions was received by the Bank in amount of HUF 368 million in 2016, from which HUF 85 million was used in the reference year.

902 million HUF income was accounted for in 2016 due to the lending activity related interest rate swap deals (HIRS) linked to the National Bank of Hungary's Market Lending Scheme (PHP).

c) Geographic breakdown of income

In 2015

HUF millions

| Profit & Loss Account lines | Geographical breakdown | | | Breakdown of non-EU countries | | | |
|--|------------------------|------------------|------------------|-------------------------------|---------------|-------------|-------|
| | Domestic | EU member states | Non-EU countries | United States of America | Bissau-Guinea | Switzerland | Other |
| 1. Interest received and similar income | 93 929 | 1 436 | 77 | 1 | 0 | 76 | 0 |
| 3. Income from securities | 2 438 | 0 | 0 | 0 | 0 | 0 | 0 |
| 4. Fees and commissions received (receivable) | 63 569 | 24 | 8 | 0 | 3 | 0 | 5 |
| 6. Profit/loss from financial transactions | | | | | | | |
| a) income from other financial services | 12 589 | 1 936 | 0 | 0 | 0 | 0 | 0 |
| c) income from investment services | 20 366 | 25 120 | 0 | 0 | 0 | 0 | 0 |
| 7. Other income from business activities | 44 596 | 212 | 0 | 0 | 0 | 0 | 0 |

In 2016

HUF millions

| Profit & Loss Account lines | Geographical breakdown | | | Breakdown of non-EU countries | | | |
|--|------------------------|------------------|------------------|-------------------------------|--------|-------------|-------|
| | Domestic | EU member states | Non-EU countries | United States of America | Serbia | Switzerland | Other |
| 1. Interest received and similar income | 85 179 | 2 351 | 178 | 80 | 0 | 98 | 0 |
| 3. Income from securities | 2 573 | 0 | 2 | 2 | 0 | 0 | 0 |
| 4. Fees and commissions received (receivable) | 64 433 | 34 | 4 | 0 | 1 | 0 | 3 |
| 6. Profit/loss from financial transactions | | | | | | | |
| a) income from other financial services | 17 382 | 0 | 0 | 0 | 0 | 0 | 0 |
| c) income from investment services | 15 946 | 30 470 | 0 | 0 | 0 | 0 | 0 |
| 7. Other income from business activities | 37 963 | 158 | 0 | 0 | 0 | 0 | 0 |

**III/5. Extraordinary expense and extraordinary income
recognized in 2016**

| Extraordinary expense | Amount | | Extraordinary income | Amount | |
|--|---------------|-------------|--|---------------|-------------|
| | 31.12.2015. | 31.12.2016. | | 31.12.2015. | 31.12.2016. |
| | HUF millions | | | | |
| Amounts not deemed uncollectible but forgiven | 15 | 27 | Financial assistance received definitively for development purposes | 62 | 90 |
| Extraordinary expenditures due to customers' receivables related to retail mortgage loans, personal loans and leasing activity | 72 587 | 49 | Lapsed liabilities | 21 | 19 |
| | | | Extraordinary income and use of provisions due to customers' receivables related to retail mortgage loans, personal loans and leasing activity | 67 979 | 77 |
| | | | Extraordinary income related to associated businesses | 0 | 129 |
| | | | Extraordinary income related to assets taken over as refund | 5 | 17 |
| | | | Other extraordinary income | 0 | 1 |
| Total (Profit & Loss Account line 105) | 72 602 | 76 | Total (Profit & Loss Account line 104) | 68 067 | 333 |

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

HUF millions

| Description | | 31.12.2015. | 31.12.2016. |
|--------------------|---------------------|--------------|--------------|
| Futures / forwards | Forward | -2 106 | -1 959 |
| | FRAs | 1 | -28 |
| | FX futures | -220 | 130 |
| Options | Options | 989 | 1 263 |
| Swaps | Asset swaps | -129 | 0 |
| | Currency swaps | -441 | 1 174 |
| | Index swaps | 78 | 61 |
| | Interest rate swaps | 6 948 | 8 473 |
| Total | | 5 120 | 9 114 |

