Kereskedelmi és Hitelbank Rt.

ANNUAL REPORT 2000

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Preface by the Chairman of the Board

In 2000, the most notable event in the life of Kereskedelmi és Hitelbank Rt. was the decision made by the Bank's major shareholder, the Belgian KBC Bank and Insurance Group, and the Dutch ABN AMRO Bank to join forces in Hungary. Under the agreement, K&H Bank and ABN AMRO Magyar Bank Rt. will merge. As a result, the newly created financial services group will become the second largest of its kind in the Hungarian market, a market leader in corporate banking and among the top three with respect to most other services.

The ownership structure ensures the support of an international network in financial services that can only be offered by banks with international backing. This will be supplemented by an integrated system of complementary services, an almost doubled branch network and the joint support of the two shareholders. All these developments will greatly increase the new Bank's ability to attract potential customers.

The merger will bring considerable operational advantages as well and, even now at the moment of the merger, provides the corporate size at which investments in advanced technologies can be realised with a high degree of financial efficiency.

All combined, these developments promise a considerable increase in shareholders' value.

In 2000, Kereskedelmi és Hitelbank Rt. rationalised its organisation, which resulted in significant personnel cost savings, while the branch network became more product- and market-oriented. Within the group, more emphasis was placed on product development and the modernisation of operations and sales technologies. As a result, the Bank managed to preserve its market share in an increasingly competitive environment and, in fact, increased its share in the lending market.

The IT and management information systems, being under further development via considerable investments, improve the transparency of Bank processes and lead to more efficient risk management. In 2000, the Bank's management followed a very strict cost management plan which, along with the upgrading and development projects described above, contributed to the significant improvement of the financial figures as compared to the previous year. The Board of Directors acknowledges these accomplishments with satisfaction and expressed its appreciation to the Bank's senior management. These results rest on the persistent and highly professional performance of the Bank's employees, for which I hereby extend my appreciation and gratitude.

Since the general meeting closing the 1999 business year, the composition of the Board has changed several times. The former Chairman of the Board, Patrick C. McEvoy, and the departing Board members participated in the work and decision-making of the Board with high commitment and professionalism. I would like to express my deep gratitude for their efforts expended for the benefit of our Bank.

In addition to servicing our customers adequately and meeting the business targets, the largest task before us today is the practical implementation of the merger, and to make full use of the advantages and opportunities offered by the emerging new Bank. High standards of professionalism and good cooperation from all, the support of our committed strategic investors, KBC and ABN AMRO, the favourable changes of the past year and the first achievements of the merger give us every reason to face this challenge with full confidence.

István Szalkai

Preface by the Chief Executive Officer

Kereskedelmi és Hitelbank Rt. had a successful year in 2000; both its operating and after-tax profit figures show a positive balance.

Following the path of internal restructuring started in 1999, in 2000 we took a number of actions that were aimed to improve efficiency and profitability. Effective from 1 January 2000, we divided the branch network into a retail and a corporate network. Within the corporate clientele, the segmentation of "small", and "medium and large" corporations represented an integral part of the process. This resulted in the better utilisation of accumulated experience and more professional customer services.

In order to increase our competitiveness and improve customer service, last year we carried out a large-scale product and service development project. The ***Trambulin program*** was launched, offering various products to members of the youngest generations. In co-operation with the Matáv Group, the Bank has developed a highly secure retail ***Internet banking service***. Another product of the Bank, the ***VISA Internet card***, facilitates the spread of Internet shopping, which, supplemented by the "Don't Worry" service, provides fully secure on-line shopping. The first step on the road to mobile banking is our ***Mobilinfo*** service. We entered the market with ***private banking services***, offering packages with favourable rates, services and individual pricing to our retail customers. For our ***SME customers***, we have developed several types of account management packages.

Concurrently, the development of an efficient organisation made the rationalisation of headcount inevitable; as a result, employee headcount was reduced by 12%. In the meantime, in order to retain our highly qualified professionals and provide incentives for improved performance, a performance evaluation and bonus scheme, as well a flexible benefit scheme, was introduced in 2000. At the same time, the group's real property policy, which lays emphasis on the sale and lease-back of existing real estate, has virtually been accomplished. This approach has been instrumental in decreasing the number of badly utilised real estate properties, and allowed for real estate utilisation in line with actual needs, thus increasing the transparency of related costs.

The centralisation of services used and of procurement procedures, as well as new tender invitations for procurement on the principle of "larger order – lower price" were also driven by transparency and cost efficiency considerations. In virtually all areas, we managed to sign contracts with more favourable conditions than before.

In information technology, the implementation of the selected strategic systems continued. Today, our integrated corporate and retail system serves as the core system of the merged Bank. At the end of last year, our Treasury system was implemented, and the new SAP-based general ledger system is also in operation.

The Bank's IAS consolidated balance sheet profit for 2000 amounted to HUF 2.5 billion, which is a marked improvement over the loss of HUF 8.3 billion generated in 1999, or the projected 2000 profit of HUF 1 billion.

The HUF 2.6 billion operating profit represents an improvement of HUF 4.1 billion over the deficit of the previous year, and also exceeded the target by HUF 0.6 billion (30%). The 26% growth in operating income over the previous year is a pleasant development, and is due primarily to the dynamic increase in net interest income and commissions income (30% and 26%, respectively). Thanks to strict cost management and the rationalisation of the business, operating costs increased only by 8.7%, compared to 1999, despite the fact that considerable expenses already arose in relation to the merger. The cost/income ratio declined from 106 to 92%.

While according to the Hungarian Accounting Standards, the Bank generated a loss of HUF 1.7 billion, these were caused by non-operating items (e.g., stricter general risk provision requirements under Hungarian regulations, the difference between operative and financial leasing, as well as the evaluation difference of leasehold rights and real estate).

The results and the solid ownership background are also reflected in the improved ratings by international rating agencies (S&P: from BB to BBB, Moody's: from Baa2 to A3, Fitch IBCA: from BBB+ to A–).

The achievements in 2000 and the support of our shareholders provide a strong foundation for the challenging merger of Kereskedelmi és Hitelbank Rt. and ABN AMRO Magyar Bank Rt., which will result in the creation of a new, larger and more efficient financial institution.

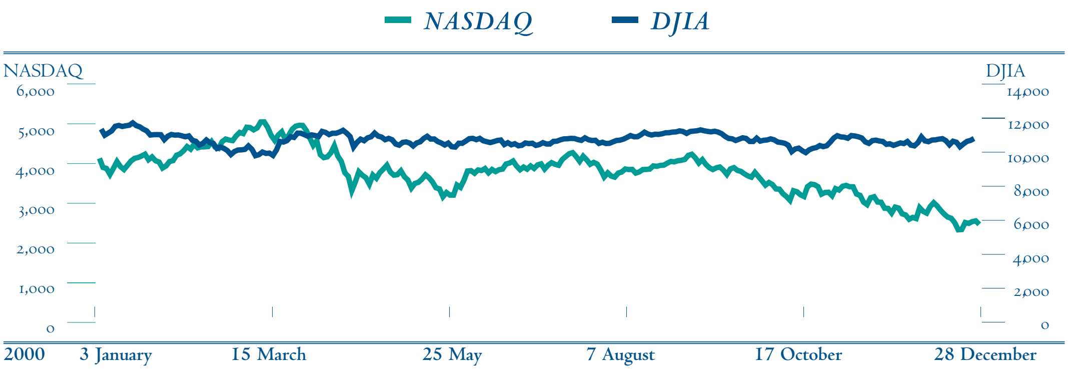
Rejtő E. Tibor

Economic Trends

International Economic Trends

International economic trends were favourable in 2000. In addition to the greater than expected growth of the world's most sizeable economy (the USA), the economies of the EU, Japan, and Russia also closed a good year. High GDP growth was accompanied by an increase in inflation, primarily due to rising oil prices during the first half of the year, which in its turn affected financial market yields. The exchange rate of the euro, which has been almost constantly on the decline ever since its introduction, was on historic low against the dollar in October (0.82), but as a result of more modest expectations of US economic performance in 2001, the exchange rate of the common currency significantly strengthened towards the end of the year (0.93).

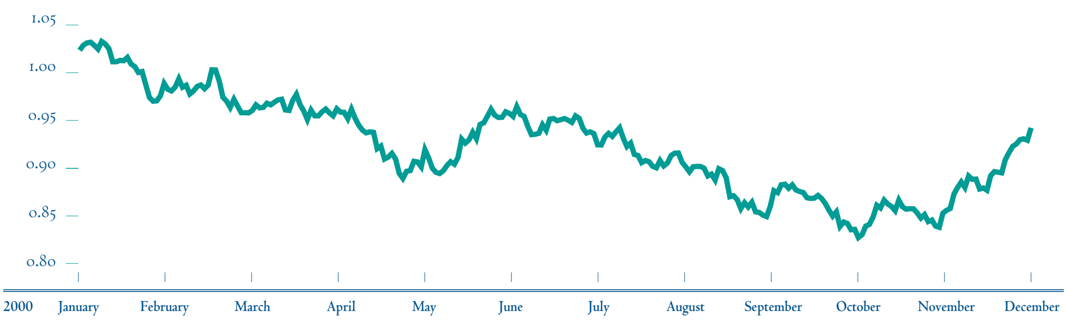
In 2000 the US economy continued to dominate market trends. GDP grew by 5.1% on average for the year, and reached its peak since 1983. While in 2000 the Fed – fearing an overheating of the US economy – decided to repeatedly raise its prevalent interest rates, in 2001 it responded to the slowing down of the economy by cutting interest rates by 200 bps in four steps by May. In 2000 the soaring of the NASDAQ stock index came to a halt, and a major devaluation of technological stocks in March was followed by further decline during the year, leaving the NASDAQ 40% lower at the year-end than in 1999 (the DJIA lost 5% of its value).



In addition to the euro ailing for the most part of the year, higher than expected inflation caused problems for the European Central Bank (ECB) as well. Throughout the year the Bank tried to protect the common currency by raising its prevalent interest rates and making repeated interventions into foreign exchange markets – in conjunction with the Fed, but from time to time the market lacked confidence in its commitment to a strong Euro. Macro-economic indicators for the first few months of 2001 seemed to indicate that global slow-down would be a lesser threat to the economy of the EU in forthcoming years. Although the economic confidence index of the euro-zone foreshadows a declining trend, the growth of industrial output continues to exceed the average of previous years, and the unemployment rate is falling in spite of slower growth.

In 2001 the economic performance of the Central and East European region, being strongly tied to the economy of EU countries, will not be significantly influenced by the slow-down of the US economy. Thus, similarly to 2000, a dynamic expansion of the region's GDP can be expected.

USD/EUR



The Hungarian Economy in Trends

The Hungarian economy – similarly to previous years – continued to grow dynamically in 2000, exceeding the growth rate of both the EU and the average growth rate of the CEE region. The 5.2% growth of GDP is still primarily a result of the expansion of industrial output (18.3%), exports (21.7%) and investments (6.5%). However, neither the rate of increase of real income (1.5%), nor that of consumption (3.1%) could keep up with the growth of the economy. Economic growth was accompanied by a further fall in unemployment (from 7% to 6.4%).

Economic growth was accompanied by an improvement in both the country's internal and external balance of payments. The current account deficit dropped to 1,921 million EUR, an improvement of 54 million EUR, which was not compensated to the same extent as in previous years by non-debt-generating instruments (influx of working capital, portfolio investments). Hungary's net international debt service obligation, excluding proprietary loans, was 9,082 million EUR (429 million EUR higher than in 1999).

The state of public finance also showed an improvement, and the central budget deficit dropped from 3.9% in 1999 to 3.5% by 2000. As a result of dynamic economic growth, the rate of increase in gross central government debt fell behind its level of previous years, and the debt to GDP ratio decreased from 59% in 1999 to 56%.

As a result of good economic performance, international credit rating institutions improved Hungary's risk rating: Moody's improved its long-term foreign exchange debt rating for Hungary to A3, while the country's S&P's rating was improved twice during the year (from BBB to A). (S&P also revalued Hungary's HUF denominated liabilities to A+.)

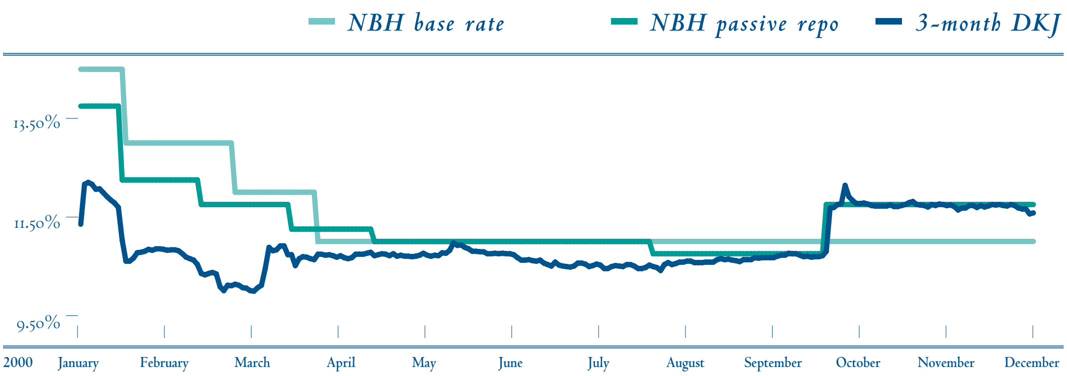
Monetary Processes

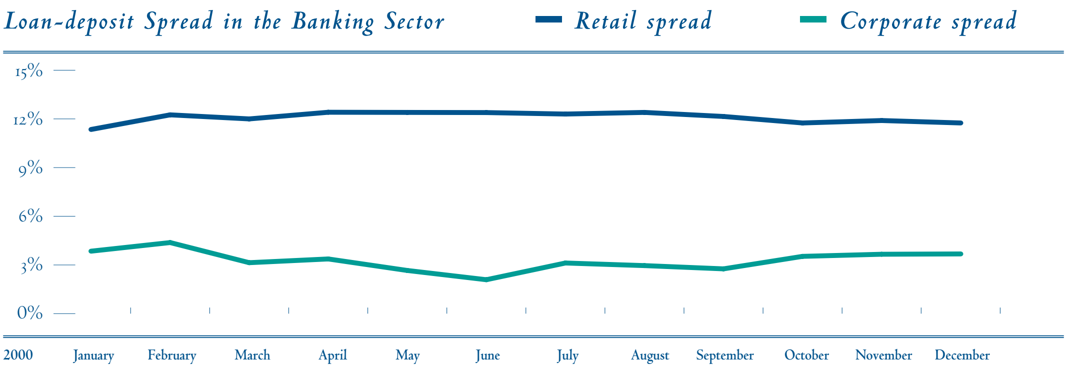
Responding to financial market processes, such as the accelerating influx of short-term capital prompted by favourable budgetary and inflationary trends, the Magyar Nemzeti Bank (National Bank of Hungary, "NBH") cut its prevalent interest rates several times during the year. (Thus, the NBH base rate was lowered from 14.5% as of 31 December 1999 to 11% by 3 April 2000.) The 3-month no interest slip NBH Bond was introduced in March in order to stabilise long-term financial market yields. The National Bank responded to the reversal of the inflationary trend by raising its prevalent interest rates by 100 bps in October, but it could not stop the fall to 167 bps of the real yield of its deposit interest by year end (from 306 bps in January).

