KERESKEDELMI ÉS HITELBANK RT.

CONSOLIDATED ANNUAL FINANCIAL STATEMENTS PREPARED IN ACCORDANCE WITH INTERNATIONAL FINANCIAL REPORTING STANDARDS

FOR THE YEAR ENDED 31 DECEMBER 2002

WITH THE REPORT OF INDEPENDENT AUDITORS

BALANCE SHEET

	Notes	31 December 2002 MHUF	31 December 2001 MHUF
ASSETS			
Cash and balances with the National Bank of Hungary	3	109 760	80 534
Balances due from other banks		78 118	141 567
Loans to customers	4	754 407	626 147
Trading and investment securities	5	193 505	216 496
Derivative financial instruments	6	24 883	4 845
Accrued interest receivable		12 305	15 109
Bank premises and equipment	7	37 875	41 827
Intangible assets	8	611	637
Other assets	9	20 312	17 723
Total assets		1 231 776	1 144 885
LIABILITIES AND SHAREHOLDERS' EQUITY			
Deposits and certificates of deposits	10	896 753	846 825
Balances due to banks		21 759	29 159
Refinancing credits	11	95 837	73 178
Derivative financial instruments	6	29 187	13 222
Accrued interest payable		7 086	10 959
Other liabilities	12	73 606	71 252
Total liabilities		1 124 228	1 044 595
Subordinated debt	13	16 614	20 646
Share capital	14	42 507	42 507
Share premium		36 074	36 074
Statutory risk reserve	16	642	634
Available for sale reserve		26	-
Accumulated profit		11 685	429
Total shareholders' equity		90 934	79 644
Total liabilities and shareholders' equity		1 231 776	1 144 885
MEMORANDUM ITEMS			
Commitments and contingent liabilities	33	375 191	250 530

Tibor E. Rejtő
Chief Executive Officer

Dr. Ágnes Bába
Chief Financial Officer

The accompanying notes on pages 6 to 47 are an integral part of these financial statements.

STATEMENT OF OPERATIONS

	Notes	31 December 2002	31 December 2001
		MHUF	MHUF
Interest income		93 213	80 758
Interest expense		(47 659)	(46 248)
Net interest income	18	45 554	34 510
Net commission and fee income	19	17 783	13 880
Loss on trading securities, net		(307)	(354)
Gain on foreign exchange activities, net		7 751	4 759
Unrealised gain on derivatives		4 415	1 521
Dividend income		169	143
Other operating income/(losses)		2 300	(3 684)
Operating income		77 665	50 775
Operating expenses	20	(60 443)	(49 384)
Operating profit before provisions and exceptional items		17 222	1 391
Provision for possible loan and commitment losses	21	(2 867)	(2 782)
Loss on investments	22	(1 445)	(723)
Gain/(loss) on property, plant and equipment		822	(214)
Exceptional gain	23	-	6 384
Profit before income taxes		13 732	4 056
Income taxes	24	(2 468)	(268)
Net profit for the year		11 264	3 788
Earnings per share (HUF)	25	0.27	0.10

The accompanying notes on pages 6 to 47 are an integral part of these financial statements.

STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

	Share capital	Share premium	Statutory risk reserve	Available for sale reserve	Accum. profit / (deficit)	Total
	MHUF	MHUF	MHUF	MHUF	MHUF	MHUF
Balance at 31 December 2000	34 089	2 282	-	-	(3 535)	32 836
Effect of adopting IAS 39	-	-	-	-	176	176
Merger with ABN AMRO Group (see note 23)	8 418	32 140	634	-	-	41 192
Contribution by shareholder	-	1 652	-	-	-	1 652
Net profit for the year	-	-	-	-	3 788	3 788
Balance at 31 December 2001	42 507	36 074	634	-	429	79 644
Transfer from statutory risk reserve to retained earnings	-	-	8	-	(8)	-
Change in accounting policy (see note 2)	-	-	-	126	-	126
Transfer from AFS reserve to profit	-	-	-	(100)	-	(100)
Net profit for the year	-	-	-	-	11 264	11 264
Balance at 31 December 2002	42 507	36 074	642	26	11 685	90 934

The accompanying notes on pages 6 to 47 are an integral part of these financial statements.

STATEMENT OF CASH FLOWS

	Notes	Year ended 31 December 2002	Year ended 31 December 2001
		MHUF	MHUF
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before income taxes		13 732	4 056
Adjustments for:			
Net transfer from available for sale reserve		26	-
Depreciation and amortisation	20	11 974	12 373
Amortisation of negative goodwill	23	-	(6 384)
Provision for credit losses	21	2 867	2 782
Provision for other liabilities		(835)	2 977
Unrealised gain on derivatives		(4 415)	(1 521)
Loss on investments	22	1 445	723
Loss/(gain) on property, plant and equipment		(822)	214
(Increase)/decrease in operating assets:			
Loans to customers		(130 403)	(44 498)
Balances due from NBH and other banks		9 408	10 166
Trading securities		17 410	(15 450)
Derivative financial instruments		-	(170)
Other assets		(2 729)	22 651
Accrued interest receivable		2 804	(568)
Increase/(decrease) in operating liabilities:			
Deposits and certificates of deposits		49 928	71 558
Balances due to other banks		(7 400)	(54 865)
Refinancing credits		22 659	(8 034)
Derivative financial instruments		-	3 924
Other liabilities and minority interest		1 555	(31 943)
Accrued interest payable		(3 873)	5 785
Taxes paid	24	(1 076)	(489)
Net cash used in operating activities		(17 745)	(26 713)
CASH FLOWS FROM INVESTING ACTIVITIES			
Decrease in investment securities		3 679	3 208
Acquisition of ABN AMRO		-	108 437
Purchase of property, plant and equipment		(14 733)	(12 304)
Disposal of property, plant and equipment		7 559	6 427
Net cash (used in) / provided by investing activities		(3 495)	105 768
CASH FLOWS FROM FINANCING ACTIVITIES			
Decrease in subordinated debt		(4 032)	(1 004)
Shareholders' contribution to the equity		-	11 346
Net cash (used in) / provided by financing activities		(4 032)	10 342
Net increase/(decrease) in cash and cash equivalents		(25 272)	89 397
Cash and cash equivalents at beginning of year	3	187 869	98 472
Cash and cash equivalents at end of year	3	162 597	187 869

The cash flow does not disclose interest and dividends received and interest paid since these items are classified as operating activities in a financial institution.

The accompanying notes on pages 6 to 47 are an integral part of these statements.

NOTE 1 – GENERAL

The consolidated financial statements of Kereskedelmi és Hitelbank Bank Rt and its subsidiaries for the year ended 31 December 2002 were authorised on 20 March 2003.

Kereskedelmi és Hitelbank Bank Rt (K&H Bank) is a limited liability company incorporated in the Republic of Hungary. K&H Bank and its subsidiaries ("the Group") provide a full range of banking services through a nation-wide network of 163 branches. K&H Bank's registered office is at Vigadó tér 1, Budapest.

On 1 July 2001 K&H Bank (a member of the KBC Group) and ABN Amro Magyar Bank Rt (a member of the ABN Amro Group) legally merged their operations. After the merger KBC Bank N.V. and ABN Amro N.V. had respective stakes in the merged entity of 59.09% and 40.23%. This merger had a significant impact on the results reported in the previous year. The statement of operations in 2001 contained only the last six months results of ABN Amro and the full year operations of K&H Bank. Further details on the effects of the merger can be found in note 23.

NOTE 2 – ACCOUNTING POLICIES

The significant accounting policies adopted in the preparation of these financial statements are summarised below.

Basis of presentation

The financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") and Interpretations of the Standing Interpretations Committee.

The financial statements are prepared under the historical cost convention modified to include the measurement at fair value of certain financial assets and liabilities.

The Group maintains its accounting records and prepares its statutory accounts in accordance with commercial, banking and fiscal regulations prevailing in Hungary. The Group's functional currency is the Hungarian Forint ("HUF"). All balances are denominated in millions of Hungarian Forints ("MHUF") unless otherwise stated.

Certain accounting principles prescribed for statutory purposes are different from those generally recognised in international financial markets. In order to present the financial position and results of operations of the Group in accordance with International Financial Reporting Standards("IFRS"), certain adjustments have been made to the Group's Hungarian consolidated statutory accounts. Details on these adjustments are presented in note 36.

NOTE 2 - ACCOUNTING POLICIES (continued)

Revenue recognition

Interest income is recognised on a time proportion basis, taking account of the principal outstanding and the rate applicable. Interest is recognised on impaired loans and advances and other financial assets when received. Other fees receivable or payable are recognised when earned. Dividend income is recognised when the right to receive payment is established.

Foreign currency translation

Assets and liabilities denominated in foreign currencies are translated into HUF at exchange rates quoted by the National Bank of Hungary as at the date of the balance sheet. 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 statement of operations.