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

HUF millions

| Profit/loss | 2015 | | 2016 | |
|---|--------|-----------|--------|-----------|
| | Parent | Affiliate | Parent | Affiliate |
| Interest difference | -399 | -31 | -155 | -173 |
| Fees and commissions | -529 | -163 | -308 | -154 |
| Profit/loss from financial transactions | N/A | 0 | N/A | 0 |
| Other | -96 | 771 | 17 | 714 |
| Extraordinary | 0 | 0 | 0 | 0 |

IV. ADDITIONAL INFORMATION

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

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

IV/2. Auditing

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

a., Auditor

Auditor's name: PricewaterhouseCoopers Könyvvizsgáló Kft.
 Auditor's address: 1055. Budapest, Bajcsy-Zsilinszky út 78.
 MKVK registration number: 001464
 Authorized signatory: Árpád Balázs

b., Fees charged by the auditors in 2016

| Description | Amount | |
|------------------------------|-----------|----------------|
| | PWC | Other auditors |
| Auditing | 71 | 54 |
| Other certification services | | 6 |
| Tax consulting services | | 11 |
| Other, non-auditor services | | 8 |
| Total | 71 | 79 |

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 (%) |
|---|-------------------------------|-------------------|
| <u>Controlling interest:</u> | | |
| <u>Qualified controlling interest:</u> 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) 31.12.2015. | Subscribed capital (HUF m) 31.12.2015. | Reserves (HUF m) 31.12.2015. | Profit or loss for the year (HUF m) 31.12.2015. |
|-----|--------------------------------------|--------------------------------------|-----------|-------------------------------|---|---------------------------------|--|
| 1 | K&H Befektetési Alapkezelő Zrt. | 1095 Budapest, Lechner Ödön fasor 9. | 100 | 1 001 | 850 | 151 | 0 |
| 2 | K&H Autópark Kft. | 1095 Budapest, Lechner Ödön fasor 9. | 100 | 968 | 11 | 414 | 543 |
| 3 | K&H Alkusz Kft. "v.a." | 1095 Budapest, Lechner Ödön fasor 9. | 100 | 77 | 5 | 73 | -1 |
| 4 | K&H Lízing Zrt. "v.a." | 1095 Budapest, Lechner Ödön fasor 9. | 100 | 124 | 50 | 74 | 0 |
| 5 | K&H Csoportszolgáltató Kft. | 1095 Budapest, Lechner Ödön fasor 9. | 100 | 521 | 60 | 461 | 0 |
| 6 | K&H Equities Zrt. | 1095 Budapest, Lechner Ödön fasor 9. | 100 | 4 836 | 38 | 2 074 | 2 724 |
| 7 | K&H Eszközlízing Kft. | 1095 Budapest, Lechner Ödön fasor 9. | 100 | 161 | 5 | 161 | -5 |
| 8 | K&H Ingatlanlízing Zrt. | 1095 Budapest, Lechner Ödön fasor 9. | 100 | 234 | 50 | 117 | 68 |
| 9 | K&H Faktor Pénzügyi Szolgáltató Zrt. | 1095 Budapest, Lechner Ödön fasor 9. | 100 | 508 | 51 | 328 | 129 |