The composition of the currency basket was changed on 1 January 2000, and the crawling peg devaluation of the forint was tied to the euro at 100%. The market exchange rate of the forint stayed at the strong edge of the intervention zone through most of the year. A reduction in the predefined monthly devaluation rate was made possible by favourable inflationary trends in the early part of the year. The weakening of the euro during most of the year had a negative impact on the consumer price index, which – coupled with rising oil and agricultural prices – led to a long halt in the inflation decline experienced since 1996. Seed inflation was up above 10% again by the early months of 2001, thus further slowing down of the devaluation of the forint (from 0.3% to 0.2%) from 1 April 2001 is currently taking place under less favourable circumstances than before.

The National Bank of Hungary took several measures during the year to curb foreign exchange speculation within the Hungarian banking system. In March it extended the scope of mandatory reserve generation to include short term foreign liabilities as well, and from June a penalty interest is levied on open positions exceeding 30% of adjusted capital.

In 2000, the NBH repeatedly modified its mandatory reserve interest. By the end of the year, the mandatory reserve rate was adjusted to 6% on HUF denominated resources, and to 6.5% for resources denominated in foreign currency, as compared to a uniform rate of 7.75% in January. As a result of the change in mandatory reserve generation rules, the rate of mandatory reserves generated on resources has been gradually declining (following a 1% reduction in July 2000, mandatory reserves were further cut by 4% from February 2001, finalising at 7%). At the same time, the NBH has been extending the scope of foreign exchange resources subject to mandatory reserve generation.





The Hungarian Banking Sector

Macro-economic processes had a positive impact on the sector's development, and its balance sheet total in 2000 increased by 15.2%. Fuelled by substantial economic growth, both the corporate and the retail loan portfolio stayed on the growth curve (the extraordinary, 46.6% expansion of the latter was mainly attributable to housing-loans and car financing). Intensifying activity in the banking sector was at the same time accompanied by a reduction in the qualified loans within the total portfolio (down from 3.6% to 2.6%).

As in the previous year, the growth rate of corporate deposits was higher than the growth rate of retail deposits (the latter fell behind the growth rate of the balance sheet total of the banking sector as well). In 2000, the fall in the average deposit interest rate – within which the real interest component has been shrinking for some time – went hand in hand with a further increase in retail consumption and the proliferation of non-banking forms of saving, which had a moderating effect on the pace of growth. However, the fall of the average interest rate was arrested during the first quarter, and as a result of substantial demand for loans, banks benefited from a better spread on long-term customer portfolios by the end of December.

The profitability of the banking sector continues to remain low, although there has been a major improvement resulting from the favourable economic processes (RoE increased to 11.4% from last year's 4%). In spite of the fact that in 2001 demand for financial services is expected to increase even further, as a result of intensifying market competition, and the continuous evolution and concentration of the banking sector over the next few years, profitability is unlikely to show a major improvement.

Business Overview

The year 2000 was dedicated to concluding the internal reforms started in 1999, and to laying down the foundations of strategic development. The shareholders of Kereskedelmi és Hitelbank Rt. ("K&H Bank" or the "Bank") decided to merge with ABN AMRO Magyar Bank Rt. Following this decision, from the fourth quarter onwards, the Bank began preparing for the upcoming merger and carefully considering the merger's potential impact on decisions and developments.

With a view to creating a more efficient decision-making mechanism and addressing diversified business interests, on 1 January 2000 the Bank's branch network was segmented into two halves. The new structure comprises 5 corporate and 7 retail regions across Hungary, including 30 corporate and 114 retail branches at the end of the year.

The new branch network aims to meet the following requirements:

- the concentration of professional expertise will result in more professional and efficient services to customers;
- maintaining a streamlined work-force and providing further training for corporate lending staff – a key to market success – will increase the concentration of expertise and lower costs;
- the higher concentration of expertise will also ensure better co-ordination between the principles applied and everyday practice.

In view of the successful business performance of 2000, it may be concluded that the Bank has realised the above objectives, and the branch network served customers effectively and efficiently in 2000.

As a result of reductions in staff levels, the headcount of the Bank and its subsidiaries ("K&H Group" or the "Bank Group") fell from 2,969 at the end of 1999 to 2,616 in 2000.

In order to motivate its employees, the Bank introduced a performance-based remuneration system in 2000. The training system was also reformed, focusing more on the enhancement of management skills, communication skills and sales techniques.

The integration of IT systems is crucial for the success of the merger of the two banks. Therefore, in 2000 work started on developing an IT strategy and architecture suitable for the merged bank. This included a number of enhancements to the IT support of branch activities and the security of central systems. In addition, the Bank successfully introduced its new General Ledger System and Treasury System.

The new integrated system of the new K&H Bank, which is going to replace the currently used systems of both banks, has already been selected, and a project responsible for its implementation is underway.

Corporate Banking

The year 2000 was characterised by endeavours to improve the Bank's relationship with SMEs. In order to facilitate faster and more efficient customer services, major changes were introduced to the

Bank's service structure during the year in view of the needs of small entrepreneurs with an annual turnover below HUF 300 million. Such enterprises – in view of their standard transaction parameters – will now be managed by the Retail Banking Directorate. Based on the experience of the first year, the Bank is going to extend its standardised management to an even larger segment of small enterprises in 2001.

In corporate banking, the Bank retained its position of the previous year in terms of customer numbers.

Organisational changes made during the year were aimed at better adjusting to the specific needs of various customer segments.

- The number of branches responsible for medium-sized enterprises and large corporations was reduced, and the management of these customer segments has been concentrated in branches possessing the most extensive professional knowledge and expertise in the field.
- The success of the Key Client Relations scheme introduced in the Autumn of 1999 has significantly deepened the Bank's relationship with the most important market players, which had a favourable impact on the efficiency, size and sectoral composition of the portfolio.

The development of the Bank's product range reflected customer needs. The extension of electronic channels simplified and improved the quality of the Bank's account management services and made them less expensive for customers. The extension of services accessible through the customer terminal raised service quality, as did the broadening of the scope of business cards and of services linked to accounts maintained with the Bank. The Bank has been offering a universal range of loans to its customers for several years, while in 2000 developments focused mainly on seasonal and annually revolving products. New products included an agricultural development financing facility, and loans to commercial housing construction companies.

Corporate banking also benefited from other changes introduced in 2000, including organisational changes at the head office and the branch network, customer segmentation and a number of adjustments to services to better suit the needs of customers. We were able to boost our business potential, and by making full use of this potential we were able to achieve the objectives set for corporate banking in 2000 and further increase our market share. Conscious efforts to improve the quality of the loan portfolio were crowned with success, both in terms of reducing sectoral risk exposure (agriculture, food industry) and improving the quality of the portfolio in general. Higher net fee and commission income – accompanied by keeping operating costs low – contributed to the improved profitability of corporate banking.

Deposit Collection, Account Management

Corporate deposits were up by 8.2% on average from last year's figures. The average volume of HUF deposits expanded by 5.4%, while the volume of foreign currency deposits grew by 22.4%.

The scope of services linked to accounts managed by the Bank was extended, including the following novelties in 2000:

- using the potential of customer terminals, the following functions were added to existing services: inquiries (account history, exchange rates, etc.), foreign exchange function, block transfer and block collection orders, mailing functions, deposit fixing and cancellation, call account fixing and cancellation;

- mobile phone information service for corporate customers and small entrepreneurs;
- an electronic entrepreneurial card was added to the range of business cards;
- the following services were added to the range of existing account management services:
  – VIBER payments,
  – call accounts (2 and 5 days).

The Bank's corporate deposit products are a flexible and simple way for customers to deposit any liquid funds.

Lending

In 2000, demand for corporate lending remained constant. Seizing the opportunity of growing demand, the Bank increased its corporate lending market share by 4% to legal entities.

The closing volume of corporate lending was up by 33% at the end of the year, representing a HUF 80 billion increase from the beginning of the year. The growth rate of the average volume was similarly high (26%).

The Bank's portfolio underwent a major change in terms of sectoral composition compared with the end of 1999. As a result of conscious efforts made to restructure the portfolio, the agriculture share fell from 21% to 16% while that of the food industry decreased from 15% to 11% within a year. In 2001 we intend to further mitigate the sectoral risk, which is supported by the Bank's participation in the agricultural development credit program (involving government guarantees as collateral).

The Bank also remained a market leader in project finance in 2000. Major deals were concluded in commercial real-estate development, telecommunications and energy, all highlighted as strategic target areas.

Retail Banking

Kereskedelmi és Hitelbank Rt. implemented major improvements to its retail banking products and services in 2000. As a result of the efforts made, the Bank's customer base widened by a total of 37%, including both retail account and loan product holders.

Increasing the concentration of the branch network according to retail customer segments along with training for staff in sales techniques, organisational changes and sophisticated IT support for retail product sales all are expected to help further increase the Bank's retail market share. All this will facilitate flexible adjustment to changing market needs in the future, helping the Bank maintain its market share within this strategic area.

Deposit Collection, Account Management

By the end of 2000, the Bank's total retail deposit portfolio exceeded HUF 287 billion, within which HUF deposits grew by more than 31 billion.

The number of retail account holders grew by over 68,000 during the year, of which 49,000 opened their accounts during the last quarter, thus the size of the total portfolio reached 260,000.

The Bank screened the quality of its retail foreign exchange account portfolio, which resulted in the termination of so-called "dormant accounts", and the number of retail foreign exchange accounts was reduced from 177,000 to 137,000.

Changes in the HUF equivalent of foreign exchange deposits was influenced by fluctuations in the USD exchange rate. A real increase in the value of foreign exchange deposits was seen only at the end of the year, as the Bank sourced foreign exchange deposits worth approximately HUF 4 billion during its autumn campaign. EUR denominated deposits comprised 48% of the portfolio, 43% was in USD, while the rest was denominated in multiple currencies.

Within term HUF deposits, the Savings Deposit Account became the Bank's flagship product. This product was among the most successful in 2000, although the Trezor Bill Deposit Account – offering flexible services and favourable interest rates – also remained popular with customers.

A number of new products and services or product packages were also introduced in 2000:

- the most popular was the flexible Savings Deposit Account, its year-end portfolio being up at HUF 71.9 billion;
- the launching of the "Trambulin" product package was also a success, as a form of savings targeting the younger generations. Over 40,000 customers opened "Trambulin" deposit accounts;
- the mobilinfo service was launched in the middle of 2000, offering an even wider access than before to banking transaction information. By the end of the year, 5,300 customers were using this service;
- private banking was also introduced in 2000, and by the end of the year the Bank managed assets worth over HUF 6 billion.

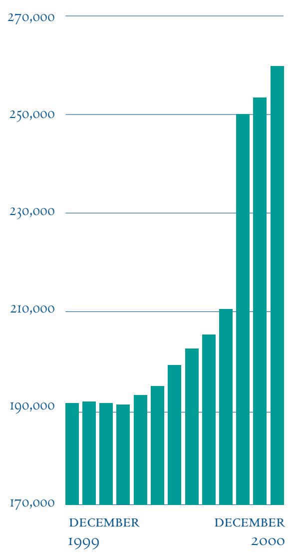
In 2000, the Bank was a Primary Dealer of government securities, engaged both in primary and secondary dealership thereof.

As an investment agent for K&H Befektetési Rt., ("K&H Investment Ltd.") and as part of a technical co-operation agreement, the Bank carried out stock exchange orders for its customers.

In the second half of the year, Kereskedelmi és Hitelbank Rt. developed a range of bank account products for small entrepreneurs. From 1 July 2000 the range of services has included account management products for small entrepreneurs ("KV-Szimpla" and "KV-Dupla"), two products offering flexible options making it easier for customers to forecast their banking costs.

KV packages may be complemented by up-to-date electronic banking services, e.g., the "Elektra" customer terminal which has been in place for a long time now, or the Mobilinfo service (sending text messages to mobile phones), or the international bankcard for entrepreneurs.

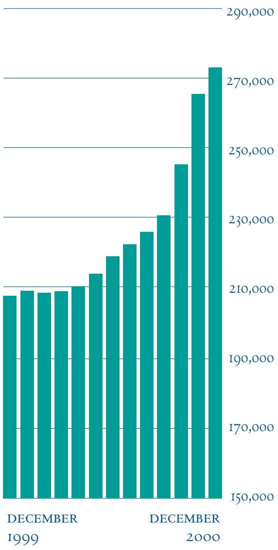
Kereskedelmi és Hitelbank Rt. intends to introduce Internet banking and wishes to help develop a tradition of financial advisory services for small and medium entrepreneurs.



Number of Retail Bank Accounts

Bankcards

Bankcard issuance was characterised by slower but stable growth during the first three quarters of the year, while in the fourth quarter – as a result of marketing campaigns (primarily for Trambulin cards) concentrated towards the end of the year – there was a surge in the number of bankcards. During this period, 65% of growth for the year was realised. The number of our bankcards grew by 32% compared to 1999, reaching 273,000 by the end of the year. In 2000 bankcard turnover was nearly HUF 98 billion.



Number of Bankcards Issued

During the year, in parallel to the introduction of new bankcard products, the Bank decided to renew its existing card types by upgrading services and gradually withdrawing obsolete products.

Several new bankcard programs were launched during the year (the SuperShop program, the Trambulin program aimed at the acquisition of new customers from the younger generations, the Small Entrepreneurs' Bankcard, and the VISA Internet Card programs).

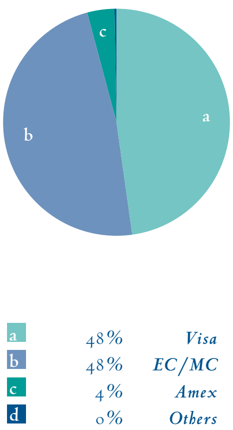
In terms of merchant ***bankcard acceptance*** (POS), the Bank's business objective was to maintain its nearly 30% market share, and this objective has been met. The Bank's HUF 80 billion annual POS turnover represents 31% growth over last year.