Principles of consolidation

The consolidated financial statements comprise the financial statements of the Bank and all significant entities it controlled as at 31 December 2002. The Bank and the entities which it controls are referred to collectively as the "Group". Control is presumed to exist where the Bank holds, directly or indirectly, more than 50% of the registered capital or where the Bank can exercise more than 50% of the voting rights or where the Bank can appoint or dismiss a majority of the members of the Board of Directors. The effects of all material intercompany balances and transactions are eliminated.

An investment in an associate is one in which the Bank holds, directly or indirectly, 20% to 50% of the voting rights and over which the Group exercises significant influence but which it does not control. Associates are accounted for under the equity method of accounting, and the pro-rata share of their income (loss) is included in the income statement. The Group's interest in an associate is carried in the balance sheet at an amount that reflects its share of the net assets of the associate.

Joint ventures are companies where the Bank and another party exercise joint control. Joint ventures are accounted for using the proportionate consolidation method.

Certain subsidiaries in which K&H Bank holds a controlling interest have not been consolidated because it is intended that the shares shall be disposed in the near future.

A list of subsidiary and associated companies is provided in Note 34.

NOTE 2 –ACCOUNTING POLICIES (continued)

Acquisitions

Upon acquisition, subsidiaries are accounted for using the fair value method of accounting for acquisitions. Goodwill and negative 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 or liability and amortised to the consolidated statement of operations on a straight-line basis over a period not exceeding five 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.

Trading securities

Trading securities consist of discounted and interest bearing Treasury bills, Hungarian Government and commercial companies bonds and shares in commercial companies and investment funds.

These are carried at fair value with any gain or loss arising from a change in fair value being included in the consolidated statement of operations in the period in which it arises.

Investment securities

These are classified as follows:
- Available for sale
- Held to maturity
- Originated by the bank

All investments are initially recognised at cost, being the fair value of the consideration given including acquisition charges associated with the investment.

Premiums and discounts on debt instrument principal amounts are amortised on a straight line basis and taken to interest income.

Available for sale

After initial recognition, investments which are classified "available for sale" are remeasured at fair value. Unless unrealised gains and losses on remeasurement to fair value are part of an effective hedging relationship, they are reported as a separate component of equity until the investment is sold, collected or otherwise disposed of, or the investment is determined to be impaired, at which time the cumulative gain or loss previously reported in equity is included in the statement of operations for the period.

Any gain or loss arising from a change in fair value of available for sale investments which are part of an effective hedging relationship is recognised directly in the statement of operations to the extent of the changes in fair value being hedged.

NOTE 2 – ACCOUNTING POLICIES (continued)

Held to maturity

Investments which have fixed or determinable payments which are intended to be held to maturity, are subsequently measured at amortised cost, less provision for impairment in value. Amortised cost is calculated by taking into account any discount or premium on acquisition.

Originated by the Bank

Investments in debt securities which are funded directly to the issuer are stated at cost less provision for impairment. An adjustment is made to such investments where effective fair value hedges have been made to adjust the value of the investment for the fair value being hedged with the resultant gains or losses being recognised in the statement of operations.

Repurchase and resale agreements

Assets sold with a simultaneous commitment to repurchase at a specified future date (repos) continue to be recognised in the balance sheet and are measured in accordance with accounting policies for trading securities or investment securities if the repurchase price is not fair value at the time of reacquisition. The counterparty liability for amounts received under these agreements is included in due to banks and other financial institutions or customers' deposits, as appropriate. The difference between sale and repurchase price is treated as interest expense and accrued over the life of the repo agreement. Assets purchased with a corresponding commitment to resell at a specified future date (reverse repos) are not recognised in the balance sheet, as the bank does not obtain control over the assets. Amounts paid under these agreements are included in deposits with banks and other financial institutions or loans and advances to customers, as appropriate. The difference between purchase and resale price is treated as interest income and accrued over the life of the reverse repo agreement.

Deposits with banks and other financial institutions and other money market placements

Deposits with banks and other financial institutions and other money market placements are stated at cost less any amounts written off and provision for impairment. The carrying values of such assets which are being effectively hedged for changes in fair value are adjusted to the extent of the changes in fair value being hedged. Resultant gains or losses are recognised in the statement of operations.

Loans, placements with banks

Loans and placements with banks are stated at principal amounts outstanding, net of allowance for possible loan or placement losses, respectively. Interest is accrued and credited to the statement of operations based on the principal amounts outstanding.

NOTE 2 - ACCOUNTING POLICIES (continued)

When a borrower is unable to meet payments as they fall 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 and interest is recognised only when received.

Impairment and uncollectability of financial assets

An assessment is made at each balance sheet date to determine whether there is objective evidence that a specific financial asset may be impaired. If such evidence exists, the estimated recoverable amount of that asset is determined and any impairment loss, based on anticipated cash flows discounted at original interest rates, recognised in the statement of operations.

In addition to allowances for specific impaired loans and advances, a general allowance is made for potential impairment against portfolios of loans and advances based on historical default rates.

Deposits

All money market and customer deposits are initially recognised at cost. After initial recognition, all interest bearing deposits, other than liabilities held for trading, are subsequently measured at amortised cost, less amounts repaid. Amortised cost is calculated by taking into account any discount or premium on settlement. Premiums and discounts are amortised on a systematic basis to maturity using the effective interest method and taken to interest income. For liabilities carried at amortised cost (which are not part of a hedging relationship), any gain or loss is recognised in the statement of operations when liability is derecognised or impaired.

Premises and equipment

All items of premises and equipment are initially recorded at cost. Depreciation is provided on a straight-line basis over the estimated useful lives of all premises and equipment, other than freehold land which is deemed to have an indefinite life. Depreciation is calculated using the following rates.

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

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 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.

NOTE 2 - ACCOUNTING POLICIES (continued)

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 rates:

Goodwill/negative goodwill	20 – 100%
Leasehold rights	2%

Leasehold rights represent the right to lease certain buildings indefinitely. The carrying value of each intangible asset is reviewed annually and adjusted for permanent impairment to its carrying value, where it is considered necessary.

Commitments, contingent liabilities

In the ordinary course of its business, the Group enters 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 financial statements if and when they become payable.

An allowance for 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.

Taxation

Taxation is provided for in accordance with the fiscal regulations of the Republic of Hungary.

Deferred taxation is provided using the liability method on all temporary differences at the reporting date. It is calculated at the tax rates that are expected to apply to the period when it is anticipated the liabilities will be settled, and it is based on tax rates (and laws) that have been enacted or substantively enacted at the balance sheet date.

Provisions

Provisions are recognised when the bank has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation

NOTE 2 – ACCOUNTING POLICIES (continued)

Derivatives

The Group enters into derivative instruments including futures, forwards, swaps and options in the foreign exchange and capital markets. Derivatives are stated at fair value. The fair value of a derivative is the equivalent of the unrealised gain or loss from marking to market the derivative using prevailing market rates or internal pricing models. Derivatives with positive market values (unrealised gains) are included in assets and derivatives with negative market values (unrealised losses) are included in liabilities in the balance sheet.

For the purposes of hedge accounting, hedges are classified into two categories: (a) fair value hedges which hedge the exposure to changes in the fair value of a recognised asset or liability; and (b) cash flow hedges which hedge exposure to variability in cash flows that is either attributable to a particular risk associated with a recognised asset or liability or a forecasted transaction.

In relation to fair value hedges which meet the conditions for hedge accounting, any gain or loss from remeasuring the hedging instrument to fair value is recognised immediately in the statement of operations. The hedged item is adjusted for fair value changes relating to the risk being hedged and the difference is recognised in the statement of operations.

In relation to cash flow hedges which meet the conditions for hedge accounting, the portion of the gain or loss on the hedging instrument that is determined to be an effective hedge is recognised initially in equity and the ineffective portion is recognised in the statement of operations. The gains or losses on effective cash flow hedges recognised initially in equity are either transferred to the statement of operations in the period in which the hedged transaction impacts the statement of operations or included in the initial measurement of the cost of the related asset or liability.

For hedges which do not qualify for hedge accounting, any gains or losses arising from changes in the fair value of the hedging instrument are taken directly to the statement of operations for the period.

Hedge accounting is discontinued when the hedging instrument expires or is sold, terminated or exercised, or no longer qualifies for hedge accounting. At that point in time, any cumulative gain or loss on the hedging instrument recognised in equity remains in equity until the forecasted transaction occurs. Where the hedged transaction is no longer expected to occur, the net cumulative gain or loss recognised in equity is transferred to the statement of operations for the period.

Cash flows from hedging activities are classified in the same line in the statement of cash flows as the item being hedged.