| No. | Company name | Registered office | Stake (%) | Equity (HUF m)* 31.12.2016. | Subscribed capital (HUF m) 31.12.2016. | Reserves (HUF m) 31.12.2016. | Profit or loss for the year (HUF m)* 31.12.2016. |
|-----|--------------------------------------|--------------------------------------|-----------|--------------------------------|---|---------------------------------|---|
| 1 | K&H Befektetési Alapkezelő Zrt. | 1095 Budapest, Lechner Ödön fasor 9. | 100 | 3 068 | 850 | 150 | 2 068 |
| 2 | K&H Autópark Kft. | 1095 Budapest, Lechner Ödön fasor 9. | 100 | 514 | 11 | 338 | 165 |
| 3 | K&H Csoportszolgáltató Kft. | 1095 Budapest, Lechner Ödön fasor 9. | 100 | 548 | 60 | 455 | 33 |
| 4 | K&H Equities Zrt. | 1095 Budapest, Lechner Ödön fasor 9. | 100 | 4 747 | 38 | 4 798 | -89 |
| 5 | K&H Eszközlízing Kft. | 1095 Budapest, Lechner Ödön fasor 9. | 100 | 13 | 5 | 10 | -2 |
| 6 | K&H Ingatlanlízing Zrt. | 1095 Budapest, Lechner Ödön fasor 9. | 100 | 172 | 50 | 34 | 88 |
| 7 | K&H Faktor Pénzügyi Szolgáltató Zrt. | 1095 Budapest, Lechner Ödön fasor 9. | 100 | 692 | 51 | 457 | 184 |
| 8 | K&H Jelzálogbank Zrt. | 1095 Budapest, Lechner Ödön fasor 9. | 100 | 3 473 | 3 050 | 450 | -27 |

* Unaudited

b, Participations in jointly managed undertakings

The Bank holds no ownership interest in any jointly managed undertaking either in this year or in the previous year.

c, Participations in affiliated undertakings

| No. | Company name | Registered office | Stake (%) | Equity (HUF m) 31.12.2015. | Subscribed capital (HUF m) 31.12.2015. | Reserves (HUF m) 31.12.2015. | Profit or loss for the year (HUF m) 31.12.2015. |
|-----|--------------|------------------------------|-----------|-------------------------------|---|---------------------------------|--|
| 1 | HAGE Zrt. | 4181 Nádudvar, Kossuth u. 2. | 25,00 | 7 451 | 2 689 | 4 640 | 122 |

| No. | Company name | Registered office | Stake (%) | Equity (HUF m)* 31.12.2016. | Subscribed capital (HUF m) 31.12.2016. | Reserves (HUF m) 31.12.2016. | Profit or loss for the year (HUF m)* 31.12.2016. |
|-----|--------------|------------------------------|-----------|--------------------------------|---|---------------------------------|---|
| 1 | HAGE Zrt. | 4181 Nádudvar, Kossuth u. 2. | 25,00 | 8 131 | 2 689 | 4 762 | 680 |

* Unaudited

d, Participations in other associated undertakings

| No. | Company name | Registered office | Stake (%) | Equity (HUF m) 31.12.2015. | Subscribed capital (HUF m) 31.12.2015. | Reserves (HUF m) 31.12.2015. | Profit or loss for the year (HUF m) 31.12.2015. |
|-----|------------------------------|---|-----------|-------------------------------|---|---------------------------------|--|
| 1 | Garantiqa Hitelgarancia Zrt. | 1082 Budapest, Kisfaludy u. 32. | 8,16 | 28 294 | 7 840 | 16 962 | 3 493 |
| 2 | Árpád Üzletház Egyesülés | 1045 Budapest, Árpád út 112. | 7,38 | 3 | 3 | 0 | 0 |
| 3 | Swift SC | Belgium, B-1310 La Hulpe, Avenue Adele 1. | 0,02 | N/A | 14 | N/A | N/A |
| 4 | VISA Europe Limited | London, W2 6TT, Sheldon square 1. | 1,28 | N/A | N/A | N/A | N/A |

| No. | Company name | Registered office | Stake (%) | Equity* (HUF m) 31.12.2016. | Subscribed capital (HUF m) 31.12.2016. | Reserves (HUF m) 31.12.2016. | Profit or loss for the year (HUF m)* 31.12.2016. |
|-----|------------------------------|---|-----------|--------------------------------|---|---------------------------------|---|
| 1 | Garantiqa Hitelgarancia Zrt. | 1082 Budapest, Kisfaludy u. 32. | 8,16 | 30 803 | 7 840 | 20 455 | 2 509 |
| 2 | Árpád Üzletház Egyesülés | 1045 Budapest, Árpád út 112. | 7,38 | N/A | 3 | N/A | N/A |
| 3 | Swift SC | Belgium, B-1310 La Hulpe, Avenue Adele 1. | 0,02 | N/A | 14 | N/A | N/A |
| 4 | VISA INC | 900 Metro Center Blvd, Foster City, CA, 94404 United States | 0,09 | N/A | N/A | N/A | N/A |