Special emphasis was made on preventing POS terminal fraud. The Bank has reviewed its contracts and maintains contact only with reliable partners loyal to the Bank.

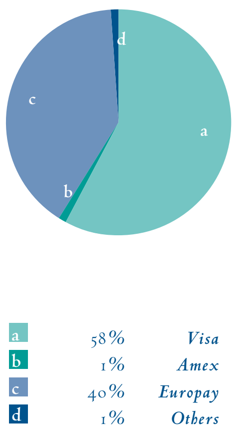
A recently developed monitoring system is also aimed at the prevention of fraud in the bankcard sector. Cases of abuse by merchants were successfully tackled by co-operation among domestic banks active in the POS sector, as well as by setting up working groups managed by card companies. The significant fall in bankcard fraud in Hungary compared to the previous year was due to these co-ordinated measures.

Bankcard products gained publicity during the year as part of retail marketing campaigns (Trambulin, Retail Account, Savings Deposit Account). A special marketing action accompanied the introduction of the SuperShop program, organised and financed by the community of Partners.

Composition of Acquiring Turnover by Card Type



Distribution of Bankcards Issued by Type



Lending

In retail lending, the Bank's objective for 2000 was to develop a comprehensive product range and to dynamically expand volume and customer numbers.

In May, the Bank introduced a housing loan with a supplementary government interest subsidy, and started the channelling of non-repayable government housing grants. The Bank developed co-operation with Földhitel és Jelzálogbank Rt. for the co-ordinated channelling of housing loans with liability interest subsidies.

As a result of the above measures, the volume of the Bank's retail loan portfolio doubled in 2000, growing from HUF 8.5 billion at the beginning of the year to HUF 17.0 billion at the year end. Dynamic expansion in housing loans was a priority objective, and an opening volume of HUF 1.4 billion grew to HUF 5.5 billion by the end of the year. The early summer marketing campaign was also responsible for the dramatic increase in volume.

At the end of the year, the number of customers with retail loans was 48,000, and an additional 55,000 customers had a current account credit line or credit card.

In lending to small entrepreneurs, the second half of the year saw the introduction of standardised loan products for small entrepreneurs with an annual net sales revenue of less than HUF 300 million.

The Lendület (Impulse) loan package includes a short-term current assets facility and a medium-term investment loan facility. Their common feature is that both types of loan are extended with guarantee from Hitelgarancia Rt., and against real estate collateral.

The Bank is also offering loans covered by HUF or FCY surety.

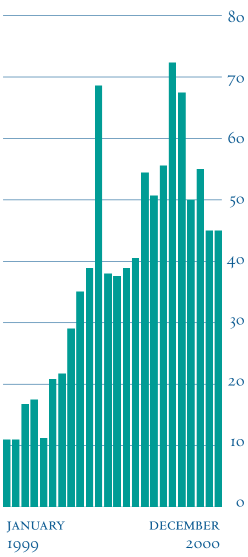
The Bank placed HUF 460 million from the start of the sales campaign until the end of the year.

E-bank

In December 2000, we launched the pilot-phase of our uniquely safe retail internet banking service under the name E-bank. The E-bank works as a virtual branch office. Our multiple-layer protection – for the first time in Hungary – guarantees the unique security of the service. In addition to the chip-card based customer identification and the central authorisation service, which is based on public key infrastructure, transactions and messages sent between the customers and the Bank are secured by digital signatures.

The technology was developed jointly by the Bank and the Matáv Group. Under the co-operation agreement between the parties, the E-bank web-server is operated by Matávnet Rt., while Matáv Rt. participates in the project as the Authorisation Centre for "digital ID cards". In the introductory phase, registered clients will be provided free of charge with the equipment necessary to access the service.

Treasury



Dealing in Government Securities (HUF billion)

In 2000, an international and KBC compatible, integrated universal front and back office system was put in place. The introduction of MUREX represents a major step forward in the record-keeping of spot and futures positions, as well as in risk management.

In 2000, Treasury had significant achievements: in terms of turnover, it obtained second place in the money market and fifth in the FX market. Our third to sixth position in the Primary Dealership System of Government Securities is a success considering the Bank was involved in the system as a new member in 2000.

In the first half of the year, tying the exchange rate of the forint to the euro made its impact on the domestic FX market, and the changes in regulations – making the FX funds and positions more expensive – also resulted in lower trading volumes. The Bank's FX liquidity continued to be stable. KBC was continuously at the Bank's disposal to ensure the FX liquidity, but this opportunity was scarcely utilised.

As a result of the strong growth in lending, the role of Treasury in the management of HUF liquidity and in meeting the mandatory reserve requirements of the National Bank of Hungary intensified for a few months in the middle of the year. The Bank actively participated in the domestic derivatives market and offered a wide range of products to its clients.

The conversion needs of foreign investors kept the forint at the strong edge of the band, and the volume of government securities held by foreigners increased during most of the year (its value grew by 67% in one year). It was characteristic that an increasing portion of the transactions took place in the OTC market. The trading position of the K&H government security and discounted treasury bill is stable, and the distribution of government securities via the branch network was also developed last year.

Brokerage

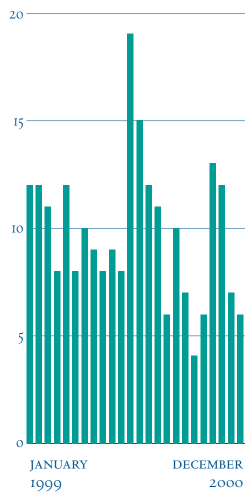
K&H Befektetési Rt. ("K&H Investment Ltd." or the "Company") as a member of the K&H Group is specialised in capital market (brokerage) services.

The Company's trading volume of shares in the spot market, partly as a result of the overall decline in trading volumes, and partly because of more moderate proprietary trading, fell from HUF 127 billion in 1999 to HUF 108 billion, and primarily in relation to this, fee income – generated almost exclusively by the orders of domestic clients – dropped from HUF 539 million in 1999 to HUF 363 million. The Company concluded 4,300 deals/month on average, which represents a declining tendency. In terms of annual trading figures, the Company's market share was nearly 2%.

In the futures section of the Budapest Stock Exchange, K&H Befektetési Rt. had an annual trading volume of over HUF 50 billion and an 8% market share, rewarding the Company with a Top 5 position in terms of trading volume.

Despite rather moderate market opportunities, Corporate Finance participated in several bond issuances and provided financial advisory services.

The aggregate volume of the individual portfolios managed by Portfolio Management, which grew by 69% during the year, exceeded HUF 6 billion by year-end. This represents more than 240 customers. The average portfolio volume of a client was HUF 25 million. The Company as the asset manager of K&H Voluntary and Private Pension Funds managed nearly HUF 7 billion in investments.



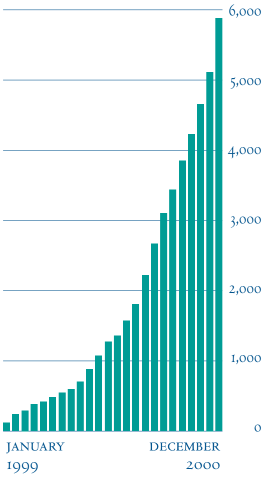
Dealing in Shares (HUF billion)

Leasing

Within the K&H Group, leasing activities are pursued by K&H Lízing Rt. (“K&H Leasing Ltd.”) and K&H Lízingház Rt. (“K&H Leasing House Ltd.”).

For the two companies, 2000 was a year of improvement and dynamic growth, bringing an expansion beyond expectations in the field of financing via the various credit and leasing facilities. In 2000, the K&H Leasing Group financed assets in a net value of nearly HUF 19.2 billion. Last year, in addition to financial leasing and operative leasing, the loan-type financing, mainly utilised by private individuals, gained increasing ground. Lending accounted for 46% of the value of assets placed out and 65% of the contracts concluded. Last year, the proportion of passenger car financing also grew. In 2000, the K&H Leasing Group financed passenger cars in a total net value of approximately HUF 12 billion (which represents 63% of the total financing). In the financing of commercial vehicles, the Bank retained its favourable market position achieved in previous years and was successful in finding new large and co-operative partners.

Plans include the further strengthening of the passenger car line, as well as the retention and improvement of the Bank’s market positions in the financing of commercial vehicles.



Number of Customers with Life Insurance

Life Insurance

The year 2000 was the first full business year when the entire branch network of K&H was involved in selling savings, unit-linked, and credit-linked life insurance policies. With the intensification of retail lending and with a wide-spread acceptance of the alternative methods of distributing life insurance linked savings products, the Bank's branch network issued nearly 4,500 new life insurance policies by the end of the year, as opposed to 1,300 in 1999. Premium income rose from HUF 160 million to HUF 650 million.

K&H Életbiztosító Rt. (K&H Life Insurance Co.), as a result of its infrastructure development, closed the year with a loss, but the amount of this loss was lower than expected. In the near future, profit generation and a reasonable market share can be expected, leaving behind several other insurance companies that appeared in the market in recent years.

Financial Analysis

The Structure of Assets and Liabilities

As of 31 December 2000, the consolidated balance sheet total of Kereskedelmi és Hitelbank Rt. stood at HUF 619 billion, representing a 9.3% (HUF 52.9 billion) increase compared to the previous year's figure.

The Structure of the Consolidated Balance Sheet

	31 December 2000		31 December 1999		Change	
	HUF million	%	HUF million	%	HUF million	%
Cash and balances with NBH	72,314	11.7	97,407	17.2	(25,093)	(25.8)
Interbank loans	56,342	9.1	59,141	10.4	(2,799)	(4.7)
Customer loans	348,857	56.4	249,552	44.1	99,305	39.8
Trading and investment securities	92,453	14.9	101,742	18.0	(9,289)	(9.1)
Accrued income and prepaid expenses	10,363	1.7	10,000	1.8	363	3.6
Bank's real estate and equipment	28,810	4.7	25,910	4.6	2,900	11.2
Intangible assets	368	0.1	477	0.1	(109)	(22.9)
Other assets	9,516	1.5	21,926	3.9	(12,410)	(56.6)
Total assets	**619,023**	**100.0**	**566,155**	**100.0**	**52,868**	**9.3**

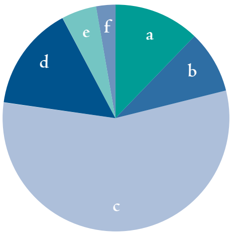
	31 December 2000		31 December 1999		Change	
	HUF million	%	HUF million	%	HUF million	%
Customer deposits	444,565	71.8	409,204	72.3	35,361	8.6
Interbank deposits	33,163	5.4	19,899	3.5	13,264	66.7
Refinancing loans	72,541	11.7	72,427	12.8	114	0.2
Accrued expenses and deferred income	3,892	0.6	5,106	0.9	(1,214)	(23.8)
Subordinated loan capital	15,312	2.5	16,328	2.9	(1,016)	(6.2)
Other liabilities	16,714	2.7	22,303	3.9	(5,589)	(25.1)
Minority interests	0	0.0	583	0.1	(583)	(100.0)
Shareholders' equity	32,836	5.3	20,305	3.6	12,531	61.7
Total equity and liabilities	**619,023**	**100.0**	**566,155**	**100.0**	**52,868**	**9.3**

The significant growth in customer loans is rooted in the expansion of the customer deposit portfolio as well as in a drop in the net of central bank and interbank loans and deposits.

Assets

As compared to the previous year, the composition of assets changed in a favourable direction: the volume of customer loans grew at a significantly higher rate than the balance sheet total in 2000, and achieved a proportion of 56.4%.

Composition of Assets



Cash and balances with NBH: this portfolio was 25.8% lower on 31 December 2000 than a year before, thus their proportion in total assets decreased from 17.2% to 11.7%. The decrease was characteristic for the entire banking sector as a result of releasing the reserves generated for the Y2K problem as well as of the growth in the demand for lending.

Interbank loans: as of 31 December 2000, 9.1% of total assets resulted from interbank loans, which was 4.7% (HUF 2.8 billion) lower than in 1999.

Customer loans: in accordance with business policy targets and macro-economic processes, the portfolio of customer placements grew by 39.8%, a rate significantly exceeding both the annual inflation rate and the Bank's balance sheet total, hence its proportion in total assets increased from 44.1% to 56.4%. The increase was triggered by the growth in corporate lending where the portfolio grew by 32.6% (HUF 79.9 billion).

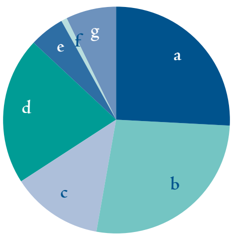
Market Share %

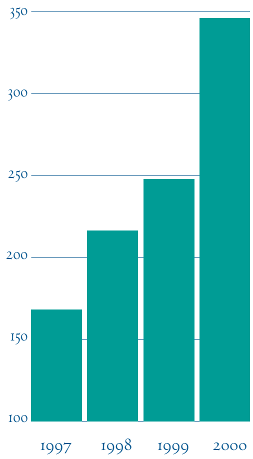
	31 December 2000	31 December 1999	Change
Corporate loans	9.9	9.8	0.1
Retail loans	3.1	2.4	0.7
Total loans	**9.0**	**9.2**	**(0.2)**

Although the volume of retail loans in general grew dynamically in the entire banking sector, the HUF 8.6 billion (102%) growth in the loan portfolio of K&H Bank resulted in a considerable improvement of the market share. In the expansion of the retail loan portfolio, personal and housing loans played a dominant role.

A shift was experienced in the sectoral distribution of the loan portfolio: the joint proportion of agriculture and the food industry, together having the largest weight, decreased significantly (by 9.8 percentage points) to 26.7% by the end of the year. This fall was observable while the volume of the whole portfolio stagnated. The HUF 33.8 billion (79%) growth in the loan portfolio of the construction and processing industry meant that the sector's share in the total loan portfolio increased from 16% to 21%. The proportion of the service sector grew slightly, to 25.7%.

Sectoral Distribution of Loans





Loans (HUF billion)

The provisions generated for customer placements fell by HUF 2.0 billion, resulting from the balance of a HUF 1.5 billion generation and a HUF 3.5 billion utilisation.