NOTE 2 - ACCOUNTING POLICIES (continued)

Fiduciary assets

Assets held in trust or in a fiduciary capacity are not assets of the bank and accordingly are not included in these financial statements.

Leases

Where a Group company is the lessee

Finance leases, which effectively transfer to the Group substantially all the risks and benefits incidental to ownership of the leased item, are capitalized at the present value of the minimum lease payments at the inception of the lease term. Lease payments are apportioned between the finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly against income in the statement of operations.

Capitalised leased assets are depreciated over the shorter of the estimated useful life of the asset or the lease term.

Leases where the lessor effectively retains substantially all the risks and benefits of ownership of the leased term, are classified as operating leases. Operating lease payments are recognized as an expense in the statement of operations on a straight-line basis over the lease term.

Where a Group company is the lessor

When assets held are subject to a finance lease, the present value of the lease payments is recognised as a receivable. The difference between the gross receivable and the present value of the receivable is recognised as unearned finance income. Lease income is recognised over the term of the lease so as to achieve a constant rate of interest on the remaining balance of the receivable.

Assets subject to operating leases (investment properties) are included in property, plant and equipment in the balance sheet.

Offsetting

Financial assets and financial liabilities are only offset and the net amount reported in the balance sheet when there is a legally enforceable right to set off the recognised amounts and the bank intends to either settle on a net basis, or to realise the asset and settle the liability simultaneously.

Cash and cash equivalents

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 the National Bank of Hungary (including obligatory reserves), balances with other banks and trading securities.

NOTE 2 - ACCOUNTING POLICIES (continued)

Segmental reporting

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

Trade and settlement date accounting

All "regular way" purchases and sales of financial assets are recognised on the settlement date, i.e. the date the asset is delivered to the counterparty. Regular way purchases or sales are purchases are those that require delivery of assets within the time frame generally established by regulation or convention in the market place.

Collateral pending sale

The Group occasionally acquires real estate in settlement of certain loans and advances. Real estate is stated at the lower of the net realisable value of the loans and advances and the current fair value of such assets. Gains or losses on disposal, and unrealised losses on revaluation, are recognised in the statement of operations.

Changes in accounting policies

The accounting policies of the Group are consistent with those applied in previous years with the following exceptions.

During the current year the Group changed its treatment of unrealised gains on available for sale investments in order to align its IFRS policies with those of the KBC group. This change in accounting policy resulted in a credit to a separate category of equity from the statement of operations of HUF 126 million.

Additionally the Group has aligned its accounting policy in respect to the revaluation of properties with those of the KBC group. In prior years the Group revalued its properties at least every three years. Net gains from revaluation were credited to a revaluation reserve except where such gains compensate for losses previously recognised in the consolidated statement of operations. Net losses from revaluation were recorded against the revaluation reserve with any excess charged to the consolidated statement of operations. This year the Group has measured all its premises and equipment at depreciated cost. This change in accounting policy had no effect on the results reported in this financial year.

Certain comparative information has been reclassified in the prior year accounts for presentation purposes.

NOTE 3 - CASH AND BALANCES WITH THE NATIONAL BANK OF HUNGARY

	31 December 2002 MHUF	31 December 2001 MHUF
Cash in hand	11 823	20 038
Balances with the National Bank of Hungary		
- less than 90 days	89 051	46 737
- equal or greater than 90 days	8 886	13 759
	109 760	80 534

Balances with the National Bank of Hungary include obligatory reserves totalling HUF 43 074 million (HUF 45 065 million as at 31 December 2001). Banks' obligatory reserve requirements are based on average monthly balances and as a result daily balances may 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:

	31 December 2002 MHUF	31 December 2001 MHUF
Cash and balances with the National Bank of Hungary	100 874	66 775
Balances less than 90 days maturity with other banks	61 493	120 407
Trading securities (see note 5)	230	687
Cash and cash equivalents	162 597	187 869

NOTE 4 – LOANS TO CUSTOMERS

	31 December 2002 MHUF	31 December 2001 MHUF
Industry sector		
Service industry	231 988	155 792
Agriculture	59 542	70 885
Manufacturing and building	95 096	123 605
Food processing	45 916	52 054
Wholesale and retail	162 078	139 240
Power industry	27 534	24 382
Other	44 902	28 129
Individuals	105 843	49 500
Gross loans	772 899	643 587
General allowance for possible loan losses	(3 690)	(2 563)
Specific allowance for possible loan losses	(14 802)	(14 877)
Allowance for possible loan losses (see Note 21)	(18 492)	(17 440)
Loans to customers	754 407	626 147

Analysis of loans by type

	31 December 2002 MHUF	31 December 2001 MHUF
Corporate loans		
Current account advances	52 926	43 973
Term loans to 1 year	183 360	176 795
Term loans over 1 year	331 311	305 205
Corporate loans	567 597	525 973
Retail loans		
Current account advances	3 141	2 533
Term loans to 1 year	3 227	5 906
Term loans over 1 year	99 474	41 062
Retail loans	105 842	49 501
Lease receivables	31 981	31 633
Loans originated by lease companies	58 424	30 398
Other loans (factoring, trade bills & acceptances, etc.)	9 055	6 082
Gross loans	772 899	643 587

As at 31 December 2002 a total of HUF 7 235 million of loans are held on a non accrual basis (as at 31 December 2001 HUF 6 922 million)

NOTE 5 – TRADING AND INVESTMENT SECURITIES

	31 December 2002 MHUF	31 December 2001 MHUF
Trading securities	6 279	24 146
Investment securities – available for sale	116 783	123 138
Investment securities – held to maturity	68 114	66 808
Investment in associates	2 329	2 404
	193 505	216 496

	31 December 2002 MHUF	31 December 2001 MHUF
Trading securities		
Treasury bills		
- maturing in less than 90 days	230	687
- maturing in 90 days or more	3 848	518
Government bonds	1 439	22 582
Other unlisted bonds	2	37
Listed shares	760	322
	6 279	24 146

	31 December 2002 MHUF	31 December 2001 MHUF
Investment securities – available for sale		
Government bonds issued in HUF (see (a) below)	114 537	120 534
Other bonds – unlisted issued in HUF	599	656
Listed shares	73	3
Unlisted shares (see (b) below)	1 558	1 925
Other	16	20
Available for sale investment securities	116 783	123 138

NOTE 5 – TRADING AND INVESTMENT SECURITIES (continued)

	31 December 2002 MHUF	31 December 2001 MHUF
Investment securities – held to maturity		
Government bonds		
- issued in HUF	32 160	14 429
- issued in foreign currencies (see (c) below)	32 487	47 873
Total of government bonds	64 647	62 302
Other bonds – unlisted issued in foreign currencies	3 467	4 506
Held to maturity investment securities, net	68 114	66 808

(a) Government bonds issued in HUF as at 31 December 2002 include consolidation bonds totalling HUF 114 537 million (HUF 120 534 million as at 31 December 2001) 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 equivalent to the State of Hungary's treasury bill rates and reprice annually or semi-annually. As there is not yet a liquid market for these instruments in Hungary they are carried at amortised historical cost. As they reprice regularly management believe that amortised historical cost is the most appropriate estimation of their fair value.

Government bonds as at 31 December 2002 include securities in the amount of HUF 29 446 million (HUF 1 538 million at 31 December 2001) of which the Bank has sold and agreed to repurchase.

(b) Unlisted shares include 25% of the shares of HAGE Rt., a company incorporated in Hungary. This investment (HUF 542 million at 31 December 2002 and 2001) is not classified as an associate because it is held for resale. This investment and other investments in unlisted shares are accounted for on a cost basis as it is not possible to reliably estimate their fair value.

(c) Government bonds and other bonds issued in foreign currencies include foreign currency denominated fixed interest bonds with HUF 31 356 million face value as at 31 December 2002 (HUF 35 171 million at 31 December 2001) that are hedged by interest swaps for variable interest rates using cross currency interest rate swaps which are recorded at their fair value.