* Unaudited

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 Eszközlízing Kft. | 1095 Budapest, Lechner Ödön fasor 9. | 5 | 100,00% |
| K&H Autópark Kft. | 1095 Budapest, Lechner Ödön fasor 9. | 11 | 100,00% |
| K&H Faktor Pénzügyi Szolgáltató Zrt. | 1095 Budapest, Lechner Ödön fasor 9. | 51 | 100,00% |
| K&H Jelzálogbank Zrt. | 1095 Budapest, Lechner Ödön fasor 9. | 3 050 | 100,00% |
| Significant controlling interest: | | | |
| HAGE Zrt. | 4181 Nádudvar, Kossuth u. 2. | 2 689 | 25,00% |

IV/10. Average number of employees, wage costs by employee category, other personnel expenses and contributions payable on salaries and wages

| Employees by category | Average statistical number of employees | | Salaries and wages (HUF m) | | Other personnel expenses (HUF m) | | Contributions payable on salaries and wages (HUF m) | |
|--|---|--------------|----------------------------|---------------|----------------------------------|--------------|---|--------------|
| | 2015 | 2016 | 2015 | 2016 | 2015 | 2016 | 2015 | 2016 |
| Full-time | 3 259 | 3 389 | 21 001 | 22 982 | 2 793 | 2 876 | 6 599 | 6 988 |
| Part-time | 120 | 124 | 434 | 525 | 60 | 68 | 137 | 160 |
| Retired | 14 | 8 | 42 | 31 | 6 | 4 | 13 | 9 |
| Not on payroll | 1 | 1 | 5 | 8 | 7 | 7 | 2 | 3 |
| Total Profit & Loss Account line 73, 74, 77 | 3 394 | 3 522 | 21 482 | 23 546 | 2 866 | 2 955 | 6 751 | 7 160 |

* rounded figure

IV/11. 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 | |
|----------------------|--|-------------|--------------|-------------|
| | 31.12.2015. | 31.12.2016. | 31.12.2015. | 31.12.2016. |
| Board of Directors* | 0 | 0 | 0 | 0 |
| Executive Management | 2 | 3 | 230 | 271 |
| Supervisory Board* | 1 | 1 | 6 | 6 |
| Total: | 3 | 4 | 236 | 277 |

Board of Directors, Supervisory Board: honorarium, Executive Management: labour income

*Board of Directors consists of six members (none of them received remuneration related to BoD membership), Supervisory Board consists of four members (three of them did not receive any remuneration related to their SB membership).

The Bank has reviewed the definition of Executive Management (only the CEO and deputy CEOs are considered to be Executive Management members in the table above).

IV/12. Loans granted to members of the Board of Directors, Executive Management and the Supervisory Board**31 December 2016**

In accordance with the Bank's internal policy, all employees of the Group, including key management may apply for interest-free loans or for loans with favourable conditions. Interest-free loans are only provided in line with relevant local laws (i.e. for housing, if the claimant and the property fit pre-defined requirements). Favourable conditions include a waiver of handling expenses and lower than market interest rates.

Members of the Board of Directors, the Executive Management and the Supervisory Board have a total debt of HUF 13 million to the Bank in housing loans with the long-term maturity obligations.

IV/13. Adjustments to the Bank's taxable income
31 December 2016

HUF millions

| Items decreasing taxable income | Amount | Items increasing taxable income | Amount |
|--|---------------|--|---------------|
| Income from the use of provisions | 1 539 | Expense arising from provisioning | 1 036 |
| Depreciation according to the Corporation Tax Act | 8 419 | Depreciation according to the Accounting Act | 8 922 |
| Book value of tangible assets removed from the books | 1 118 | Book value of tangible assets removed from the books | 845 |
| Dividends received | 2 575 | Depreciations | 3 |
| Reversal of impairment | 1 | Income and expenses related to previous years | 161 |
| Donation | 52 | Expenses not incurred in the interest of the company | 1 240 |
| Bank tax | 7 443 | | |
| Total: | 21 147 | Total: | 12 207 |

The tax authorities may audit the books and records at any time within 6 years after the relevant tax year and may set a deficit or surplus tax. The bank is not aware of any circumstances that can lead to major findings of a tax audit.