Portfolio Rating, Provisioning — *HUF million*

	31 December 2000			31 December 1999		
	Loan portfolio, gross	Provisions	Loan portfolio, net	Loan portfolio, gross	Provisions	Loan portfolio, net
Performing	313,540	(1,757)	311,783	210,792	(2,020)	208,772
Special watch	31,563	(529)	31,034	33,179	(991)	32,188
Substandard	4,581	(927)	3,654	7,299	(1,000)	6,299
Doubtful	3,297	(1,528)	1,769	3,509	(1,723)	1,786
Bad	10,043	(9,426)	617	10,993	(10,486)	507
Total loans	**363,024**	**(14,167)**	**348,857**	**265,772**	**(16,220)**	**249,552**

Change

	HUF million			%		
	Loan portfolio, gross	Provisions	Loan portfolio, net	Loan portfolio, gross	Provisions	Loan portfolio, net
Performing	102,748	263	103,011	48.7	(13.0)	49.3
Special watch	(1,616)	462	(1,154)	(4.9)	(46.6)	(3.6)
Substandard	(2,718)	73	(2,645)	(37.2)	(7.3)	(42.0)
Doubtful	(212)	195	(17)	(6.0)	(11.3)	(1.0)
Bad	(950)	1,060	110	(8.6)	(10.1)	21.7
Total loans	**97,252**	**2,053**	**99,305**	**36.6**	**(12.7)**	**39.8**

The qualified portfolio decreased by 10% as compared to the previous year. It shows the improvement of the portfolio quality that the volume dropped in each qualified category, which resulted in the drop of the proportion of the qualified portfolio from 17.2% to 11.8%.

From 31 December 1999 to 31 December 2000, the volume of the retail loan portfolio grew by 94%, a rate higher than the growth rate of provisions. In 2000, the volume of provisions grew by 68%, primarily due to the increase in the proportion of loans secured by higher-value real estate. As of 31 December 2000, 94.1% of the loan portfolio was rated "performing".

Tangible assets: the portfolio of tangible assets grew by 11.2%. This HUF 2.9 billion increase was the combined result of the investments in 2000 and the Bank's efforts to sell its real estate properties.

Other assets: the HUF 12.4 billion drop in other assets mainly resulted from two items: on one hand, the volume of receivables from sold investments stood at HUF 8.3 billion as of 31 December 1999, which practically ceased in 2000. The large receivable outstanding as of the end of 1999 resulted from the sale of the Bank's two subsidiaries (the purchase price was paid in April 2000). On the other hand, a property of HUF 1.5 billion, held for sale, was eventually sold in 2000, decreasing the volume of other assets even further.

Equity and Liabilities

In addition to growing customer deposits, the strongest change in equity and liabilities was the HUF 13.3 billion increase in interbank deposits. The rise in the proportion of shareholders' equity resulted from the EUR 38.8 million capital increase on 19 April 2000.

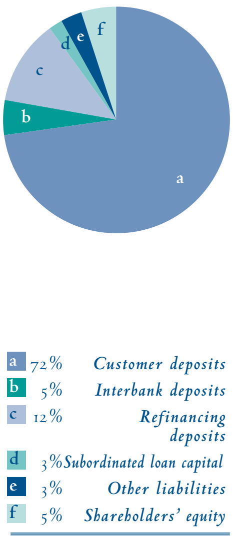
Market Share %

	31 December 2000	31 December 1999	Change
Corporate deposits	7.6	7.0	0.6
Retail deposits	8.5	8.3	0.2
Total deposits	**8.2**	**7.9**	**0.3**

Customer deposits: Customer deposits represented 71.8% of the Group's liabilities as of the end of 2000, meaning a 8.6% growth as compared to the end of the previous year (on the liabilities' side, its proportion declined very slightly, by 0.5 percentage points). The 10% growth in the portfolio of corporate deposits, excluding securities, resulted in a higher market share. Despite the HUF 41.1 billion (17%) portfolio expansion, the market share in retail deposits increased to a smaller extent.

Subordinated loan capital: In 1999, an agreement on a EUR 60 million subordinated loan was signed with Irish Intercontinental Bank, a member of the KBC Group. Of this amount, EUR 40 million was drawn on the date of the agreement. On 1 July 2000 the parties cancelled the option to draw the remaining EUR 20 million.

The Composition of Equity and Liabilities



Shareholders' equity, capital adequacy: On 8 March the General Meeting decided on the increase of the registered capital. The EUR 38.8 million (HUF 10,026 million) increase was effected on 19 April. The volume of the guarantee capital rose from HUF 30.4 billion to HUF 48.1 billion by 31 December 2000. The Group's year-end capital adequacy ratio grew to 10.92% (1999: 8.73%).

Profit and Loss

According to IAS, the Bank generated a consolidated profit of HUF 2.5 billion in 2000, which represents a HUF 10.8 billion improvement over the previous year. The profit/loss ratio of 1999 was lowered by a provision of HUF 5.7 billion generated for a claim, and by numerous other one-time items. Apart from these factors, the favourable change in the profit/ loss ratio is related to the significant (HUF 4.1 billion) improvement in the operating profit/loss ratio: operating expenses increased by 8.7%, slower than the inflation rate, while operating income rose considerably faster (by 25.9%).

Operating Income

	31 December 2000 HUF million	%	31 December 1999 HUF million	%	Change HUF million	%
Net interest income	20,249	64.9	15,566	62.8	4,683	30.1
Net commission and fee income	8,868	28.4	7,032	28.4	1,836	26.1
Net income from securities trading	370	1.2	174	0.7	196	112.6
Net income from foreign exchange operations	2,104	6.7	1,978	8.0	126	6.4
Net income from other items	(379)	(1.2)	32	0.1	(411)	(1,284.4)
Total operating income	**31,212**	**100.0**	**24,782**	**100.0**	**6,430**	**25.9**

Net Interest Income

Net interest income grew by HUF 4,683 million as compared to 1999. The 30.1% improvement can mainly be attributed to the expansion of interest-bearing portfolios. The market trend of declining interest rates ended in the last quarter; contrary to the previous period, competition in the banking sector did not clearly result in narrowing interest margins. If considered annually and for the entire banking sector, the corporate HUF loan-deposit interest margin did decrease, but the decline in customer margins reversed in the last quarter, and the December 2000 customer margin is higher than a year before due to the faster fall of HUF deposit rates. However, in 2000 the retail HUF loan-deposit interest margin clearly widened in the entire banking sector.

The Bank's corporate customer margin improved slightly over the previous year. Due to low HUF liquidity in the second half of the year, high-rate retail deposit products were launched. As loan rates declined more than deposit rates in the second half of the year, the retail customer margin in aggregate slightly narrowed. Consequently, the Bank's loan-deposit customer margin did not change significantly as compared to the previous year.

Interest Income and Expenses

	31 December 2000 HUF million	%	31 December 1999 HUF million	%	Change HUF million	%
Corporate loans	33,943	63.3	32,886	57.9	1,057	3.2
Retail loans	2,459	4.6	1,191	2.1	1,268	106.5
Balances with NBH	3,983	7.4	5,655	10.0	(1,672)	(29.6)
Balances with other banks	3,150	5.9	3,039	5.3	111	3.7
Trading securities	531	1.0	1,412	2.5	(881)	(62.4)
Investment securities	8,875	16.5	12,176	21.4	(3,301)	(27.1)
Loan disbursement fees	698	1.3	446	0.8	252	56.5
Total interest income	**53,639**	**100.0**	**56,805**	**100.0**	**(3,166)**	**(5.6)**

Interest Income and Expenses (continued)

	31 December 2000 HUF million	%	31 December 1999 HUF million	%	Change HUF million	%
Corporate deposits	8,802	26.4	12,381	30.0	(3,579)	(28.9)
Retail deposits	15,228	45.6	18,357	44.5	(3,129)	(17.0)
Balances due to NBH	4	0.0	124	0.3	(120)	(96.8)
Balances due to other banks	2,702	8.1	3,701	9.0	(999)	(27.0)
Refinanced funds	5,108	15.3	6,231	15.1	(1,123)	(18.0)
Subordinated loan capital	1,228	3.7	1,129	2.7	99	8.8
Funds raised for hedging transactions	318	1.0	(684)	(1.7)	1,002	146.5
Total interest expenses	**33,390**	**100.0**	**41,239**	**100.0**	**(7,849)**	**(19.0)**
NET INTEREST INCOME	**20,249**		**15,566**		**4,683**	**30.1**

The interest income from corporate loans, which represents the largest interest income item, went up by 3.2%, while the interest income from retail loans grew by 106.5% due to the considerable expansion in the retail loan portfolio. All in all, the decline in interest income is related to the fall in the income from balances with NBH and investment securities, resulting from the overall drop in interest rates. In contrast, the decrease in interest expenses is related to the corporate and retail customer portfolios.

Changes in Net Interest Income

Interest income	Total change	Impact of portfolio volume changes	Impact of rate changes
Corporate loans	1,057	8,558	(7,501)
Retail loans	1,268	1,678	(410)
Balances with NBH	(1,672)	(612)	(1,060)
Balances with other banks	111	(517)	628
Trading securities	(881)	(722)	(159)
Investment securities	(3,301)	(556)	(2,745)
Loan disbursement fees	252	252	0
Total interest income	**(3,166)**	**8,081**	**(11,247)**

Interest expenses	Total change	Impact of portfolio volume changes	Impact of rate changes
Corporate deposits	(3,579)	1,110	(4,689)
Retail deposits	(3,129)	787	(3,916)
Balances due to NBH	(120)	(97)	(23)
Balances due to other banks	(999)	415	(1,414)
Refinanced funds	(1,123)	(235)	(888)
Subordinated loan capital	99	758	(659)
Funds raised for hedging transactions	1,002	1,002	0
Total interest expenses	**(7,849)**	**3,740**	**(11,589)**
NET INTEREST INCOME	**4,683**	**4,341**	**342**

The HUF 4,683 million increase in net interest income can be attributed to two effects: the growth in portfolio volumes increased the net interest income by HUF 4,341 million, while interest rate changes, which were favourable to the Bank, increased it by HUF 342 million, as compared to the previous year.

Non-interest type income

Within operating income, the share of non-interest type income dropped by two percentage points. Although net commission and fee income, which represents the bulk of non-interest type income, grew by 26%, the lower net income from other items brought the rate of increase in non-interest type income down to 19%. Neither the change in securities trading income nor the change in the income from foreign exchange operations (both compared to the previous year) had a significant effect on the above-mentioned changes, although both figures were higher than in 1999.

Composition of Net Fee Income

	31 December 2000		31 December 1999		Change	
	HUF million	%	HUF million	%	HUF million	%
Funds transfer and account management fees	6,018	67.9	4,508	64.1	1,510	33.5
Bankcard fees	1,300	14.7	903	12.8	397	44.0
Brokerage services	708	8.0	875	12.4	(167)	(19.1)
Credit and guarantee fees	674	7.6	558	7.9	116	20.8
Conversion fees	117	1.3	82	1.2	35	42.7
Insurance services[1]	17	0.2	72	1.0	(55)	(76.4)
Other fee income	34	0.4	34	0.5	0	0.0
Net fee income	**8,868**	**100.0**	**7,032**	**100.0**	**1,836**	**26.1**

[1] *Decrease due to the change in the method of consolidation.*

Within net fee income, the share of funds transfer and account management fees continued to grow; the income from these fees, amounting to HUF 6,018 million, represents the dominant part (67.9%) of net fee income. The composition of net fee and commission income is slightly different from that in the previous year. Similarly to the previous year, the proportion of bankcard services rose slightly. The higher net income from card commissions can be attributed to an increased turnover. After the stagnation in previous years, the income from corporate funds transfer fees finally went up significantly in 2000. The favourable change took place, while the Giro turnover decreased by 7%, due to the introduction in the first quarter of 2000 of the account maintenance fee and the increase of the minimum funds transfer fee. The income from brokerage services lagged HUF 167 million behind the previous year's figure, which is the result of a significant decline in the overall stock market trading volume. The HUF 116 million growth in credit and guarantee fee income resulted from a boost in the performance of project financing.

The HUF 370 million net income from securities trading is about twice as much as the low 1999 base figure (HUF 174 million). Similarly to the previous year, most of the income came from the trading of low-risk government securities and shares. The trading activities of K&H Befektetési Rt. (K&H Investment Co.) resulted in a profit of HUF 50 million.

In 2000, customer-related FX/FCY trading, which has a dominant role in the income from foreign exchange operations, resulted in a profit that was approximately HUF 355 million lower than in 1999. However, this was counterbalanced by the Treasury's higher net income from FX trading and the foreign exchange gain on the capital held in euro. Consequently, the HUF 2,104 million net income is about HUF 126 million higher than the 1999 figure.

The net of other operating income items came to a loss of HUF 379 million in 2000, as opposed to the HUF 32 million profit in 1999.

As a result of the above items, the operating income exceeded the 1999 figure by HUF 6,430 million, or 25.9%.

Operating Expenses

	31 December 2000		31 December 1999		Change	
	HUF million	%	HUF million	%	HUF million	%
Personnel costs	11,771	41.1	11,180	42.4	591	5.3
Operation	5,886	20.6	4,631	17.6	1,255	27.1
Depreciation	4,484	15.7	4,395	16.7	89	2.0
IT costs	2,976	10.4	2,362	9.0	614	26.0
Taxes and tax-type costs	1,685	5.9	1,490	5.7	195	13.1
Marketing expenses	560	2.0	472	1.8	88	18.6
Other costs	1,274	4.4	1,811	6.9	(537)	(29.7)
Total operating expenses	**28,636**	**100.0**	**26,341**	**100.0**	**2,295**	**8.7**

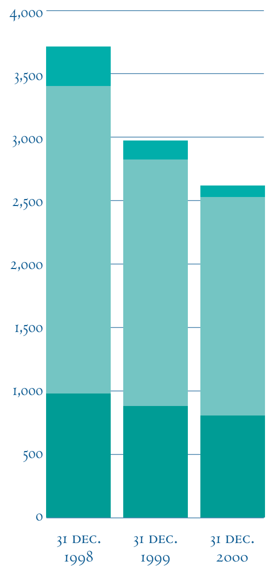
In 2000, operating expenses amounted to HUF 28.6 billion, 8.7% more than in the previous year.

Within operating expenses, personnel costs rose by about 5%. While the proportion of this item slightly declined, it still represents more than 40% in total costs.

The total headcount of the Bank Group was 2,616 at the end of 2000, which is 353 (12%) lower than a year earlier.

Staff Efficiency Indices		*HUF million*	*%*
	31 December 2000	31 December 1999	Change
Per capita			
balance sheet total	216.7	168.3	28.7
operating income	10.9	7.4	47.6
personnel cost	4.1	3.3	23.8

IT-related costs grew by 26% due to the cost effects of the expansion of banking services. Operation costs rose by 27% as a result of the increase in leasehold fees for the real estate properties sold, as well as of the fees paid for outsourced services. Other expenses, in contrast with all the other cost types, showed a decline, thanks to the reduction in general communication and acquisition expenses, and to the lower volume of fees paid to consultants and experts.