NOTE 6 – DERIVATIVE FINANCIAL INSTRUMENTS

	Year ended 31 December 2002			Year ended 31 December 2001		
	Notional amount	Positive fair value Assets	Negative fair value Liabilities	Notional amount	Positive fair value Assets	Negative fair value Liabilities
	MHUF	MHUF	MHUF	MHUF	MHUF	MHUF
Derivatives held for trading						
Foreign exchange derivatives						
Currency forwards	83 005	2 101	(2 804)	54 860	1 248	(1 899)
Currency swaps	530 683	22 225	(18 892)	181 928	2 074	(864)
Currency options bought and sold	34 609	273	(273)	23 576	37	(37)
Total foreign exchange derivatives	648 297	24 599	(21 969)	260 364	3 359	(2 800)
Interest rate derivatives						
Interest rate swaps	570	8	(7)	-	-	-
Forward rate agreements	23 100	23	(9)	23 100	9	(29)
Credit default swaps	9 006	44	-	11 161	124	-
Total interest rate derivatives	32 676	75	(16)	34 261	133	(29)
Total derivatives held for trading	680 973	24 674	(21 985)	294 625	3 492	(2 829)
Derivatives held for hedging						
Derivatives designated as fair value hedges						
Interest rate swaps	6 473	-	(418)	6 760	-	(751)
Cross currency interest rate swaps	30 933	209	(6 784)	44 850	1 353	(9 642)
Total derivatives held for hedging	37 406	209	(7 202)	51 610	1 353	(10 393)
Total derivative financial instruments	718 379	24 883	(29 187)	346 235	4 845	(13 222)

NOTE 6 – DERIVATIVE FINANCIAL INSTRUMENTS (continued)

Derivatives designated as fair value hedges

Interest rate swaps

In 1997 the Group entered into asset backed interest rate swaps. The Group purchased long term fixed rate bonds denominated in DEM. Fixed rates of 8.75% in DEM were swapped for the entire term of the bond to DEM 3-month LIBOR respectively plus a margin to cover the Group's interest rate risk.

In 2000 the Group entered into interest rate swaps to cover the interest rate risk of two long term fixed rate loans originated by the Group to corporate customers. The fixed EURO interest rates in a range of 5.17%-7.38% were swapped for the term of the loan to 3-month EURIBOR with a margin. Swap counterparties belong to major international banking groups.

Cross currency interest rate swaps

In 1997 and 1998, the Group purchased long term fixed rate bonds denominated in JPY and ITL. Cross currency interest rate swaps with exchanges of principal were entered into for the term of the bond whereby the Group pays semi- annually or annually the coupon of the bonds and receives USD 1 to 3-month LIBOR plus a margin to cover the Group's interest rate and foreign currency risk. At the maturity of the swaps, which coincides with the repayment of the bonds, notional capital amounts are exchanged. Swap counterparties belong to major international banking groups.

K&H Bank inherited a series of cross currency swaps from ABN AMRO Magyar Bank contracted with ABN AMRO N.V. in 1996 for hedging purposes. At 31 December 2002 the outstanding deals details are as follows. NLG 45.6 million, out of which NLG 21.5 million are subordinated loans to the Group (note 13), is deposited with the Group at fixed interest rates of an average 9.098%. The maturity of the deposit and the subordinated loan is in 2003. The NLG received were used to purchase long term fixed rate bonds issued by the National Bank of Hungary denominated in GBP and USD (see note 5). Interest income on the foreign currency bonds is payable to the swap counterparty in the original currency by the Group and interest on NLG deposits and subordinated loan is paid by the swap counterparty to the Group on the same days. The interest margin on the transactions, which is the difference between the fixed deposit rates of the NLG deposits and the fixed swap rate (9.348%), is determined for the entire period of the swap. The interest payable on the deposit and the subordinated loan is included in the interest expense, while the NLG received from the swap counterparty is included in interest income. The maturity of the GBP and USD bonds is on the same days as the maturity of the NLG deposits and the subordinated loans. On these days the GBP and USD received is also swapped with ABN AMRO N.V. bank for the NLG amount to be paid to the depositor.

NOTE 7 - BANK PREMISES AND EQUIPMENT

	Land and Buildings	Leasehold improvements	Furniture, fixtures and equipment	Software	Construction in progress	Total
	MHUF	MHUF	MHUF	MHUF	MHUF	MHUF
At 31 December 2001						
Cost	18 522	4 794	19 889	21 041	6 234	70 480
Accumulated depreciation	(7 652)	(1 242)	(7 226)	(12 533)	-	(28 653)
Net book value	10 870	3 552	12 663	8 508	6 234	41 827
Movements in 2002						
Additions	233	1 339	9 849	6 746	12 787	30 954
Disposals - net	(966)	(113)	(5 639)	68	(16 439)	(23 089)
Depreciation charge	(413)	(360)	(5 883)	(5 161)	-	(11 817)
Closing net book value	9 724	4 418	10 990	10 161	2 582	37 875
At 31 December 2002						
Cost	17 249	5 555	21 573	27 282	2 582	74 241
Accumulated depreciation	(7 525)	(1 137)	(10 583)	(17 121)	-	(36 366)
Net book value	9 724	4 418	10 990	10 161	2 582	37 875

The Group’s freehold land and buildings were valued as at 31 March 2001 by an independent valuer on an “existing use” basis as the Bank intends to hold these buildings. Following the revaluation a total of HUF 1 596 million extraordinary depreciation was charged to the consolidated statement of operations in 2001.

NOTE 8 - INTANGIBLE ASSETS

	Goodwill	Leasehold rights	Total
	MHUF	MHUF	MHUF
At 31 December 2001			
Cost	191	1 646	1 837
Accumulated amortisation	(149)	(1 051)	(1 200)
Net book value	42	595	637
Movements in 2002			
Additions	-	218	218
Disposals - net	-	(87)	(87)
Amortisation charge	(27)	(130)	(157)
Closing net book value	15	596	611
At 31 December 2002			
Cost	191	1 826	2 017
Accumulated amortisation	(176)	(1 230)	(1 406)
Net book value	15	596	611

NOTE 9 - OTHER ASSETS

	31 December 2002	31 December 2001
	MHUF	MHUF
Receivables from investment services	403	1 318
Prepayments and taxes receivable	1 909	2 706
Trade receivables	2 005	2 139
Deferred tax asset (Note 24)	-	140
Loans to employees	890	2 325
Receivables from bankcard service	2 228	2 354
Items in transit due to payment services	6 722	1 791
Items in transit due to trading in securities	60	1 251
Other accruals	4 750	2 621
Other inventories	455	339
Other receivables	890	739
	20 312	17 723

NOTE 10 - DEPOSITS AND CERTIFICATES OF DEPOSITS

	31 December 2002 MHUF	31 December 2001 MHUF
Individuals		
- current accounts	56 179	47 925
- term deposits, savings accounts	400 777	438 433
Corporations		
- current accounts	164 959	149 821
- term deposit	177 681	184 827
- liabilities to repurchase securities sold	29 446	1 538
-Other entities		
- current accounts	10 218	9 994
- term deposits	54 406	9 842
	893 666	842 380
Certificates of deposits	3 087	4 445
	896 753	846 825

NOTE 11 - REFINANCING CREDITS

	31 December 2002 MHUF	31 December 2001 MHUF
Refinancing credits from National Bank of Hungary	11 514	13 018
Other refinancing credits	77 469	51 047
Swap facility with the National Bank of Hungary	6 854	9 113
	95 837	73 178

K&H Bank has entered into several refinancing credit facilities with the National Bank of Hungary (NBH) and other financial institutions (such as the EBRD and World Bank) 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 2002, management believes that the Bank is in compliance with all significant covenants.

For refinancing credits or other sources denominated in foreign currency, the Bank uses the foreign currency - HUF deposit swap facility provided by the NBH to place foreign currency deposits with the NBH (included in cash and balances with NBH) and receive HUF deposits from the NBH. The HUF source is then lent to the customer resulting in a matched currency position for the Bank.

NOTE 12 - OTHER LIABILITIES

Other liabilities include the following:

	31 December 2002 MHUF	31 December 2001 MHUF
Allowance for commitments and guarantees issued	738	546
Allowance for possible losses from legal cases	463	401
Other provisions	2 448	3 284
Trade creditors	2 709	4 009
Lease liabilities	1 619	2 070
Items in transit due to payment services	27 082	27 145
Vostro accounts	6 367	22 479
Items in transit due to lending activity	641	4 417
Items in transit due to trading in securities	20 670	71
Receivables from bankcard service	1 577	836
Other accruals	2 479	3 200
Liabilities from brokerage services	1 498	2 139
Deferred tax liability	1 227	-
Other liabilities	4 088	655
	73 606	71 252

Other provisions are provisions for merger related restructuring costs totalling HUF 1 040 million (HUF 1 501 million as at 31 December 2001) and for the cancellation of lease contracts totalling HUF 1 333 million (HUF 1 476 million as at 31 December 2001). The release of these provisions in this financial year relates to expenditure incurred.

NOTE 13 - SUBORDINATED DEBT

	31 December 2002 MHUF	31 December 2001 MHUF
Subordinated loan from KBC Group	9 436	9 853
Subordinated loan from Hungarian corporate	2 464	6 079
Bonds issued to the State	4 714	4 714
	16 614	20 646

In September 1999 the Group borrowed EUR 40 million of subordinated debt from Irish Intercontinental Bank, a member of the KBC Group. The loan matures on 31 July 2006 and bears a variable interest rate of 3 month-EURIBOR plus 1.625 percent per annum.