IV/14. 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 | 95 442 | 87 708 |
| 02. | + Income from other financial services (excluding reversal of impairment on securities and positive valuation difference of receivables) | 68 548 | 72 828 |
| 03. | + Other income (excluding use of provisions, reversal of surplus provisions, reversal of impairment on inventories and reversal of extraordinary depreciation) | 14 613 | 7 864 |
| 04. | + Income from investment services (excluding reversal of impairment on securities and positive valuation difference) | 48 777 | 47 693 |
| 05. | + Income from non-financial and investment services | 29 904 | 29 123 |
| 06. | + Dividend income | 2 438 | 2 575 |
| 07. | + Extraordinary income | 8 539 | 256 |
| 08. | - Interest expense | 24 070 | 17 369 |
| 09. | - Expense on other financial services (excluding impairment on securities and negative valuation difference of receivables) | 21 795 | 21 209 |
| 10. | - Other expense (excluding provisioning, impairment on inventories and extraordinary depreciation) | 64 769 | 57 060 |
| 11. | - Expense on investment services (excluding impairment on securities and negative valuation difference) | 30 852 | 26 817 |
| 12. | - Expense on non-financial and investment services | 27 004 | 26 786 |
| 13. | - General and administrative expense | 51 921 | 53 297 |
| 14. | - Extraordinary expense (excluding corporation tax liability for the year) | 72 602 | 76 |
| 15. | - Corporation tax liability for the year | 14 600 | 10 114 |
| 16. | - Dividend paid | 0 | 0 |
| 17. | CASH FLOW FROM OPERATIONS (lines 01-16) | -39 352 | 35 319 |
| 18. | Change in liabilities (+ if increase, - if decrease) | 137 992 | 203 317 |
| 19. | Change in receivables (- if increase, + if decrease) | 113 975 | -463 909 |
| 20. | Change in inventories (- if increase, + if decrease) | -2 414 | 3 772 |
| 21. | Change in securities stated under current assets (- if increase, + if decrease) | -5 407 | 20 437 |
| 22. | Change in securities stated under fixed assets (- if increase, + if decrease) | -34 191 | -77 555 |
| 23. | Change in capital expenditure (including advances) (- if increase, + if decrease) | -517 | 0 |
| 24. | Change in intangible assets (- if increase, + if decrease) | -4 731 | -6 157 |
| 25. | Change in tangible assets (excluding capital expenditure and advances for capital investments) (- if increase, + if decrease) | -3 640 | -5 909 |
| 26. | Change in prepayments and accrued income (- if increase, + if decrease) | 2 929 | 6 900 |
| 27. | Change in accruals and deferred income (+ if increase, - if decrease) | 3 375 | 5 148 |
| 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 | -168 | 0 |
| 31. | Par value of Treasury stock and equity bonds retired | 0 | 0 |
| 32. | NET CASH FLOW (lines 17-34) | 167 851 | -278 637 |
| 33. | of which: - change in cash (HUF and foreign currency cash and checks) | 4 498 | 2 309 |
| 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) | 163 353 | -280 946 |

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

1. Key balance sheet and performance data

1.1. Balance sheet

| HUF billion | 31 Dec 2015 | 31 Dec 2016 | Change |
|--------------------------|-------------|-------------|--------|
| Total assets | 2 607 | 2 863 | +9,8% |
| Amounts due from clients | 1 163 | 1 206 | +3,6% |

K&H Bank's total assets amounted to HUF 2 863 billion on 31 December 2016. Main changes in the balance sheet:

- The decrease in *cash and equivalents* (2016: HUF 302 billion, 2015: HUF 581 billion) is primarily of technical nature: as part of its self-financing programme MNB introduced further limitations for the 3 months deposit instruments, so significant part of the Bank's surplus liquidity was channelled to short term interbank placements, mainly with K&H Bank's parent bank KBC (reported separately).