Changes in the Bank Group's Headcount

Operating Profit and Loss

Unlike in previous years, the operating profit/loss ratio, as the net of operating income and operating expenses, was positive (HUF 2,576 million profit) in 2000, which is HUF 4,135 million higher than in 1999.

The items under operating profit/loss aggregately resulted in a profit of HUF 384 million in 2000. In 2000, the main items were the following:

Provisions, write-offs: the loss of HUF 163 million in 2000 (as opposed to the HUF 8,238 million loss in 1999) includes:

- the decrease in corporate provisions, the increase in the provisions for the retail and leasing portfolios (in proportion to the portfolio expansion), and the write-offs of all three areas mostly covered by provisions. The aggregate P/L effect of these items was a loss of HUF 909 million;
- the decrease of HUF 746 million in general risk provisions, which had a positive effect on P/L. General risk provisions dropped despite the increase in the "performing" portfolio as our Bank adopted KBC's methodology for the generation of the general risk provision.

In ***the management of investments,*** a HUF 76 million loss was generated.

The ***profit on the sale of the Bank's real estate, equipment and other assets*** amounted to HUF 623 million.

Capital Adequacy

According to the Basle Guidelines, K&H Bank's consolidated capital adequacy ratio was 10.92% as of the end of 2000. However, the year-end capital adequacy ratio calculated according to Hungarian statutory requirements was 8.49%, as opposed to 4.08% in 1999. The significant improvement resulted from the capital increase performed in April 2000.

Independent Auditors’ Report

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INDEPENDENT AUDITORS' REPORT

To the Shareholders and Board of Directors of Kereskedelmi és Hitelbank Rt.

We have audited the accompanying consolidated balance sheet of Kereskedelmi és Hitelbank Rt. (the "Bank") and its subsidiaries as of 31 December 2000, and the related consolidated statements of operations, changes in shareholders' equity and cash flows for the year then ended. These consolidated financial statements are the responsibility of the Bank's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

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

In our opinion, the consolidated financial statements referred to above give a true and fair view of the consolidated financial position of Kereskedelmi és Hitelbank Rt. and its subsidiaries as of 31 December 2000, and of the consolidated results of their operations and their cash flows for the year then ended in accordance with International Accounting Standards.

Without qualifying our opinion, we draw your attention to Note 34 of the consolidated financial statements which discloses the majority shareholder's intention to merge with another bank group.

February 9, 2001

Deloitte & Touche

Deloitte & Touche

Deloitte
Touche
Tohmatsu

Consolidated Financial Statements

For the Year Ended 31 December 2000

Consolidated Balance Sheets

HUF million

	Notes	31 December 2000	31 December 1999
Assets			
Cash and balances with NBH	2	72,314	97,407
Balances due from other banks		56,342	59,141
Loans to customers	3	348,857	249,552
Trading and investment securities	4	92,453	101,742
Accrued interest receivable		10,363	10,000
Bank premises and equipment	5	28,810	25,910
Intangible assets	6	368	477
Other assets	7	9,516	21,926
TOTAL ASSETS		**619,023**	**566,155**
Liabilities and Shareholders' Equity			
Deposits and certificates of deposits	8	444,565	409,204
Balances due to other banks		33,163	19,899
Refinancing credits	9	72,541	72,427
Accrued interest payable		3,892	5,106
Subordinated debt	10	15,312	16,328
Other liabilities	11	16,714	22,303
Total liabilities		**586,187**	**545,267**
Minority interest		–	583
Share capital	12	34,089	25,756
Share premium		2,282	589
Statutory risk reserve		–	1,957
Accumulated deficit		(3,535)	(7,997)
Total shareholders' equity		**32,836**	**20,305**
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		**619,023**	**566,155**
Memorandum items			
COMMITMENTS AND CONTINGENT LIABILITIES	32	**92,177**	**70,516**

The accompanying notes are an integral part of these consolidated financial statements.

Consolidated Statements of Operations

HUF million

	Notes	31 December 2000	31 December 1999
Interest income		53,639	56,805
Interest expense		(33,390)	(41,239)
Net interest income	16	20,249	15,566
Commission and fee income		11,868	10,309
Commission and fee expense		(3,000)	(3,277)
Net commission and fee income	17	8,868	7,032
Net interest and commission and fee income		29,117	22,598
Gain on trading securities, net		370	174
Gain on foreign exchange activities, net		2,104	1,978
Other operating (loss)/income		(379)	32
Operating income		**31,212)**	**24,782)**
Operating expenses	**18**	**(28,636)**	**(26,341)**
OPERATING PROFIT/(LOSS) BEFORE PROVISIONS AND EXCEPTIONAL ITEMS		**2,576**	**(1,559)**
Provision for possible loan and commitment losses	19	(163)	(8,238)
Loss on investments	20	(76)	(1,244)
Gain/(loss) on sale of Bank premises, equipment and other assets		623	(249)
Exceptional gains, net	21	–	2,467
PROFIT/(LOSS) BEFORE INCOME TAXES AND MINORITY INTEREST		**2,960**	**(8,823)**
Income taxes	22	(453)	545
PROFIT/(LOSS) AFTER INCOME TAXES AND BEFORE MINORITY INTEREST		**2,507**	**(8,278)**
Minority interest		–	23
NET PROFIT/(LOSS) FOR THE YEAR		2,507	(8,255)
Earnings per share, HUF	23	172.48	(641.02)

The accompanying notes are an integral part of these consolidated financial statements.

Consolidated Statements of Changes in Shareholders' Equity

HUF million

	Share capital	Share premium	Treasury shares	Revaluation reserve	Statutory risk reserve	Accumulated deficit	Total
BALANCE AT 1 JANUARY 1999	**26,385**	**1,550**	**(1,512)**	**959**	**4,848**	**(2,630)**	**29,600**
Movements in year ended 31 December 1999							
Share capital decrease	(629)	(880)	1,509	–	–	–	–
Disposal of own shares	–	–	3	–	–	–	3
Cost of 2000 capital increase	–	(81)	–	–	–	–	(81)
Revaluation of real property	–	–	–	(1,069)	–	–	(1,069)
Unrealised tax liability	–	–	–	110	–	–	110
Transfer from statutory risk reserve	–	–	–	–	(2,891)	2,891	–
Other	–	–	–	–	–	(3)	(3)
Loss for the year	–	–	–	–	–	(8,255)	(8,255)
Balance at 31 December 1999	**25,756**	**589**	**–**	**–**	**1,957**	**(7,997)**	**20,305**
Movements in year ended 31 December 2000							
Share capital increase	8,333	1,693	–	–	–	–	10,026
Transfer from statutory risk reserve	–	–	–	–	(1,957)	1,957	–
Other	–	–	–	–	–	(2)	(2)
Profit for the year	–	–	–	–	–	2,507	2,507
BALANCE AT 31 DECEMBER 2000	**34,089**	**2,282**	**–**	**–**	**–**	**(3,535)**	**32,836**

The accompanying notes are an integral part of these consolidated financial statements.

Consolidated Statements of Cash Flows

HUF million

	Notes	31 December 2000	31 December 1999
CASH FLOWS FROM OPERATING ACTIVITIES			
Net profit/(loss) for the year		2,507	(8,255)
Deferred tax		583	(580)
Minority interest		–	(23)
Revaluation of real property		–	2,511
Depreciation and amortisation		4,484	4,395
Provision for possible loan and commitment losses		163	8,238
Loss on investments		76	1,244
(Gain)/loss on sale of Bank premises, equipment and other assets		(623)	249
Movements in operating assets:			
Decrease in trading securities		684	1,472
Decrease/(increase) in other assets		12,447	(6,374)
(Increase)/decrease in accrued interest receivable		(363)	1,814
Movements in operating liabilities:			
(Decrease)/increase in other liabilities and minority interest		(8,388)	3,864
Decrease in accrued interest payable		(1,214)	(549)
Net cash (used in)/provided by operating activities		**10,356**	**8,006**
CASH FLOWS FROM INVESTING ACTIVITIES			
Increase in loans		(97,252)	(33,027)
Decrease/(increase) in balances due from NBH and other banks		4,142	(561)
Disposal of investment securities, net		6,497	16,109
Capital expenditures, net		(7,275)	(3,514)
New subsidiaries consolidated		–	4
Net cash (used in)/ provided by investing activities		**(93,888)**	**(20,989)**
CASH FLOWS FROM FINANCING ACTIVITIES			
Increase in deposits and certificates of deposits		35,361	48,486
Increase/(decrease) in balances due to other banks		13,264	(3,832)
Increase/(decrease) in refinancing credits		114	(9,666)
(Decrease)/increase in subordinated debt		(1,016)	10,212
Disposal of own shares		–	3
Increase in share capital		10,026	–
Net cash provided by financing activities		**57,749**	**45,203**
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS		**(25,783)**	**32,220**
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	2	124,255	92,035
CASH AND CASH EQUIVALENTS AT END OF YEAR	2	98,472	124,255

The accompanying notes are an integral part of these consolidated financial statements.

Note 1
Basis of Financial Statements and Summary of Significant Accounting Policies

1.1. General

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

Originally, the Bank's major shareholder was the Hungarian State through direct and indirect shareholdings. In 1997, the privatisation of the Bank commenced when a consortium consisting of KBC and Irish Life purchased shares and subscribed to a share capital increase. EBRD also became a shareholder in 1997 by converting its subordinated debenture to shares. In 1999, EBRD sold its shares to KBC and ES Asset Management. In 2000, KBC became the majority shareholder by increasing the Bank's share capital and purchasing shares owned by the Hungarian State and other shareholders (see Note 12). On 7 November 2000, KBC announced the merger of K&H Bank with ABN AMRO Bank Rt. See the merger discussed at Note 34.

K&H Group provides a full range of banking services through a nation-wide network of 117 branches.

1.2. Accounting

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

The Bank's functional currency is the Hungarian Forint ("HUF").

Certain of the accounting principles prescribed for statutory purposes are different from those generally recognised in international financial markets. In order to present the consolidated financial position and results of operations of the Bank in accordance with International Accounting Standards ("IAS"), certain adjustments have been made to the Bank's Hungarian consolidated statutory accounts, (see Note 35).

Significant accounting policies applied in the preparation of the accompanying consolidated financial statements are summarised below:

1.3. Basis of Presentation

These consolidated financial statements have been prepared under the historical cost convention, with the exception of land and buildings which are stated at revalued amounts (see Note 5) and trading securities which are presented at market value (see Note 4).

Revenue and expenses are recorded in the period in which they are earned or incurred.

1.4. Foreign Currency Translation

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

1.5. Consolidated Financial Statements

Included in these consolidated financial statements are the accounts of those significant subsidiaries in which K&H Bank holds a controlling interest. All significant intercompany transactions and balances have been eliminated on consolidation. A list of fully consolidated subsidiaries, the percentage of issued capital owned by K&H Bank and the description of their activities is provided in Note 33. However, certain subsidiaries in which K&H Bank holds a controlling interest have not been consolidated in accordance with IAS because it is either intended that the shares shall be disposed of in the near future or the effect of consolidating such companies is immaterial to the consolidated financial statements as a whole.

1.6. Accounting for Acquisitions

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

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

1.7. Trading Securities

Trading securities consist of discounted and interest bearing Treasury bills, Hungarian Government and Social Security bonds, bonds issued by National Bank of Hungary and commercial companies and shares in commercial companies and investment funds. Interest bearing and other trading securities are included in the consolidated financial statements at quoted market prices. Discounted Treasury bills are included in the consolidated financial statements at cost, as adjusted for the amortisation of discounts on such securities, which is recognised as income on a straight-line basis during the period from acquisition to maturity and included in accrued interest receivable. Gains and losses on the sale of trading securities are determined on the basis of the specific identification of the carrying value of each security.

1.8. Investment Securities

Securities held for investment purposes are those securities, which the Bank has the ability and intent to hold to maturity. Such securities mainly comprise securities issued by the Hungarian Government and equity investments in which K&H Bank holds a significant interest and other equity investments.

Hungarian Government securities are stated at cost adjusted for the amortisation of premiums or discounts over the period from acquisition to maturity on a straight-line basis.

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

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

Gains and losses on the sale of investment securities are determined based on the specific identification of the adjusted cost of each security.

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

1.9. Loans, Placements with Other Banks and Allowance for Possible Loan and Placement Losses

Loans and placements with other banks are stated at the principal amounts outstanding, net of allowance for possible loan or placement losses, respectively. Interest is accrued and credited to income based on the principal amounts outstanding. When a borrower is unable to meet payments as they come due or, in the opinion of the management, there is an indication that a borrower may be unable to meet payments as they come due, all unpaid interest is reversed. Loan origination fees in excess of the costs incurred are recognised in the consolidated statement of operations as income on a straight-line basis over the life of the loan.

Leasing receivables represent the gross receivables related to leases that transfer substantially all risks and rewards of leased assets to the lessee less deferred income related to interest which will be earned from the leases. Income is recognised in a manner reflecting a constant periodic return on the net leasing investment in leases outstanding.

Allowances for possible loan and placement losses are maintained at levels estimated by management to be adequate to absorb probable future losses. Management determines the adequacy of the allowances based upon reviews of individual loans and placements, recent loss experience, current economic conditions, the risk characteristics of the various categories of loans and other pertinent factors.

The following ranges are used in determining the allowance for loan and placement losses based on management's determination of the loan category:

Credit category	*Allowance range, %*
Performing	0
Special watch	0– 10
Substandard	11– 30
Doubtful	31– 70
Bad	71–100

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

Sub-category	*Allowance range, %*
Lower risk	0.25
Medium risk	0.50
Higher risk	1.00

Effective 1 January 2000, the Bank adopted the above methodology for calculating the general allowance for possible loan and placement losses, replacing the previous calculation of 1% of all loans and placements classified as performing. See Note 19 to the consolidated financial statements for the effect of this change in accounting estimate.

1.10. Bank Premises and Equipment

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

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

K&H Bank revalues real properties every three years as a class of assets. Real properties were last revalued as of 31 December 1999. Net gains from revaluation are credited to the revaluation reserve except where such gains compensate for losses previously recognised in the consolidated statement of operations. Net losses from revaluation are recorded against the revaluation reserve with any excess charged to the consolidated statement of operations. Depreciation is calculated based on the revalued amount. Real properties acquired between revaluations are stated at cost less accumulated depreciation.