In 1995 ABN Amro Bank received subordinated fixed rate loans of NLG 50 million from a Hungarian corporate. The remaining NLG 21.5 million matures in 2003. The average interest rate of the loans is 9.32 %.

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.

NOTE 14 - SHARE CAPITAL

	31 December 2002 MHUF	31 December 2001 MHUF
Ordinary shares issued and outstanding	42 507	42 507

The nominal value of the ordinary shares issued and outstanding at 31 December 2002 is HUF 1 per share (2001: HUF 1).

Shareholders of the Bank:

	2002 Shares held (M)	2002 Shareholding %	2001 Shareholding %
KBC Bank N. V.	25 220	59.3%	59.1%
ABN Amro N.V. Amsterdam	17 100	40.2%	40.2%
Other shareholders	187	0.5%	0.7%
	42 507	100.0%	100.0%

NOTE 15 – CAPITAL ADEQUACY

The Group 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 2002 was 10.04% (9.67% as at 31 December 2001), respectively. The minimum ratio according to Hungarian regulations is 8.00%.

	31 December 2002 MHUF	31 December 2001 MHUF
Cash and balances with the National Bank of Hungary	180	748
Balances with other banks	15 624	28 313
Loans to customers	631 144	554 044
Trading and investment securities	3 340	3 177
Derivative financial instruments	31 364	167
Accrued interest receivable	10 913	13 324
Bank premises and equipment	37 875	41 827
Intangible assets	611	637
Other assets	20 293	17 564
Total risk-weighted assets	751 346	659 801
Risk-weighted off-balance sheet items	76 734	150 426
Total risk-weighted assets and off balance sheet items	828 078	810 227

NOTE 15 – CAPITAL ADEQUACY (continued)

	31 December 2002 MHUF	31 December 2001 MHUF
Shareholders' equity	90 908	79 644
less: goodwill	(15)	(42)
capital requirement for trading book	(1 336)	(714)
Tier 1 capital	89 557	78 888
Available for sale reserve	26	-
Subordinated debt	12 756	16 165
Tier 2 capital	12 782	16 165
Tier 1+ Tier 2 capital	102 339	95 053
Capital adequacy: Tier 1	10.82%	9.74%
Capital adequacy: Tier 1 + Tier 2	12.36%	11.73%

NOTE 16 – STATUTORY RISK RESERVE

In prior years the Group had a statutory risk reserve calculated as 10% of the Bank's profit after tax based on the year end statutory accounts. In 2002 the remaining balance in this reserve (HUF 634 million) was utilised against the loss in the statutory accounts for the year ended 31 December 2001. The Bank's statutory profit for the year ended 31 December 2002 was HUF 6 420 million. Consequently HUF 642 million (representing 10% of the statutory result) was allocated to the statutory risk reserve in 2002. The resultant net change in the reserve is only HUF 8 million.

NOTE 17 – DISTRIBUTABLE RESERVES

According to Hungarian corporate and banking law, only profit for the period and the retained earnings included in the statutory financial statements and calculated using Hungarian accounting principles may be distributed to shareholders. Additionally, this can occur only after the Group establishes the required statutory risk reserve (see note 16).

Accordingly, the Group had distributable reserves of HUF 17 645 million as at 31 December 2002 (HUF 11 233 million as at 31 December 2001).

NOTE 18 – NET INTEREST INCOME

	Year ended 31 December 2002 MHUF	Year ended 31 December 2001 MHUF
Interest from credit institutions	7 313	8 189
Interest on loans	66 786	56 812
Interest on trading securities	992	1 564
Interest on investment securities	17 185	13 464
Loan origination fees	937	729
Interest income	93 213	80 758
Interest on deposits and certificates of deposits	(39 765)	(36 336)
Interest paid to credit institutions	(2 909)	(6 026)
Interest on refinancing credits	(2 437)	(2 755)
Interest on subordinated debt	(1 372)	(1 422)
Interest paid on fair value hedges	(1 176)	291
Interest expense	(47 659)	(46 248)
Net interest income	45 554	34 510

NOTE 19 – NET FEE INCOME

	Year ended 31 December 2002 MHUF	Year ended 31 December 2001 MHUF
Payment transactions	15 949	11 956
Card services	4 565	3 740
Brokerage services	2 195	908
Credit and guarantee fee income	2 685	1 138
Other	727	387
Commission and fee income	26 121	18 129
Payment transactions	(2 671)	(1 743)
Card services	(2 349)	(2 024)
Brokerage services	(137)	(85)
Credit and guarantee fee expense	(232)	(99)
Insurance services	(478)	(155)
Commission paid to exchange agents	(1 907)	-
Other	(564)	(143)
Commission and fee expense	(8 338)	(4 249)
Net fee income	17 783	13 880

NOTE 20 – OPERATING EXPENSES

	Year ended 31 December 2002 MHUF	Year ended 31 December 2001 MHUF
Personnel costs	21 170	16 183
Operations	10 702	8 381
Depreciation and amortisation	11 974	12 373
Technology costs	9 365	7 156
Taxes and duties	3 066	2 197
Marketing cost	1 410	1 017
Other expenses	2 756	2 077
	60 443	49 384

The average number of employees in 2002 was 3 985 (3 953 in 2001).

NOTE 21 – ALLOWANCE FOR POSSIBLE LOAN AND COMMITMENT LOSSES

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

	Loans		Commitments and contingent liabilities		
	General allowance	Specific allowance	General allowance	Specific allowance	Total
	MHUF	MHUF	MHUF	MHUF	MHUF
Balance at 31 December 2000	1 757	12 410	95	316	14 578
Acquisition through business combination	1 088	1 492	-	58	2 638
Charge/(credit) for 2001 and reclassifications	(282)	2 586	90	388	2 782
Write offs	-	(1 611)	-	-	(1 611)
Balance at 31 December 2001	2 563	14 877	185	762	18 387
Charge for 2002	1 127	1 358	304	78	2 867
Write offs	-	(1 433)	-	(128)	(1 561)
Balance at 31 December 2002	3 690	14 802	489	712	19 693

The allowance for commitments and contingent liabilities totalling HUF 1 201 million at 31 December 2002 (HUF 947 million at 31 December 2001) is included under separate headings of Allowance for commitments and guarantees issued and Allowance for possible losses from legal cases in other liabilities (see note 12).

NOTE 22 – LOSS ON INVESTMENTS

	Year ended 31 December 2002 MHUF	Year ended 31 December 2001 MHUF
Loss on sale of investments	(557)	(322)
Revaluation of investments	(1 349)	(423)
Share in gain of associates	461	22
Total	(1 445)	(723)

Revaluation of investments in 2002 includes the release of HUF 100 million of profit on available for sale assets from the available for sale reserve in Equity.

Revaluation of investments includes a HUF 1 776 million in 2002 (HUF 958 million in 2001) loss on the mark to market valuation of bonds denominated in foreign currency issued by the National Bank of Hungary. This loss is offset by a gain of HUF 1 620 million in 2002 (HUF 981 million in 2002) on bond related foreign exchange swaps included in the gain on derivatives in the consolidated statement of operations.

NOTE 23 – BUSINESS COMBINATION

KBC Bank, the Belgian majority owner of the Bank and ABN Amro, the Dutch owner of ABN Amro Magyar Bank merged their respective subsidiaries in Hungary as at 1 July 2001. This business combination was treated as an acquisition in the accounts of the Group as it obtained control over the net assets and operations of ABN Amro Magyar Bank.

KBC Bank and ABN Amro have respective stakes of 59.09% and 40.23% in the merged Group. The cost of the acquisition was determined to be the 40.23% stake in the Group's equity as at 1 July 2001, which amounts to HUF 31 493 million. As the net assets acquired as at 1 July 2001 was HUF 37 882 million a negative goodwill balance of HUF 6 384 million was recognised. The negative goodwill was fully amortised in 2001.

NOTE 24 - INCOME TAXES

	Year ended 31 December 2002 MHUF	Year ended 31 December 2001 MHUF
Statutory income tax expense	1 076	489
Deferred taxation (credit)/charge	1 392	(221)
Income tax charge	2 468	268

Statutory income tax expense

Corporate income tax is payable at 18% on taxable statutory profits with an additional 20% tax on dividends, which foreign shareholders may be able to further reduce 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. The corporate tax returns for ABN Amro Magyar Bank Rt have been closed off for years up to 1997 and the corporate tax returns for K&H have been closed off for the years up to 1998. 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

	Year ended 31 December 2002 MHUF	Year ended 31 December 2001 MHUF
Deferred tax liability / (asset) at the beginning of the year	(140)	(563)
Effect of adoption of IAS 39	-	39
Acquisition through business combination	-	605
Deferred tax effect of AFS investments	(25)	-
Deferred tax (credit)/charge	1 392	(221)
Deferred tax liability / (asset) at the end of the year	1 227	(140)

Deferred income taxes are calculated on all temporary differences under the asset and liability method using a principal rate of 18% (2001: 18%). The resulting deferred tax liability is included in other liabilities (see note 12).