Amounts due from clients increased by 3,6% during 2016 (2016: HUF 1 206 billion; 2015: HUF 1 163 billion), the growth rate of lending to both retail and corporate segments exceeded that of the banking sector (the Bank's market position in lending strengthened further): next to the 4% growth in large corporate SME loan portfolio increased by 5% in 2016 supported by the Hungarian National Bank's Funding for growth scheme. In the course of 2016 retail loans also remained on a growing path (volume of newly disbursed mortgages of K&H increased by 16% compared to 2015):

| Market share | 31 Dec 2015 | 31 Dec 2016 * |
|------------------------------|-------------|---------------|
| Corporate loans | 10,1% | 10,4% |
| Retail loans | 9,5% | 10,1% |
| Corporate deposits | 11,5% | 12,3% |
| Retail deposits+mutual funds | 12,6% | 11,5% |
| New production of mortgages | 16,1% | 14,9% |

* preliminary figures
source: MNB, K&H

- Amounts due to clients* increased by 13,7% during the year (2016: HUF 2 155 billion; 2015: HUF 1 896 billion), and within that deposits by all business segments (retail, SME, corporate) increased.

| HUF billion | 31 Dec 2015 | 31 Dec 2016 | Change |
|------------------------|-------------|-------------|--------|
| Amounts due to clients | 1 896 | 2 155 | +13,7% |
| Equity | 211 | 259 | +22,7% |

- The HUF 47,9 billion increase in *shareholders' equity* is primarily related to the net result of the year. Based on a shareholders resolution the Bank will pay HUF 38,9 billion dividend after the financial results of 2016.

| | 31 Dec 2015 | 31 Dec 2016 | Difference |
|-----------------------------|-------------|-------------|------------|
| Guarantee capital (HUF bln) | 207,1 | 216,0 | +4,3% |
| Capital adequacy ratio (%) | 13,0 | 14,1 | +1,1 |

1.2. Profit

| HUF billion | 2015 | 2016 |
|-----------------------|------|------|
| Profit after taxation | 32,1 | 47,1 |

In 2016 the Bank's net result amounted to HUF 47,1 billion (2015: HUF 32,1 billion).

- In comparison with previous year *net interest and interest-type income* decreased by 1,4% (2016: HUF 70,4 billion; 2015: HUF 71,4 billion) primarily related to the negative impact of low interest environment (partially counterbalanced by the impact of increased loan and deposit volumes).
- *Net income from fees and commission* increased by 4,4% compared to the previous year's level (2015: HUF 47,8 billion; 2015: HUF 45,8 billion), as the lower income on investment services was compensated by the higher fee income on transactional services.
- *Profit/loss on financial transactions* increased by 30,4% in 2016 (2016: HUF 26,8 billion; 2015: HUF 20,5 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 HUF 2,3 billion (3,7%) growth in *operating expenses* (2016: HUF 62,4 billion; 2015: HUF 60,1 billion) due primarily to IT expenses and regulatory fees.

2. Risk Management

Banks are exposed to several types of risks due to their operations. K&H Bank has a system in place for the 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 organisational set-up.

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 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 Risk and Compliance Committee (RCC), the Audit Board (AB), 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. 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 report to senior management.

The Board of Directors and the Risk and Compliance Committee have an important role to play in value creation and risk governance. Regular reporting to the 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 the regulator 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. Based on MNB permission, the Bank shifted to IRB Advanced methodology for regulatory capital calculation from 30 September 2015.

Management reports were further fine-tuned during 2016, and amended with additional information. The main conclusions for 2016 are:

- Corporate and SME portfolio quality remained stable with some improvement in risk indicators (NPL and delinquency);
- The quality of the loan portfolio disbursed in the MNB's Funding for Growth program is also stable;
- Retail portfolio continued to improve (due to the decreasing NPL volume and also the high amount of new disbursements).

The economic conditions, especially the evolution of unemployment and the future evolution of the HUF interest rate levels can considerably influence the future quality of the credit portfolio.