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

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

1.11. Intangible assets

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

Goodwill	20%
Leasehold rights	2%

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

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

1.12. Off-balance Sheet Commitments, Contingent Liabilities and Financial Instruments

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

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

Changes in the value of off-balance sheet financial instruments used to manage foreign currency exposure are recognised using the same principle as that applied to the recognition of income or expense on the underlying hedged assets or liabilities. Forward differences on foreign exchange financial instruments designated as hedging are accrued on a straight-line basis over the terms of the underlying contracts. Premiums received for writing options are recognised at the date of option expiry.

1.13. Income Taxes

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

1.14. Statement of Cash Flows

For the purposes of reporting cash flows, cash and cash equivalents comprise balances with less than 90 days maturity from the date of acquisition, including cash, due from banks and balances with NBH, balances with other banks and trading securities. Cash flows from hedging activities are classified in the same category as the item being hedged.

1.15. Segmental Reporting

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

1.16. Recently Issued/Adopted International Accounting Standards

Effective 1 January 2001, the Bank adopted IAS No. 39, Financial Instruments: Recognition and Measurement which establishes principles for recognising, measuring, and disclosing information about financial assets and financial liabilities. This standard significantly increases the use of fair values in accounting for financial instruments. The standard is not expected to have a material impact upon the Bank, however a complete evaluation of the potential effect at 31 December 2000 has not been performed.

1.17. Comparative Figures

Certain reclassifications have been made to the 31 December 1999 comparative figures to conform to the 31 December 2000 presentation.

Note 2
Cash and Balances with NBH

HUF million

	31 December 2000	31 December 1999
Cash in hand	11,191	11,385
Balances with NBH		
• less than 90 days	45,608	69,136
• equal or greater than 90 days	15,515	16,886
	72,314	**97,407**

Balances with NBH include HUF 23,944 million and HUF 2,544 million of statutory reserves at 31 December 2000 and 1999, respectively. Banks have to comply with statutory reserves requirements based on average monthly balances, thus daily balances can fluctuate.

Cash and cash equivalents

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

The accompanying notes are an integral part of these consolidated financial statements.

HUF million

	31 December 2000	31 December 1999
Cash and balances with NBH	56,799	80,521
Balances less than 90 days with other banks	41,672	41,701
Trading securities (see Note 4)	1	2,033
Cash and cash equivalents	**98,472**	**124,255**

Note 3
Loans to Customers

HUF million

	31 December 2000	31 December 1999
Industry sector		
Service industry	93,368	64,354
Agriculture	57,321	56,770
Wholesale and retail	48,227	36,541
Manufacturing and building	76,443	42,673
Food processing	39,650	40,283
Power industry	17,398	10,011
Other	4,520	6,687
Individuals	26,097	8,453
Gross loans	**363,024**	**265,772**
General allowance for possible loan losses	(1,757)	(2,020)
Specific allowance for possible loan losses	(12,410)	(14,200)
Allowance for possible loan losses (see Note 19)	**(14,167)**	**(16,220)**
LOANS TO CUSTOMERS	348,857	249,552

Uncollected interest not accrued as income amounted to HUF 3,688 million at 31 December 2000 (HUF 1,683 million at 31 December 1999).

Break-down of Loans by Type

HUF million

	31 December 2000	31 December 1999
Corporate loans		
Current account advances	19,245	12,969
Term loans to 1 year	113,327	92,049
Term loans over 1 year	192,868	140,497
Corporate loans	**325,440**	**245,515**

Break-down of Loans by Type (continued)

HUF million

	31 December 2000	31 December 1999
Retail loans		
Current account advances	1,956	883
Term loans to 1 year	2,218	1,476
Term loans over 1 year	12,861	6,094
Retail loans	**17,035**	**8,453**
Lease receivables	**17,067**	**6,092**
Other loans (factoring, trade bills & acceptances, etc.)	**3,482**	**5,712**
GROSS LOANS	**363,024**	**265,772**

Break-down of loans by credit category

HUF million

	31 December 2000			31 December 1999		
	Gross loan	Allowance	Net loan	Gross loan	Allowance	Net loan
Performing	313,540	(1,757)	311,783	210,792	(2,020)	208,772
Special watch	31,563	(529)	31,034	33,179	(991)	32,188
Substandard	4,581	(927)	3,654	7,299	(1,000)	6,299
Doubtful	3,297	(1,528)	1,769	3,509	(1,723)	1,786
Bad	10,043	(9,426)	617	10,993	(10,486)	507
Total	**363,024**	**(14,167)**	**348,857**	**265,772**	**(16,220)**	**249,552**

Note 4
Trading and Investment Securities

HUF million

	31 December 2000	31 December 1999
Trading securities	3,001	5,717
Investment securities	89,452	96,025
	92,453	**101,742**

	31 December 2000	31 December 1999
Trading securities		
Treasury bills		
• less than 90 days	1	2,033
• equal or greater than 90 days	525	1,193
Government bonds	1,629	396
Other bonds		
• listed	–	15
• unlisted	–	1,739
Shares		
• listed	846	340
• unlisted	–	1
Trading securities	**3,001**	**5,717**

The accompanying notes are an integral part of these consolidated financial statements.

Trading and Investment Securities (continued)

HUF million

	31 December 2000	31 December 1999
Investment securities		
Government bonds		
• issued in HUF	49,389	53,434
• issued in FX	32,835	36,229
Total of government bonds	82,224	89,663
Other bonds – unlisted issued in FX	5,022	4,832
Unlisted shares	2,596	2,579
Investment securities, gross	89,842	97,074
Allowance for permanent diminution in value	(390)	(1,049)
Investment securities, net	**89,452**	**96,025**

Government bonds issued in HUF at 31 December 2000 and 1999 include consolidation bonds of HUF 49,389 million most of which were acquired as part of the 1992–1994 consolidation programs. These bonds expire in 2013 and 2014, bear a market rate of interest at the State of Hungary's treasury bill rates and repricing takes place annually or semi-annually. The determination of market values for these bonds is not practical due to the lack of a liquid market; however management believes there has been no impairment of value.

Government bonds and other bonds issued in FX include foreign currency denominated fixed interest bonds of HUF 34,170 million face value at 31 December 2000 (HUF 36,989 million at 31 December 1999) that are also included in interest swaps for variable interest rates and asset-based cross currency interest rate swaps (see Note 30).

Government bonds at 31 December 2000 include securities in the amount of HUF 9,327 million (HUF 24,039 million at 31 December 1999) which the Bank has sold and agreed to repurchase.

Unlisted shares include 25% of the shares of HAGE Rt., a company incorporated in Hungary. This investment (HUF 542 million at 31 December 2000 and 1999) is not classified as an associate because it is held for resale.

Note 5
Bank Premises and Equipment

HUF million

	Land and buildings	Leasehold improvements	Furniture, fixtures and equipment	Software	Construction in progress	Total
At 31 December 1999						
Cost	11,435	1,721	13,413	7,772	2,669	37,010
Accumulated depreciation	(870)	(247)	(7,740)	(2,243)	–	(11,100)
Net book value	**10,565**	**1,474**	**5,673**	**5,529**	**2,669**	**25,910**
Movements in 2000						
Additions	725	751	4,134	1,701	3,393	10,704
Disposals	(1,653)	(173)	(446)	(259)	(891)	(3,421)
Depreciation charge	(279)	(106)	(2,395)	(1,602)	–	(4,383)
CLOSING NET BOOK VALUE	**9,358**	**1,946**	**6,966**	**5,369**	**5,171**	**28,810**
At 31 December 2000						
Cost	10,482	2,258	16,668	9,183	5,171	43,762
Accumulated depreciation	(1,124)	(312)	(9,702)	(3,814)	–	(14,952)
NET BOOK VALUE	**9,358**	**1,946**	**6,966**	**5,369**	**5,171**	**28,810**

The Bank's real properties were revalued at 31 December 1999 by an independent valuer based on market value on the "existing use" basis where the Bank intends to hold the building, and on market value or then "obtainable price" basis where the Bank plans to dispose of the property. The difference of HUF 3,580 million between the carrying amount and the revalued amount was partly offset against the remaining revaluation reserve from the previous revaluation at 1 January 1996 of HUF 1,069 million. The residual amount of HUF 2,511 million was charged to the consolidated statement of operations in 1999.

The Bank has started to introduce a new integrated computer system, which will commence operations at the end of 2002 or early 2003, when the system will be capitalised. Construction in progress relating to this system amounts to HUF 2,794 million at 31 December 2000 (HUF 1,632 million at 31 December 1999).

Note 6
Intangible Assets

HUF million

	Goodwill	Leasehold rights	Total
At 31 December 1999			
Cost	191	1,169	1,360
Accumulated amortisation	(95)	(788)	(883)
Net book value	**96**	**381**	**477**
Movements in 2000			
Additions	–	30	30
Disposals	–	(37)	(37)
Amortisation charge	(27)	(75)	(102)
CLOSING NET BOOK VALUE	**69**	**299**	**368**
At 31 December 2000			
Cost	191	539	730
Accumulated amortisation	(122)	(240)	(362)
NET BOOK VALUE	**69**	**299**	**368**

Leasehold rights represent the right to lease buildings indefinitely. The Bank's leasehold rights were revalued at 31 December 1999 on the same basis as real properties. A net loss of HUF 686 million was charged to the consolidated statement of operations in 1999.

Note 7
Other Assets

HUF million

	31 December 2000	31 December 1999
Trade receivables	1,648	922
Prepayments and taxes receivable	1,090	1,157
Receivables from investment services	707	2,061
Deferred tax asset (see Note 22)	563	1,146
Real estate held for sale	286	1,664
Receivables from investment sold	36	8,280
Other receivables	5,186	6,696
	9,516	**21,926**

Receivables from investments sold at 31 December 1999 included HUF 8,280 million relating to the sales of two subsidiaries. The amount was received in April 2000.

Note 8
Deposits and Certificates of Deposits

HUF million

	31 December 2000	31 December 1999
Individuals		
• current accounts	31,638	32,312
• term deposits, savings accounts	249,645	207,918
Corporations		
• current accounts	66,577	59,810
• term deposit	71,046	65,258
• liabilities to repurchase securities sold	9,327	24,039
Other entities		
• current accounts	4,378	4,390
• term deposits	5,552	6,232
	438,163	**399,959**
Certificates of deposits	6,402	9,245
	444,565	**409,204**

Note 9
Refinancing Credits

HUF million

	31 December 2000	31 December 1999
Refinancing credits from NBH	12,697	16,314
Other refinancing credits	49,791	44,653
Foreign exchange/HUF deposit swaps with NBH	10,053	11,460
	72,541	**72,427**

K&H Bank has entered into several refinancing credit facilities with the National Bank of Hungary (NBH) and other financial institutions (EBRD, World Bank, etc.) for the purpose of funding portions of the Bank's activities. There are several covenants governing the determination of qualified recipients, the on-going monitoring process of the ultimate recipients and the repayment process. In all cases the Bank assumes all credit risk related to the ultimate borrower and must check compliance with all covenants. At 31 December 2000, management believes that the Bank is in compliance with all significant covenants.

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

The accompanying notes are an integral part of these consolidated financial statements.

Note 10
Subordinated Debt

HUF million

	31 December 2000	31 December 1999
Subordinated loan from KBC Group	10,598	10,197
Bonds issued to the State	4,714	4,714
Gemini bonds	–	1,417
	15,312	**16,328**

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

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

The Gemini bonds matured in January 2000.

Note 11
Other Liabilities

Other liabilities include the following:

HUF million

	31 December 2000	31 December 1999
General allowance for possible losses from commitments and contingent liabilities	95	578
Specific allowance for possible losses from commitments and contingent liabilities	46	493
Allowance for possible losses from guarantees issued	212	289
Allowance for possible losses from commitments, contingent liabilities and guarantees issued	353	1,360
Allowance for possible losses from legal cases	58	89
Subtotal	**411**	**1,449**
FX difference related to cross currency interest rate swap (see Note 30)	1,955	5,501
Trade creditors	1,838	2,031
Lease liabilities	1,181	873
Liabilities from brokerage services	275	1,777
Other liabilities	11,054	10,672
Total	**16,714**	**22,303**

Note 12
Share Capital

HUF million

	31 December 2000	31 December 1999
Ordinary shares issued and outstanding	34,089	25,756

The nominal value of the ordinary shares issued and outstanding at 31 December 2000 is HUF 2,000 per share.

On 8 March 2000, the shareholders decided to increase the Bank's share capital by HUF 8,333 million with related share premium of HUF 1,667 million. On 19 April 2000, EUR 38,792,772 was received by the Bank and then translated at the prevailing exchange rate to HUF 10,026 million. The resulting exchange rate difference of HUF 26 million has been included in the share premium balance. The Court of Registration registered the capital increase on 5 July 2000.

Advisory costs of HUF 81 million incurred in 1999 in respect of the capital increase in 2000 have been set against the share premium balance.

Shareholders of the Bank

Name	31 December 2000			31 December 1999		
	Number of shares held	Nominal value of shares held HUF million	Share-holding %	Number of shares held	Nominal value of shares held HUF million	Share-holding %
KBC Bank N. V.	12,488,758	24,977	73.3	4,200,657	8,402	32.6
Irish Life and Permanent plc.	3,051,000	6,102	17.9	3,051,000	6,102	23.7
ES Asset Administration Ltd.	1,250,000	2,500	7.3	1,250,000	2,500	9.7
Hungarian State	–	–	–	3,819,612	7,639	29.7
Other shareholders	254,829	510	1.5	556,651	1,113	4.3
	17,044,587	**34,089**	**100.0**	**12,877,920**	**25,756**	**100.0**

After the Extraordinary General Meeting on 8 March 2000, KBC made a public offer to the other shareholders to buy their shares for HUF 2,400 per share. In addition, other shareholders had the option to buy K&H shares for HUF 2,400 from KBC on a pro rata basis from the HUF 10,000 million capital increase. Shareholders (including the Hungarian State) sold 4,122,238 shares to KBC and bought 804 shares from KBC at 120 percent. See also Note 34 on subsequent events.

The accompanying notes are an integral part of these consolidated financial statements.

Note 13
Capital Adequacy

The capital adequacy calculation shown below was prepared based on the international guidelines set forth by the Basle Committee on Banking Regulations and Supervisory Practices. The Bank is also subject to separate Hungarian capital adequacy regulations calculated from the statutory accounts. According to these, the Bank's capital adequacy ratio at 31 December 2000 and 1999 was 8.49% and 4.08%, respectively. The minimum ratio according to Hungarian regulations is 8.00%.