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 for non-banking subsidiaries to the extent that realisation of the related tax benefit is assessed as probable.

NOTE 24 - INCOME TAXES (continued)

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

	Year ended 31 December 2002 MHUF	Year ended 31 December 2001 MHUF
Deferred income tax assets		
Differences between statutory and IAS books		
- revaluation of property and leasehold rights	(850)	(804)
- additional depreciation	-	(89)
- other provisions	(601)	(565)
- other	-	(157)
Total deferred income tax assets	(1 451)	(1 615)
Deferred income tax liabilities		
Differences between statutory and IAS books		
- general provision for loan losses	1 101	839
- fair value evaluation of financing instruments	1 187	402
- available for sales assets adjustments recognised in equity	6	-
- other	384	234
Total deferred tax liabilities	2 678	1 475
Net deferred tax (asset)/liability	1 227	(140)

Deferred tax income comprises the following temporary differences:

	Year ended 31 December 2002 MHUF	Year ended 31 December 2001 MHUF
General provision for loan losses	262	360
Revaluation of real estates and leasehold rights	(46)	(384)
Other provisions	120	(488)
Fair value evaluation of financing instruments	849	233
Other	207	58
Deferred tax (credit)/charge	1 392	(221)

NOTE 24 - INCOME TAXES (continued)

The effective income tax rate varied from the statutory income tax rate due to the following items:

	Year ended 31 December 2002 MHUF	Tax rate	Year ended 31 December 2001 MHUF	Tax rate
Income before income taxes	13 732		4 056	
Tax at statutory rate of 18%	2 472	18%	730	18%
Tax effect of permanent differences	(4)	0%	(462)	(11)%
Tax charge for the period	2 468	18%	268	7%

NOTE 25 - EARNINGS PER SHARE

Earnings per share is the profit attributable to shareholders of the Group 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 2002 and 2001. The following amounts were used in the calculation of earnings per share:

	31 December 2002	31 December 2001
Net profit attributable to shareholders (MHUF)	11 264	3 788
Weighted average shares outstanding (in millions)	42 507	38 332
Earnings per share (HUF)	0.27	0.10

NOTE 26 - RELATED PARTY TRANSACTIONS

For the purposes of these financial statements, related parties include all the enterprises that directly or indirectly through one or more intermediaries, control or are controlled by, or are under common control with the reporting enterprise (this includes parents, subsidiaries and fellow subsidiaries) and associated companies.

The banking transactions entered into with related parties in the normal course of business including loans and deposits were carried out on normal commercial terms and conditions and at market rates. All the loans and advances to related parties are performing advances and are free of any provision for possible loan losses.

The year end balances with members of the KBC or ABN-Amro Groups included in the financial statements are as follows:

	31 December 2002 MHUF	31 December 2001 MHUF
Assets		
Balances due from KBC and ABN Amro entities	13 815	68 770
Liabilities		
Balances due to KBC and ABN Amro entities	3 034	1 011
Subordinated debt	9 436	9 853
Other liabilities (lease liabilities)	1 540	1 596
	14 010	12 460
Commitments and contingent liabilities	5 577	34
Guarantees received	2 996	3 886

The income and expenses in respect of related parties included in the financial statements are as follows:

	31 December 2002 MHUF	31 December 2001 MHUF
Interest income	2 741	4 790
Interest expense	(1 438)	(2 579)
Net interest income	1 303	2 211

NOTE 27 - CURRENCY EXPOSURE

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

	HUF	EURO	USD	JPY	Other	Total
	MHUF	MHUF	MHUF	MHUF	MHUF	MHUF
At 31 December 2002						
Assets						
Cash and balances with MNB	99 366	3 155	7 080	5	154	109 760
Balances with other banks	40 366	16 426	18 569	607	2 150	78 118
Loans to customers	478 582	190 857	30 516	46	54 406	754 407
Trading and investment securities	157 552	4 054	6 928	24 115	856	193 505
Derivative financial instruments	24 360	42	481	-	-	24 883
Accrued interest receivable	10 501	931	224	626	23	12 305
Bank premises and equipment	611	-	-	-	-	611
Intangible assets	37 875	-	-	-	-	37 875
Other assets	18 014	592	1 706	-	-	20 312
Total assets	867 227	216 057	65 504	25 399	57 589	1 231 776
Liabilities						
Deposits and certificate of deposits	697 285	109 819	76 979	395	12 275	896 753
Balances to other banks	11 269	1 916	8 104	-	470	21 759
Refinancing credits	58 688	29 049	8 100	-	-	95 837
Derivative financial instruments	21 715	447	2 136	4 665	224	29 187
Accrued interest payable	5 602	460	397	611	16	7 086
Subordinated debt	4 714	11 900	-	-	-	16 614
Other liabilities	61 883	951	9 198	720	854	73 606
Total liabilities and subordinated debt	861 156	154 542	104 914	6 391	13 839	1 140 842
Net balance sheet position	6 069	61 515	(39 410)	19 008	43 752	90 934
Credit commitments and contingent liabilities	309 179	51 988	9 275	117	4 631	375 191

NOTE 27 - CURRENCY EXPOSURE (continued)

	HUF	EURO	USD	JPY	Other	Total
	MHUF	MHUF	MHUF	MHUF	MHUF	MHUF
At 31 December 2001						
Assets						
Cash and balances with MNB	60 727	8 211	11 399	2	195	80 534
Balances with other banks	39 820	52 091	32 345	320	16 991	141 567
Loans to customers	403 519	159 035	38 714	404	24 475	626 147
Trading and investment securities	164 117	7 072	16 601	27 714	992	216 496
Derivative financial instruments	2 770	30	1 800	-	245	4 845
Accrued interest receivable	12 743	1 121	437	700	108	15 109
Bank premises and equipment	41 827	-	-	-	-	41 827
Intangible assets	637	-	-	-	-	637
Other assets	16 625	943	155	-	-	17 723
Total assets	742 785	228 503	101 451	29 140	43 006	1 144 885
Liabilities						
Deposits and certificate of deposits	604 186	121 123	106 262	94	15 160	846 825
Balances to other banks	16 391	9 577	2 837	69	285	29 159
Refinancing credits	25 303	28 133	19 742	-	-	73 178
Derivative financial instruments	2 651	810	5 818	3 565	378	13 222
Accrued interest payable	8 204	1 812	559	356	28	10 959
Subordinated debt	4 714	15 442	-	-	490	20 646
Other liabilities	34 350	14 997	18 241	1 232	2 432	71 252
Total liabilities and subordinated debt	695 799	191 894	153 459	5 316	18 773	1 065 241
Net balance sheet position	46 986	36 609	(52 008)	23 824	24 233	79 644
Credit commitments and contingent liabilities	220 079	19 976	10 132	46	297	250 530

Interest rate risk arises from the possibility that changes in interest rates will affect the value of the financial instruments. The Group is exposed to interest rate risk as a result of mismatches or gaps in the amounts of assets and liabilities that mature or reprice in a given period. The Group manages this risk by matching the repricing of assets and liabilities through risk management strategies.

The substantial majority of the Group's assets and liabilities reprice within one year. Accordingly there is a limited exposure to interest rate risk.

The tables below detail the Group's interest exposure as amended by interest rate swap derivatives on a total basis.

Interest bearing HUF assets and liabilities at 31 December 2002:

	Below 1 month MHUF	1-3 months MHUF	3-12 months MHUF	Over 1 year MHUF	Total MHUF
Assets	546 343	108 534	183 538	32 748	871 163
Liabilities	(687 293)	(115 400)	(94 958)	(1 195)	(898 846)
	(140 950)	(6 866)	88 580	31 553	(27 683)

Interest bearing FX assets and liabilities at 31 December 2002:

	Below 1 month MHUF	1-3 months MHUF	3-12 months MHUF	Over 1 year MHUF	Total MHUF
Assets	166 692	143 919	51 916	42 735	405 262
Liabilities	(213 643)	(34 538)	(34 886)	(28 117)	(311 184)
	(46 951)	109 381	17 030	14 618	94 078

NOTE 28 – INTEREST RATE RISK (continued)

Interest bearing HUF assets and liabilities at 31 December 2001:

	Below 1 month MHUF	1-3 months MHUF	3-12 months MHUF	Over 1 year MHUF	Total MHUF
Assets	218 609	385 371	136 890	21 241	762 111
Liabilities	(543 538)	(143 519)	(49 702)	(6 391)	(743 150)
	(324 929)	241 852	87 188	14 850	18 961

Interest bearing FX assets and liabilities at 31 December 2001:

	Below 1 month MHUF	1-3 months MHUF	3-12 months MHUF	Over 1 year MHUF	Total MHUF
Assets	210 049	251 664	58 868	30 988	551 569
Liabilities	(273 255)	(149 282)	(61 475)	(28 981)	(512 993)
	(63 206)	102 382	(2 607)	2 007	38 576

NOTE 29 – LIQUIDITY RISK

Liquidity risk is the risk that an institution will be unable to meet its net funding requirements. Liquidity risk can be caused by market disruptions or credit downgrades which may cause certain sources of funding to dry up immediately. To guard against this risk, management have diversified funding sources and assets are managed with liquidity in mind, maintaining a healthy balance of cash, cash equivalents, and readily marketable securities.