- **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 continuously 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, stress tests). There's also sovereign exposure monitoring in place.

The banking book is characterized by slightly increasing interest rate risk taking due to the early adoption of the new benchmark model, at full sovereign limit utilization. KBC group level Internal Capital Calculation Method was underpinned by the regulatory 200bp stress test result throughout the year to prove its conservative stance.

Trading risk taking was stable at around 30-50% of the available VaR limit. Bpv per curve secondary limit was in overrun a few times, resolution was in line with the official governance practice and the exposure sank under the limit.

- **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. On process level the bank is managing interest rate risk as part of the ILAAP framework through the cooperation of the affected departments. 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. Structural liquidity is monitored through Basel III liquidity ratios (LCR, NSFR) as well as FFAR (DMM) indicator, FLST indicator and by liquidity stress tests and liquidity early warning signals. 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 2015 | 31 Dec 2016 | Regulatory requirement |
|----------------|-------------|-------------|------------------------|
| NSFR (%) | 157,7 | 147,5 | 100 |
| LCR (%) | 127,3 | 175,0 | 100 |
| FFAR (DMM) (%) | 127,8 | 110,1 | 100 |

- 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 increased by 5 during the year and amounted to 3 515 at the end of 2016.

Capital investments in the branch network:

- During 2016 the set-up, full or partial reconstruction of 15 branches was completed or was under preparation.
- Built-in premium-banker offices were installed in 16 branches
- By the end of 2016, altogether 458 ATMs were serving our customers (incl. 101 Cash-in ATMs).

The number of branches at year-end 2016 was 207.

As in the past, next to its financial activity the Bank devoted special attention to sustainability in its operations (and within that to make its energy consumption more efficient):

- K&H's head office - opened in 2011 - was the first office building in Central Europe to win the LEED Gold Environmental Award for the entire property investment project. Thanks to the state-of-the-art environmental solutions used in the new head office, the Bank significantly reduced its per capita CO2 emission in 2010-2015. In addition to that, the Bank's consumption of drinking water, paper and energy was also decreased in 2016.
- At the end of 2016, the Bank had its integrated environmental and energy control system successfully accredited, which makes it the first financial institution in Hungary to operate audited and accredited ISO 14001 and ISO 50001 systems.

The most important IT development projects of 2016 were the followings:

- Several project size developments were initiated or completed to align with legal regulations such as: Personal Data Protection Regulation, MIFID2, IFRS transition, SEPA, EU Interchange, Intraday GIRO frequency increase, E-invoicing (electronic invoice acceptance).
- Following the last phase of the integrated branch front-end development project the project was successfully closed.
- A new mobile application was implemented for corporate clients and related to the corporate front-end system further developments were realized in 2016.
- Within the Digitalization programme the following developments were delivered in 2016:
 - **website:** branch appointment booking development was finished;
 - **GAP in the market (Üzletet ide!):** microsite went live and the first phase is closed;
 - **Mobilbank:** beside the basic application the service has been enhanced with several new functions (and a new version of Mobilbank got available).

Budapest, 13th April 2017

Hendrik Scheerlinck
Chief Executive Officer

Attila Gombás
Chief Financial Officer



K&H Bank Zrt.

Management Report

31 December 2016

Below we summarise the business operations, the operating conditions and the financial results of K&H Bank Zrt. (hereunder "Bank") in 2016.

1. Economic environment

Following the GDP growth of 3.1% in 2015, the pace of the economic growth slowed down to 2% in 2016. Household consumption was the major contributor to the economic growth in 2016, while the investments were weaker mainly due to the temporary lower European Union funds inflow. Among the sectors the agriculture and services were the main drivers of the growth, while construction pulled it back. The internal and external balance positions of the Hungarian economy remained favourable, the state debt was decreasing slightly further and its currency composition also improved. Hungary regained the investment grade at all three big rating agencies in 2016.