HUF million

	31 December 2000	31 December 1999
Cash and balances with NBH	667	–
Balances with other banks	11,268	11,828
Loans to customers	323,849	222,025
Trading and investment securities	2,247	7,966
Accrued interest receivable	7,095	9,000
Bank premises and equipment	28,810	25,910
Intangible assets	368	477
Other assets	9,497	21,926
Total risk-weighted assets	383,801	299,132
Risk-weighted off-balance sheet items	56,379	48,670
Total risk-weighted assets and off-balance sheet items	**440,180**	**347,802**

HUF million

	31 December 2000	31 December 1999
Shareholders' equity	32,836	20,305
less: goodwill	(69)	(96)
Tier 1 capital	32,767	20,209
Subordinated debt	15,312	10,153
Tier 2 capital	15,312	10,153
Tier 1 + Tier 2 capital	**48,079**	**30,362**
CAPITAL ADEQUACY: TIER 1, %	**7.44**	**5.81**
CAPITAL ADEQUACY: TIER 1 + TIER 2, %	**10.92**	**8.73**

Note 14
Statutory Risk Reserve

The statutory risk reserve is calculated as 10% of profit after tax based on the year end statutory accounts, and is utilised to compensate for losses. The General Meeting of the Bank on 22 April 2000 resolved to release the total amount of HUF 1,957 million to cover the losses in the statutory accounts as at 31 December 1999.

Note 15
Distributable Reserves

According to Hungarian corporate and banking law, only profits included in the statutory financial statements and calculated using Hungarian accounting principles may be distributed to shareholders. Additionally, this can occur only after the Bank establishes the required statutory risk reserve (see Note 14).

Accordingly, the Bank has no distributable reserves as of 31 December 2000 and 1999.

Note 16
Net Interest Income

HUF million

	31 December 2000	31 December 1999
Interest from NBH	3,983	5,655
Interest from other banks	3,150	3,039
Interest on corporate loans	33,943	32,886
Interest on retail loans	2,459	1,191
Interest on trading securities	531	1,412
Interest on investment securities	8,875	12,176
Loan origination fees	698	446
Interest income	**53,639**	**56,805**
Interest on retail deposits and certificates of deposits	(15,228)	(18,357)
Interest on corporate deposits and certificates of deposits	(8,802)	(12,381)
Interest on NBH deposits	(4)	(124)
Interest paid to other banks	(2,702)	(3,701)
Interest on refinancing credits	(5,108)	(6,231)
Interest on subordinated debt	(1,228)	(1,129)
Adjustment due to FX hedge transactions	(318)	684
Interest expense	**(33,390)**	**(41,239)**
NET INTEREST INCOME	20,249	15,566

The accompanying notes are an integral part of these consolidated financial statements.

Note 17
Net Fee Income

HUF million

	31 December 2000	31 December 1999
Payment transactions	7,315	6,212
Card services	2,904	2,237
Brokerage services	786	1,003
Credit and guarantee fee income	689	565
Exchange commission	117	82
Insurance services	17	162
Other	40	48
Commission and fee income	**11,868**	**10,309**
Payment transactions	(1,297)	(1,704)
Card services	(1,604)	(1,334)
Brokerage services	(78)	(128)
Credit and guarantee fee expense	(15)	(7)
Insurance services	–	(90)
Other	(6)	(14)
Commission and fee expense	**(3,000)**	**(3,277)**
NET FEE INCOME	8,868	7,032

Note 18
Operating Expenses

HUF million

	31 December 2000	31 December 1999
Personnel costs	11,771	11,180
Operations	5,886	4,631
Depreciation and amortisation	4,484	4,395
IT costs	2,976	2,362
Taxes and duties	1,685	1,490
Marketing costs	560	472
Other expenses	1,274	1,811
	28,636	**26,341**

The total number of employees was 2,616 at 31 December 2000 (2,969 at 31 December 1999).

Note 19
Allowance for Possible Loan and Commitment Losses

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

HUF million

	Loans		Commitments and contingent liabilities		
	General allowance	Specific allowance	General allowance	Specific allowance	Total
Balance at 1 January 1999	**1,496**	**9,393**	**543**	**1,336**	**12,768**
Charge/(credit) for 1999 and reclassifications	549	8,119	35	(465)	8,238
Write offs	(25)	(3,312)	–	–	(3,337)
Balance at 31 December 1999	**2,020**	**14,200**	**578**	**871**	**17,669**
Charge/(credit) for 2000 and reclassifications	(263)	1,464	(483)	(555)	163
Write offs	–	(3,254)	–	–	(3,254)
Balance at 31 December 2000	**1,757**	**12,410**	**95**	**316**	**14,578**

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

The allowance for possible losses from commitments and contingent liabilities of HUF 411 million at 31 December 2000 (HUF 1,449 million at 31 December 1999) is included under a separate headings in other liabilities (see Note 11).

Note 20
Gain/(Loss) on Investments

HUF million

	31 December 2000	31 December 1999
Sale of investments	(268)	(267)
Release of provision/(write off) of investments	151	(1,119)
Dividend income	41	142
Total	**(76)**	**(1,244)**

Write off of investments during 1999 includes a HUF 632 million loss on the mark to market valuation of investment securities before their reclassification to trading securities. The remaining amount relates to the write off of shares.

Note 21
Exceptional Gains, Net

Exceptional gains, net contain the following:

HUF million

	31 December 2000	31 December 1999
Net loss on revaluation of real properties	–	(2,511)
Net loss on revaluation of leasehold rights	–	(686)
Gain on the sale of two subsidiaries	–	4,710
Disposal of large-value real properties	–	954
	–	**2,467**

According to the Bank's accounting policy, the real properties and leasehold rights of the Group were revalued as at 31 December 1999 (see Note 5 and 6). The net loss in excess of the revaluation reserve is recorded in the consolidated statement of operations for the year ended 31 December 1999.

Note 22
Income Taxes

HUF million

	31 December 2000	31 December 1999
Statutory income tax expense	(130)	35
Deferred taxation charge/(credit)	583	(580)
Income tax charge/(credit)	**453**	**(545)**

Statutory income tax expense

Corporate income tax is payable at 18% on taxable statutory profits with an additional 20% tax on dividends, which in case of foreign shareholders, can be reduced under double taxation treaties.

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

Deferred income taxes

HUF million

	31 December 2000	31 December 1999
At beginning of period	1,146	566
Deferred tax (charge)/credit	(583)	580
At end of period	**563**	**1,146**

Deferred income taxes are calculated on all temporary differences under the asset and liability method using a principal rate of 18% (1999: 18%). The resulting deferred tax asset is included in other assets (see Note 7). The deferred tax asset is expected to be utilised in future years based on budgets and projections prepared.

Adjustments made to the Hungarian statutory accounts to comply with IAS and certain other taxation adjustments result in temporary differences. Temporary differences are differences between the carrying amount of an asset or liability in the balance sheet and its tax base. Temporary differences as of 31 December 2000 and 31 December 1999 have resulted in a deferred taxation charge of HUF 583 million and deferred taxation credit of HUF 580 million for periods then ended, respectively.

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

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

HUF million

	31 December 2000	31 December 1999
Deferred income tax assets		
Differences between statutory and IAS books		
• revaluation of real property and leasehold rights	420	509
• additional depreciation	195	302
• other	–	111
Tax loss carry forwards	–	269
Other	235	430
Total deferred income tax assets	**850**	**1,621**
Deferred income tax liabilities		
Differences between statutory and IAS books		
• general provision for loan losses	–	(281)
• other	(287)	(194)
Total deferred tax liabilities	**(287)**	**(475)**
TOTAL DEFERRED TAX ASSETS, NET	**563**	**1,146**

Deferred tax income comprises the following temporary differences:

HUF million

	31 December 2000	31 December 1999
General provision for loan losses	(281)	206
Revaluation of real estates and leasehold rights	89	(462)
Other provisions	196	(359)
Tax loss carry forwards	269	(23)
Other, net	310	58
Deferred tax charge/(credit)	**583**	**(580)**

Note 23
Earnings per Share

Earnings per share is calculated as the profit attributable to shareholders of the Bank divided by the weighted average number of shares outstanding during the period, excluding treasury shares. There were no other potentially dilutive securities in existence at 31 December 2000 and 1999. The following amounts were used in the calculation of earnings per share:

	31 December 2000	31 December 1999
Net profit/(loss) attributable to shareholders, HUF million	2,507	(8,255)
Weighted average shares outstanding	14,535,379	12,877,920
Earnings per share, HUF	172.48	(641.02)

Note 24
Related Party Balances

Balances with members of KBC Group:

HUF million

	31 December 2000	31 December 1999
Assets		
Balances with other banks	**5,301**	**9,029**
Liabilities		
Balances due to other banks	–	5,006
Subordinated debt	10,598	10,197
Other liabilities (lease liabilities)	1,129	737
	11,727	**15,940**
Commitments and contingent liabilities	**1,082**	**626**
Subordinated loan facility not drawn down (see Note 10)	**–**	**5,098**

Note 25
Currency Exposure

The Group had the following exposure in the most significant currencies:

At 31 December 2000, HUF million

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

Note 26
Interest Rate Risk

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

The accompanying notes are an integral part of these consolidated financial statements.

The interest rate risk run by the Group is reflected in the following table. Interest rate risk exposure derives from mismatches between the repricing of interest bearing assets and liabilities. The table below indicates the breakdown of those assets and liabilities for both HUF and foreign currencies according their repricing periods as of 31 December 2000.

Interest bearing HUF assets and liabilities

HUF million

	Below 1 month	1–3 months	3–6 months	6–12 months	Over 1 year	Total
Assets	49,898	232,483	49,677	–	10,676	342,734
Liabilities	(146,007)	(173,726)	(10,520)	(5,069)	–	(335,322)
	(96,109)	**58,757**	**39,157**	**(5,069)**	**10,676**	**7,412**

Interest bearing FX assets and liabilities

HUF million

	Below 1 month	1–3 months	3–6 months	6–12 months	Over 1 year	Total
Assets	23,976	182,013	–	32,669	687	239,345
Liabilities	(12,623)	(160,181)	(50,163)	–	(78)	(223,045)
	11,353	**21,832**	**(50,163)**	**32,669**	**609**	**16,300**

Note 27
Maturity Structure

The following table shows a breakdown of the consolidated balance sheet by maturity at 31 December 2000:

HUF million

	Loans	Other assets	Total assets	Deposits and certif. of deposits	Other liabilities	Total liabilities	Net coverage	Gross coverage
1–7 days	42,017	98,765	140,782	(210,940)	(14,675)	(225,615)	(84,833)	(84,833)
1–2 weeks	1,359	576	1,935	(37,551)	(625)	(38,176)	(36,241)	(121,074)
Below 1 month	13,516	1,813	15,329	(78,659)	(4,922)	(83,581)	(68,252)	(189,326)
1–3 months	21,213	7,119	28,332	(36,502)	(4,914)	(41,416)	(13,084)	(202,410)
4–6 months	45,294	5,382	50,676	(39,551)	(2,828)	(42,379)	8,297	(194,113)
7–12 months	54,519	5,377	59,896	(31,524)	(4,436)	(35,960)	23,936	(170,177)
1–2 years	38,003	8,234	46,237	(2,629)	(7,743)	(10,372)	35,865	(134,312)
2–5 years	83,269	43,659	126,928	(1,261)	(29,254)	(30,515)	96,413	(37,899)
Over 5 years	63,834	99,241	163,075	(5)	(76,643)	(76,648)	86,427	48,528
Subtotal	**363,024**	**270,166**	**633,190**	**(438,622)**	**(146,040)**	**(584,662)**	**48,528**	–
Allowance/ Equity	**(14,167)**	–	**(14,167)**	–	**(34,361)**	**(34,361)**	**(48,528)**	–
TOTAL	**348,857**	**270,166**	**619,023**	**(438,622)**	**(180,401)**	**(619,023)**	–	–

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

Note 28
Fair Value Information

HUF million

	Carrying value		Fair value	
	31 December 2000	31 December 1999	31 December 2000	31 December 1999
FINANCIAL ASSETS				
Balances with other banks	56,342	59,141	56,342	59,141
Loans to customers	348,857	249,552	348,857	249,552
Investments	92,453	101,742	96,495	106,958
FINANCIAL LIABILITIES				
Deposits and certificates of deposits	444,565	409,204	444,565	409,204
Balances due to other banks	33,163	19,899	33,163	19,899
Refinancing credits	72,541	72,427	72,541	72,427

Balances with Other Banks

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

Loans to Customers

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

Investments

Investments principally include trading, investments and long term investments or investments to be held to maturity.

Trading securities are carried at market value. Market value is generally based on the quoted market price.

Bonds and shares held for the long-term or to maturity are held at the lower of cost or market value.

Securities issued by government are held at market value, except

a) securities that the Bank intends to hold until maturity. Since the recoverable amount is the face value, market value is not applied if it is lower than the face value. The fair value of these securities is calculated based on available market quotations;

b) in case of consolidation bonds the market value cannot be established. However, as the interest rate of these securities follow the market rate, the face value approximates the fair value.

Deposits and Certificates of Deposits

The estimated fair value of deposits with no stated maturity is the amount repayable on demand, which is the carrying value. Due to the short-term maturity of fixed interest bearing deposits, the carrying value approximates the fair value.

The estimated fair value of fixed interest bearing deposits should be based on discounted cash flows. It is not practicable within the constraints of timeliness to determine this value, but as interest rates are usually fix only for a period up to 3 months, the carrying value is estimated to approximate the discounted cash flows.

Balances Due to Other Banks

Fair value approximates carrying value, as the terms are very short.

Other Financial Assets and Liabilities

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

Fair Value of Off-balance Sheet Items

Fair values of trading derivative financial instruments, such as forward foreign exchange and exchange traded interest rate futures are marked to market, based on international money and capital market price quotations.

Fair values of non trading derivative financial instruments, such as forward foreign exchange, foreign exchange swaps, exchange traded currency futures, interest rate swaps and cross currency swaps are determined by discounted cash flow using prevailing market rates at 31 December 2000 (see Note 30).

Note 29
Trading Derivative Financial Instruments

HUF million

	Underlying principal amount 31 December 2000	31 December 1999
INTEREST RATE DERIVATIVES		
Default swaps	11,389	10,101
Credit spread options	–	2,525
TOTAL INTEREST RATE DERIVATIVES	**11,389**	**12,626**

Default Swaps

The outstanding balance consists of American type credit default swaps maturing in 2003 for non-hedging purposes to a subsidiary of an international banking group. If a credit event notice or a notice of publicly available information is delivered by the buyer to the Bank, the Bank is obliged to buy the reference obligation (bonds issued by the National Bank of Hungary) at 100% of notional amount for USD 40 million calculated at prevailing exchange rate. The credit event or the notice of publicly available information means bankruptcy, cross default, failure to pay or restructuring in respect of the National Bank of Hungary.