The table below summarises the maturity profile of the Group's assets and liabilities. The contractual maturities of assets and liabilities have been determined on the basis of the remaining period at the balance sheet date to the contractual maturity date and do not take account of the effective maturities as indicated by the bank's deposit retention history and the availability of liquid funds. The maturity profile is monitored by management to ensure adequate liquidity is maintained. The maturity profile of the assets and liabilities at the year end are based on contractual repayment arrangements.

The following table shows a breakdown of the balance sheet by maturity at 31 December 2002:

	Loans	Other assets	Total Assets	Deposits and certif. of deposits	Other liabilities	Total liabilities	Net coverage
	MHUF	MHUF	MHUF	MHUF	MHUF	MHUF	MHUF
1-7 days	83 535	134 633	218 168	(471 816)	(93 389)	(565 205)	(347 037)
1-2 weeks	2 824	18 986	21 810	(123 673)	(2 918)	(126 591)	(104 781)
2-4 weeks	19 365	20 396	39 761	(182 255)	(17 359)	(199 614)	(159 853)
1-3 months	46 748	60 172	106 920	(85 615)	(8 033)	(93 648)	13 272
4-6 months	65 856	8 493	74 349	(10 095)	(9 830)	(19 925)	54 424
7-12 months	111 538	22 173	133 711	(11 825)	(17 169)	(28 994)	104 717
1-2 years	87 294	12 095	99 389	(10 458)	(14 743)	(25 201)	74 188
2-5 years	170 914	60 928	231 842	(515)	(29 893)	(30 408)	201 434
Over 5 years	184 825	139 493	324 318	(501)	(47 154)	(47 655)	276 663
Subtotal	772 899	477 369	1 250 268	(896 753)	(240 488)	(1 137 241	113 027
Allowance/Equity	(18 492)	-	(18 492)	-	(94 535)	(94 535)	(113 027)
Total	754 407	477 369	1 231 776	(896 753)	(335 023)	(1 231 776)	-

NOTE 29 - MATURITY STRUCTURE (continued)

The following table shows a breakdown of the balance sheet by maturity at 31 December 2001:

	Loans	Other assets	Total Assets	Deposits and certif. of deposits	Other liabilities	Total liabilities	Net coverage
	MHUF	MHUF	MHUF	MHUF	MHUF	MHUF	MHUF
1-7 days	65 433	183 407	248 840	(450 819)	(71 137)	(521 956)	(273 116)
1-2 weeks	4 144	7 006	11 150	(82 415)	(1 292)	(83 707)	(72 557)
2-4 weeks	16 620	15 172	31 792	(205 022)	(23 576)	(228 598)	(196 806)
1-3 months	32 593	18 562	51 155	(82 767)	(8 881)	(91 648)	(40 493)
4-6 months	77 358	15 048	92 406	(10 891)	(6 595)	(17 486)	74 920
7-12 months	109 007	15 611	124 618	(8 736)	(8 103)	(16 839)	107 779
1-2 years	66 240	23 221	89 461	(5 294)	(23 795)	(29 089)	60 372
2-5 years	155 843	65 782	221 625	(880)	(36 647)	(37 527)	184 098
Over 5 years	116 349	174 929	291 278	(1)	(34 159)	(34 160)	257 118
Subtotal	643 587	518 738	1 162 325	(846 825)	(214 185)	(1 061 010)	101 315
Allowance/Equity	(17 440)	-	(17 440)	-	(83 875)	(83 875)	(101 315)
Total	626 147	518 738	1 144 885	(846 825)	(298 060)	(1 144 885)	-

NOTE 30 – FAIR VALUE

Substantially all the Group's monetary assets and liabilities are carried at their fair values as of December 31, 2002 and 2001.

Underlying the definition of fair value is the presumption that the bank is a going concern without any intention or requirement to curtail materially the scale of its operation or to undertake a transaction on adverse terms.

Balances with other banks

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

Loans to customers

Loans to customers are carried 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. As the majority of loans are repriced quarterly, the carrying value approximates the fair value.

NOTE 30 – FAIR VALUE (continued)

Investments

Trading securities and available for sale investments are carried at their market value.

Consolidation bonds classified as available for sale do not have observable market prices. As the interest rate of these securities follows the market rate and they reprice regularly the carrying value approximates their fair value.

Bonds and other investments held to maturity are carried at amortised cost except for bonds denominated in foreign currency issued by the National Bank of Hungary. As the cross currency interest rate swaps relating to the bonds are valued at fair value, these bonds are also carried at fair value.

Deposits and certificates of deposits

The estimated fair value of deposits on demand is the carrying value. Due to the short-term maturity of fixed interest bearing deposits, the carrying value approximates the fair value.

The carrying value of fixed interest bearing deposits approximates fair value as interest rates are usually fixed only for periods up to 3 months.

Balances due to banks

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

Other financial assets and liabilities

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

Fair value of derivatives

All derivatives are carried at their fair value. Fair values of trading derivative financial instruments, such as forward foreign exchange, currency swaps and options, forward rate agreements and default swaps are marked to market, based on international money and capital market price quotations.

Fair values of derivative financial instruments designated as fair value hedges, such as interest rate swaps and cross currency swaps are determined by discounted cash flow using prevailing market rates.

NOTE 31 - CREDIT RISK

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. The Group attempts to control credit risk by monitoring credit exposures, limiting transactions with specific counterparties, and continually assessing the creditworthiness of counterparties. In addition to monitoring credit limits, the Bank manages the credit exposure relating to its trading activities by entering into master netting agreements and collateral arrangements with counterparties in appropriate circumstances, and limiting the duration of exposure. In certain cases the Group may also close out transactions or assign them to other counterparties to mitigate credit risk.

Concentrations of credit risk arise when a number of counterparties are engaged in similar business activities, or activities in the same geographic region, or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions. Concentrations of credit risk indicate the relative sensitivity of the Bank's performance to developments affecting a particular industry or geographic location.

The Bank seeks to manage its credit risk exposure through diversification of lending activities to avoid undue concentrations of risks with individuals or groups of customers in specific locations or businesses. It also obtains security when appropriate.

Details on the industrial concentration of the Group's loans to customers is provided in Note 4.

The distribution of assets, liabilities, and off-balance sheet items by geographic region was as follows:

	Total assets	Equity and liabilities	Off balance sheet
	MHUF	MHUF	MHUF
As at 31 December 2002			
Home country	1 172 001	1 115 425	371 749
EMU countries	29 567	55 276	2 020
East-European countries	2 444	8 557	-
Russia	5 242	2 834	-
Other European countries	16 728	32 994	611
Countries out of Europe	5 794	16 690	811
	1 231 776	1 231 776	375 191
As at 31 December 2001			
Hungary	1 014 168	989 593	244 235
EMU countries	90 847	33 754	4 879
East-European countries	1 613	15 318	30
Russia	10 602	10 347	33
Other European countries	16 324	40 191	914
Non – European countries	11 331	55 682	439
	1 144 885	1 144 885	250 530

NOTE 32 – FINANCE AND OPERATING LEASES

The Group is in the process of introducing new integrated computer systems. The equipment and software is purchased by KBC Vendor Lease, a member of the KBC Group, and the Group leases the system under a finance lease agreement. The implementation date of this new integrated system is expected to be 2003.

Payment on the lease contract, which is denominated in EURO, commenced in September 1999 with the last payment due in August 2004. The contract interest rate is set at an average interest rate of 6.84% over the term of the lease. The outstanding finance lease obligation related to this contract was HUF 1 677 million at 31 December 2002 and HUF 2 070 million at 31 December 2001 (See note 12).