| | 2015 actual | 2016 preliminary |
|------------------------------------|----------------|---------------------|
| GDP growth | +3.1% | +2.0% |
| CPI (average) | -0.1% | +0.4% |
| Households' consumption | +3.1% | +4.2% |
| Investments | +1.9% | -14.7% |
| Unemployment rate | 6.2% | 4.4% |
| Budget deficit (ESA) (in % of GDP) | -1.6% | -1.7% |
| Debt/GDP rate | 74.7% | 73.5% |
| Balance of payments (in % of GDP) | +3.4% | +4.5% |

Source: MNB, KSH, K&H

The European Central Bank continued its aggressive asset purchasing program (preserving a loose monetary policy environment also in 2016) while the FED has raised its base rate one more time thanks to the improving economic figures and in its public announcements made reference to further steps of monetary restrictions. The Hungarian National Bank (MNB) restarted the rate cut cycle again in March and decreased the base rate by 15 bps steps from 1.35% to 0.90% till the end of May. This level stayed until the end of the year. As a part of its self-financing program the central bank announced further steps to reshape its monetary policy tools (tightening of the interest rate corridor, further limitations in the 3 months deposit instrument) and started its Growth Supporting Program (with the aim of gradual phasing out of Funding for Growth scheme and introducing the new Market based Lending Scheme). MNB pumped extra HUF liquidity into the markets via swaps as well. As a consequence of these measures the interbank market rates were pushed well below the base rate level.

2. Key balance sheet and performance data

2.1. Balance sheet

| HUF billion | 31 Dec 2015 | 31 Dec 2016 | Change |
|--------------------------|----------------|----------------|--------|
| Total assets | 2,607 | 2,863 | +9.8% |
| Amounts due from clients | 1,163 | 1,206 | +3.6% |

K&H Bank's total assets amounted to HUF 2,863 billion on 31 December 2016. Main changes in the balance sheet:

- The decrease in *cash and equivalents* (2016: HUF 302 billion, 2015: HUF 581 billion) is primarily of technical nature: as part of its self-financing programme MNB introduced further limitations for the 3 months deposit instruments, so significant part of the Bank's surplus liquidity was channelled to short term interbank placements, mainly with K&H Bank's parent bank KBC (reported separately).
- *Amounts due from clients* increased by 3.6% during 2016 (2016: HUF 1,206 billion; 2015: HUF 1,163 billion), the growth rate of lending to both retail and corporate segments exceeded that of the banking sector (the Bank's market position in lending strengthened further): next to the 4% growth

in large corporate SME loan portfolio increased by 5% in 2016 supported by the Hungarian National Bank's Funding for growth scheme. In the course of 2016 retail loans also remained on a growing path (volume of newly disbursed mortgages of K&H increased by 16% compared to 2015):

| Market share | 31 Dec 2015 | 31 Dec 2016 * |
|------------------------------|----------------|------------------|
| Corporate loans | 10.1% | 10.4% |
| Retail loans | 9.5% | 10.1% |
| Corporate deposits | 11.5% | 12.3% |
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* preliminary figures
source: MNB, K&H

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| HUF billion | 31 Dec 2015 | 31 Dec 2016 | Change |
|------------------------|----------------|----------------|--------|
| Amounts due to clients | 1,896 | 2,155 | +13.7% |
| Equity | 211 | 259 | +22.7% |

- The HUF 47.9 billion increase in *shareholders' equity* is primarily related to the net result of the year. Based on a shareholders resolution the Bank will pay HUF 38.9 billion dividend after the financial results of 2016.

| | 31 Dec 2015 | 31 Dec 2016 | Difference |
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| Capital adequacy ratio (%) | 13.0 | 14.1 | +1.1 |

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| HUF billion | 2015 | 2016 |
|-----------------------|------|------|
| Profit after taxation | 32.1 | 47.1 |

In 2016 the Bank's net result amounted to HUF 47.1 billion (2015: HUF 32.1 billion).

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- *Profit/loss on financial transactions* increased by 30.4% in 2016 (2016: HUF 26.8 billion; 2015: HUF 20.5 billion). Description of the financial instruments' valuation is included in the Bank's financial statements (II/19, II/20, II/21, III/6).
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Budapest, 28 April 2017

Hendrik Scheerlinck
Chief Executive Officer

Attila Gombás
Chief Financial Officer