Credit Spread Options

In 1997 and 1998, the Bank sold American type credit spread put options maturing in 1998–2000 for non-hedging purposes. The options sold were linked to a credit spread over 3-month LIBOR representing sovereign risk of the Republic of Hungary.

A total notional amount of USD 410 million credit spread options expired in January 2000 without being exercised.

Note 30
Non-trading Derivative Financial Instruments

HUF million

	31 December 2000				
	Underlying principal amount	Positive fair value	Negative fair value	Positive carrying value	Negative carrying value
FOREIGN EXCHANGE DERIVATIVES					
Forward foreign exchange	3,744	10	72	3	37
Foreign exchange swaps	23,016	105	212	52	117
Total foreign exchange derivatives	**26,760**	**115**	**284**	**55**	**154**

The accompanying notes are an integral part of these consolidated financial statements.

Non-trading Derivate Financial Instruments (continued)

HUF million

	31 December 2000				
	Underlying principal amount	Positive fair value	Negative fair value	Positive carrying value	Negative carrying value
Interest rate derivatives					
Interest rate swaps	10,330	–	284	34	58
Cross currency swaps	29,505	–	6,923	227	354
FRA's	2,600	1	2	–	–
Total interest rate derivatives	**42,435**	**1**	**7,209**	**261**	**412**

HUF million

	31 December 1999				
	Underlying principal amount	Positive fair value	Negative fair value	Positive carrying value	Negative carrying value
Foreign exchange derivatives					
Forward foreign exchange	21,793	379	6	310	11
Foreign exchange swaps	18,582	48	82	60	27
Total foreign exchange derivatives	**40,375**	**427**	**88**	**370**	**38**
Interest rate derivatives					
Interest rate swaps	3,316	–	306	12	56
Cross currency swaps	28,172	1,135	10,669	223	391
Total interest rate derivatives	**31,488**	**1,135**	**10,975**	**235**	**447**

Forward Foreign Exchange

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

Foreign Exchange Swaps

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

The HUF equivalents of the swap positions are as follows:

HUF million

	31 December 2000		31 December 1999	
	Currency purchased	Currency sold	Currency purchased	Currency sold
HUF	2,549	8,756	3,471	1,279
EUR	10,489	10,913	13,001	510
USD	5,298	2,238	772	16,909
CAD	–	1,113	1,262	–
PLN	–	–	66	–
GBP	4,680	–	–	–
CHF	–	261	–	–
	23,016	**23,281**	**18,572**	**18,698**

As a result of trading and normal banking operations, the Bank enters into spot foreign exchange transactions. The open foreign exchange position per main currency was as follows:

HUF million

	31 December 2000		31 December 1999	
	Currency purchased	Currency sold	Currency purchased	Currency sold
HUF	9,750	1,938	1,742	2,107
USD	1,247	6,702	2,328	1,742
EUR	6,888	9,485	1,246	1,530
CHF	199	–	63	–
CZK	76	–	–	–
SKK	85	–	–	–
PLN	–	90	–	–
	18,245	**18,215**	**5,379**	**5,379**

Interest Rate Swaps

In 1997 and 1998, the Bank entered into asset based interest rate swaps. The Bank purchased long term fixed rate bonds denominated in DEM. Fixed rates in DEM are in a range of 8.75%–9.75%. These fixed rates were swapped to DEM 3-month LIBOR respectively plus a margin in the range of 41 to 62 basis points to cover the Bank's interest rate risk. In 2000 the Bank entered into interest rate swaps where the fixed EURO interest rates in a range of 5.17%–7.38% were swapped to 3-month EURIBOR with a margin of up to 160 basis points. Swap counterparties belong to major international banking groups.

Cross Currency Interest Rate Swaps

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

Additional cross currency swap transactions were made in relation to option deals entered into during the period 1997–1998. Several credit spread options (see Note 29) were exercised in 1998 and the Bank was obliged to purchase bonds issued by the National Bank of Hungary denominated in JPY for USD. According to a default swap agreement (see Note 29), the Bank had to meet its collateral requirements and purchased bonds denominated in ITL for USD. Cross currency swaps were entered into the same way as described above.

The coupon of the fixed rate bonds denominated in JPY ranges from 2.75% to 6.9% while the floating USD rate is 3-month LIBOR plus a margin in the range of 53 to 128 basis points. The ITL bonds are zero-coupons while the floating rate is USD 1-month LIBOR.

FRA's

As a part of its proprietary trading activities, the Bank has entered into several Forward Rate Agreements (FRA's). At 31 December 2000, the total principal amount of the open contracts was HUF 2.6 billion with 3M and 6M BUBOR as reference rates against fixed rates in the range of 10.5% and 11.6%. The maximum period between the contract date and the start date is six months.

Classification of Interest Rate and Cross Currency Swap Notional Amounts in Foreign Currency and HUF

in millions

	31 December 2000			
	EUR	JPY	USD	HUF
Less than 1 year				2,032
plain interest rate swaps	8	–	–	
cross currency swaps	–	–	–	
One to five years				27,777
plain interest rate swaps	20	–	–	
cross currency swaps	(19)	(7,393)	79	
More than five years				10,026
plain interest rate swaps	11	–	–	
cross currency swaps	–	(3,281)	25	
	20	**(10,674)**	**104**	**39,835**

in millions

	31 December 1999				
	EUR	JPY	USD	CHF	HUF
Less than 1 year					2,713
plain interest rate swaps	2	–	–	2	
cross currency swaps	–	(1,000)	8	–	
One to five years					17,308
plain interest rate swaps	10	–	–	–	
cross currency swaps	(19)	(4,633)	58	–	
More than five years					11,467
cross currency swaps	–	(6,041)	46	–	
	(7)	**(11,674)**	**112**	**2**	**31,488**

Note 31
Credit Risk

Credit risk is associated with corporate lending, retail lending, corporate investments, treasury and brokerage activities (counterparty risk). The major credit risk type is corporate credit risk. Retail lending is not yet a significant part of the loan portfolio, but a high increase in the volume of retail business has commenced. For all the activities mentioned above, credit risk assessment, monitoring and control policies have been reissued in the third quarter of 1999, and in May 2000, following the acquisition by KBC of a majority shareholding updated. These procedures ensure a better process of control and valuation and, provisioning of credit risk.

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

The Bank's policy is to extend credit risk to Hungarian blue chip corporations, to subsidiaries of high rated multinational companies and to high quality project financing. The industrial concentration and the breakdown by credit risk category is outlined in Note 3.

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

Geographical concentration of assets, liabilities and off-balance sheet items:

HUF million

		31 December 2000	
	Total assets	Total liabilities	Commitments and contingent liabilities
Hungary	572,078	539,262	90,341
EMU countries	29,863	39,202	994
East-European countries	1,186	5,177	14
Russia	814	5,455	28
Other European countries	6,624	21,528	780
Non-European countries	8,458	8,399	20
	619,023	**619,023**	**92,177**

Note 32
Commitments and Contingent Liabilities

Commitments and contingent liabilities include the following:

HUF million

	31 December 2000		31 December 1999	
	Amount	Allowance	Amount	Allowance
Commitments to extend credit	70,816	46	54,832	1,071
Guarantees	17,918	307	12,327	289
Trade finance commitments	3,443	–	3,357	–
	92,177	**353**	**70 ,516**	**1,360**

The K&H Group is party to litigation and claims arising in the normal course of business. An allowance of HUF 58 million at 31 December 2000 (HUF 89 million at 31 December 1999) for possible losses from legal cases has been made relating to these contingencies and included in other liabilities. Management believes that adequate allowance has been made in the financial statements for potential losses from litigation. Certain of the alleged claims from this litigation are for significant amounts.

The Bank is in the process of introducing a new integrated computer system. The equipment and software will be purchased by KBC Vendor Lease, a member of the KBC Group, and the Bank will lease the system under a finance lease agreement. The total contracted commitment amounts to HUF 8,000 million. The implementation date of this new integrated system is not yet determined with a reasonable degree of certainty. Currently, it is expected to be in use at the end of 2002 or the beginning of 2003. If the system were to be implemented on 1 January 2003, it is estimated that the effect of additional depreciation and amortisation would be approximately HUF 220 million for the year ended 31 December 2000.

The Group has entered into operational lease agreements in connection with properties occupied. The Group has the following commitments during the term of the contracts:

HUF million

	31 December 2000	31 December 1999
Less than one year	1,515	1,449
One to five year	6,212	5,941
More than five year	8,467	10,038

Note 33
Subsidiaries and Associates

	2000 Capital HUF million	2000 Effective Shareholding %	1999 Capital HUF million	1999 Effective Shareholding %
Subsidiary companies				
K&H Befektetési Rt.*	2,520	100	2,520	100
Trambulin 2000 Kft.*	1,476	100	1,476	100
K&H Életbiztosító Rt.**	1,200	50	1,200	50
Kvantum Követeléskezelő és Befektetési Rt.	650	100	650	100
K&H Lízing Rt.	25	100	477	100
K&H Lízingház Rt.	20	100	10	100
Fordat Kft.	6	100	6	100
In voluntary liquidation				
Optimum Rt.	1,204	100	1,204	100
Softteam Rt.	66	100	66	100
K&H Communication Rt.	15	100	15	100
Sold in 2000				
Kvantum Investment Rt.***	–	–	3,470	100
Kenese Marina Port Rt.	–	–	280	82
Bérlet Kft.	–	–	5	100

* Former names of K&H Befektetési Rt. and Trambulin 2000 Kft. were K&H Brókerház Rt. and Hídpillér Kft., respectively.

** K&H Életbiztosító Rt. is accounted for under the equity method in 2000 as the Bank intends to sell half of its present stake to KBC Insurance. The Company was fully consolidated in 1999.

*** Formerly Kvantum Investment Bank Rt.

In 2000, due to losses accumulated in previous years, the shareholders' equity of K&H Lízing Rt. and K&H Lízingház Rt. had to be restructured. The share capital of K&H Lízing Rt. was reduced by HUF 457 million, followed by a capital increase of HUF 70 million, of which HUF 5 million increased the share capital and HUF 65 million was placed in capital reserve. The share capital of K&H Lízingház Rt. was increased by HUF 10 million, and an additional HUF 440 million was placed in capital reserve.

All the subsidiaries are incorporated in Hungary.

Note 34
Subsequent Events

KBC Bank N.V., the Belgian majority owner of the Bank and ABN AMRO Bank, the Dutch owner of ABN AMRO Magyar Bank Rt. announced the merger of their subsidiaries in Hungary on 7 November 2000. KBC Bank and ABN AMRO Bank reached an agreement about the joint control of both banks for the transition period until the legal merger. A joint Board of Directors was appointed at the Extraordinary General Shareholders Meetings of both K&H Bank and ABN AMRO Magyar Bank Rt. on 15 January 2001.

The Hungarian State Supervision of Financial Organisations and the Competition Office approved the Joint Control Agreement between K&H Bank and ABN AMRO Magyar Bank Rt. on 7 February 2001. The expected date of legal merger is currently the end of June 2001.

Meanwhile KBC Bank exercised its option and bought a 17.9 % and 7.3% stake in the Bank from Irish Life and Permanent Plc. and ES Asset Administration Ltd., respectively, on 7 February 2001.

Strengthening the capital supply of the Bank, KBC Bank also announced a capital increase of HUF 10,000 million in the Bank. As a consequence of this, KBC Bank and ABN AMRO Bank will have a stake of 60% and 40% in the merged Bank, respectively.

The Bank did not make restructuring provision for the future costs of merger at 31 December 2000 because an accurate estimation of the costs impact was not known and there was not an approved, detailed formal plan for this purpose at the balance sheet date.

Note 35
Reconciliation of Statutory Books to International Accounts

HUF million

	(Profit)/loss for the period	Capital and reserves	Assets	Liabilities and minority interest
K&H Bank accounts prepared under Hungarian Accounting Rules	**1,683**	**(32,310)**	**619,888**	**(589,261)**
Adjustments for international accounts				
Reversal of provision on foreign exchange losses	12	(101)	–	89
Additional depreciation	(592)	1,678	(1,086)	–
Capitalisation of VAT	100	(257)	157	–
Capitalisation of financial leases	(494)	(41)	1,786	(1,251)
Write-off of goodwill of IBUSZ Bank	(17)	17	–	–
Accrual of sold investment with deferred payment	(51)	51	–	–
Reversal of provision of country risks	27	(304)	–	277
General provision for loan losses	(1,877)	(1,561)	(1,757)	5,195
Revaluation of real estates	(494)	2,825	(2,331)	–
Mark to market evaluation of trading portfolio	49	(68)	19	–
Provision for leasehold rights	(551)	551	–	–
Deferred tax	278	(933)	655	–
Other items			(1,228)	1,228
K&H Bank unconsolidated IAS	**(1,927)**	**(30,453)**	**616,103**	**(583,723)**
Subsidiaries accounts prepared under Hungarian Accounting Rules	**923**	**(5,605)**	**24,923**	**(20,241)**
Adjustments for international accounts				
Additional write-offs	(147)	147	–	–
Provision for fiscal charges	95	–	–	(95)
Financial leases	(297)	(311)	113	495
Deferred tax	305	(213)	(92)	–
Revaluation of real estates and leasehold rights	(75)	75	–	–
Subsidiaries IAS	**804**	**(5,907)**	**24,944**	**(19,841)**
Adjustments for consolidation	**(1,384)**	**6,031**	**(22,024)**	**17,377**
Balance per IAS report	**(2,507)**	**(30,329)**	**619,023**	**(586,187)**

The accompanying notes are an integral part of these consolidated financial statements.

Board of Directors and Supervisory Board

Board of Directors in 2000

Patrick C. McEvoy	until 22 June 2000
dr. István Szalkai	from 26 April 2000
Herman Agneessens	
Luc Flamée	
Rudy Broeckaert	from 25 September 2000
Gerry Danaher	
Brian McConnell	
Tibor E. Rejtő	
Márton Halasi	
Tibor Zarnóczi	
Edit Várkonyi	
dr. Júlia Király	
dr. Péter Székács	until 26 April 2000

Supervisory Board in 2000

Jean Paul Van Keirsbilck	
dr. Ágnes Hitesy	
Gerry Hunt	
József Windheim	
János Négyesi	from 26 April 2000
Johan De Decker	from 26 April 2000
dr. István Mrena	until 26 April 2000
dr. János Pintér	until 1 January 2000