	31 December 2002	31 December 2001
	MHUF	MHUF
Net carrying amount of leased assets in the Balance Sheet		
Bank premises and equipment-software	2 330	1 625
Bank premises and equipment-hardware	223	371
	2 553	1 996
Finance lease liabilities-minimum lease payments		
less than one year	943	641
one to five years	1 521	1 667
more than five years	-	-
	2 464	2 308
The present value of finance lease liabilities may be analysed As follows:		
less than one year	763	433
one to five years	777	1 163
more than five years	-	-
	1 540	1 596

The Group has entered into property lease agreements which are accounted for as operating leases. The Group has the following commitments for the remaining term of the contracts:

	31 December 2002	31 December 2001
	MHUF	MHUF
Total of future minimum lease payments under non-cancellable Operating leases:		
less than one year	1 385	1 425
one to five years	5 383	6 623
more than five years	4 407	6 293
	11 175	14 341

NOTE 32 – FINANCE AND OPERATING LEASES (continued)

Lease and sublease payments recognised in income for the period		
minimum lease payments	5 201	3 991
sublease payments	(48)	(71)

The leasing subsidiaries of the Bank operate in the domestic leasing market and provide both finance and operating lease products to customers. The following tables indicate the key amounts of this activity:

Finance leases

	31 December 2002 MHUF	31 December 2001 MHUF
Total of gross investment in the lease:		
less than one year	15 695	16 603
one to five years	21 102	20 519
more than five years	210	95
	37 007	37 217
The present value of minimum lease payments receivables:		
less than one year	13 132	13 623
one to five years	18 642	17 919
more than five years	207	91
	31 981	31 633
Unearned finance income	5 026	5 585
Non-guaranteed residual values	508	141
Accumulated allowance on minimum lease payments receivable	606	1 193

The term of the contracts are between 12 and 72 months, and the interest rates are in a range BUBOR, EURIBOR or LIBOR plus of 3%-8%.

NOTE 32 – FINANCE AND OPERATING LEASES (continued)

Operating leases

	31 December 2002 MHUF	31 December 2001 MHUF
Gross carrying amount of equipment for operating leases	2 866	5 936
Accumulated depreciation of equipment for operating leases	(1 915)	(1 858)
	951	4 078
Depreciation recognised in income for the period	1 388	1 151

Machinery, other equipment, passenger and commercial vehicles are subjected to operating leases. The term of the contracts are generally between 6 and 48 months with interest rates in a range of BUBOR, EURIBOR or LIBOR plus 1.9%-5.1%. All lease contracts are non-cancellable and lease payments do not contain contingent rents.

NOTE 33 - COMMITMENTS AND CONTINGENT LIABILITIES

In the normal course of business, the Group is a party to credit related financial instruments with off-balance sheet risk. These financial instruments include commitments to extend credit, financial guarantees and commercial letters of credit. These instruments involve elements of credit risk in excess of the amounts recognized in the balance sheet.

Credit risk for off-balance sheet financial instruments is defined as the possibility of sustaining a loss because any other party to a financial instrument fails to perform in accordance with the terms of the contract. The Group uses the same credit policies in making commitments and conditional obligations as it does for on-balance sheet financial instruments through established credit approvals, risk control limits and monitoring procedures.

Commitments are contractual agreements to extend credit which generally have fixed expiration dates or other termination requirements and may require payment of a fee. A significant proportion of the Group’s commitments to extend credit are not irrevocable as they are contingent upon the prospective borrower maintaining specific credit standards at the time of loan funding. Since many of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements.

Financial guarantees are conditional commitments issued by the Group to guarantee the performance of a customer to a third party. The credit risk involved in issuing guarantees is essentially the same as that involved in extending facilities to other customers. The Group applies similar principles as those applied in assessing the required allowance for losses under other credit facilities when assessing the likelihood of loss under the guarantee.

NOTE 33 - COMMITMENTS AND CONTINGENT LIABILITIES (continued)

Trade finance commitments represent a financing transaction by a Group to its customer where the customer is usually the buyer/importer of goods and the beneficiary is typically the seller/exporter. Credit risk is limited as the merchandise shipped serves as collateral for the transaction.

The Bank has the following credit related commitments:

	31 December 2002		31 December 2001	
	Amount MHUF	Allowance MHUF	Amount MHUF	Allowance MHUF
Commitments to extend credit	249 670	115	173 978	47
Guarantees	121 487	623	69 107	499
Trade finance commitments	277	-	3 098	-
Other	3 757	-	4 347	-
	375 191	738	250 530	546

The K&H Group is party to litigation and claims arising in the normal course of business. An allowance of HUF 463 million at 31 December 2002 (HUF 401 million at 31 December 2001) 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.

A subsidiary of ABN Amro Magyar Bank Rt. acted as distributor in a local public offering by an issuer which subsequently became bankrupt. To cover possible losses as a result of litigation against the subsidiary ABN Amro N.V. issued an irrevocable payment guarantee in the amount of HUF 3 560 million for the potential liability in September 2000. The litigation was completed in 2001 and the Bank is obliged to pay the amounts arising from properly authenticated claims covered by the court order. In December 2002 an additional guarantee of HUF 1 600 million was received from ABN Amro N.V. to cover any losses in excess of the guarantee initially provided. Management believes that together these guarantees cover all possible losses in relation to this issue.

NOTE 34 - SUBSIDIARIES AND ASSOCIATES

	Effective Shareholding 2002	Effective Shareholding 2001
Fully consolidated subsidiaries	**%**	**%**
K&H Lízing Rt.	100	100
K&H Lízingház Rt.	100	100
K&H Alkusz Kft.	100	100
K&H Kártyaprogramok Kft.	100	100
K&H Befektetési Rt. (see below)	-	100
Pannonlízing Pü-I Szolg. Rt.	100	100
K&H DLH Lizing Kft	100	100
K&H Autófin Pü-I Szolg. Rt.	100	100
K&H Letét Kft.	100	100
K&H Box Bt.	100	100
K&H Autópark Bérleti és Szolg. Kft.	100	100
K&H Eszkölizing Gép- és Tehergépjármű Bérleti Kft.	100	100
K&H Eszközfinanszírozó Kft.	100	100
K&H Lízingadminisztrációs Rt.	100	100
K&H Vagyonkezelési Holding Kft.	100	100
K&H Értékpapir Befeketési Alapkezelö Rt.	100	100
AA Pénztárszolgáltató Kft.	100	100
K&H Ált. Befeketési Alapkezelő Rt.	100	100
K&H Beruházó Kft.	100	100
K&H Gondnok Kft.	100	100
Talentum Rt.	100	100
MHB Work Out Kft.	100	100
Kvantum Követeléskezelő és Befektetési Rt.	100	100
Fordat Kft.	100	100
Proportionally consolidated subsidiaries		
K&H Equities Rt.	50	50
Magyar Factor Rt.	50	50
Associates consolidated using the equity method		
AA International Treasury Szolg. Kft.	49	49
K&H Életbiztosító Rt.	50	50
Giro Bankkártya Rt.	75	75
Bankközi Informatika Szologáltató Rt.	28	28
Nemzetközi Bankárképzö Központ Rt.	28	28
Subsidiaries in voluntary liquidation		
Optimum Rt.	100	100
Softteam Rt.	-	100
K&H Communication Rt.	100	100
K&H Pénztárszolgáltató Kft.	100	100
Risk Kft.	100	100

All subsidiaries are incorporated in Hungary. During 2002 K&H Befektetési Rt. was legally merged into Pannonlízing Pü-I Szolg. Rt. Additionally Softteam Rt. was voluntarily liquidated during this financial year.

NOTE 35 – SUBSEQUENT EVENTS

There were no material subsequent events.

NOTE 36 - RECONCILIATION OF STATUTORY ACCOUNTS TO IFRS ACCOUNTS

	(Profit)/loss for the year MHUF	Shareholders' equity [1] MHUF	Assets MHUF	Subordinated debt and liabilities MHUF
K&H Bank accounts prepared under Hungarian Accounting Rules	(6 420)	(69 744)	1 206 087	(1 129 923)
Adjustments for IAS accounts				
Additional depreciation	(493)	493	-	-
Capitalization of VAT	67	(265)	198	-
Capitalization of financial leases	(552)	(530)	2 622	(1 540)
Accrual of sold investment with deferred payment	-	2	(2)	-
General provision for loan losses	(1 454)	(4 660)	(3 690)	9 804
Revaluation of real estates	(159)	-	159	-
Fair valuation of trading portfolio and derivatives	(4 596)	(2 025)	20 797	(14 176)
Deferred tax	1 410	(338)	-	(1 072)
K&H Bank standalone IAS adjustments	(5 777)	(7 323)	20 084	(6 984)
Subsidiaries accounts prepared under Hungarian Accounting Standards	(2 303)	(29 691)	137 532	(105 538)
Adjustments for IAS accounts				
Financial leases	161	(1 137)	215	761
Mark to market evaluation of trading portfolio	24	(30)	6	-
Deferred tax	(18)	174	-	(156)
Subsidiaries standalone IAS adjustments	167	(993)	221	605
Adjustments for consolidation	3 069	28 081	(132 148)	100 998
Balance per IAS report	(11 264)	(79 670)	1 231 776	(1 140 842)

[1] Excluding the current year (profit) / loss