



Kereskedelmi és Hitelbank Rt.

Consolidated Annual Financial Statements prepared in accordance with  
International Financial Reporting Standards  
for the year ended 31 December 2005  
with the Report of Independent Auditors

 **ERNST & YOUNG**  
*Quality In Everything We Do*

**Table of Contents**

Report of Independent Auditors

Consolidated Financial Statements

Notes to the Financial Statements

## INDEPENDENT AUDITORS' REPORT


Independent auditors' report to the shareholders of Kereskedelmi és Hitelbank Rt.

We have audited the accompanying financial statements of Kereskedelmi és Hitelbank Rt. and its subsidiaries ("the Group"), which comprise the consolidated balance sheet as at 31 December 2005 and the consolidated income statement, consolidated statement of changes in equity and consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes. These financial statements are the responsibility of the Group's management. Our responsibility is to express an opinion on these 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 financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements give a true and fair view of the financial position of the Group as of 31 December 2005, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the EU.

Without qualifying our opinion we draw attention to note 22 of these consolidated financial statements. In 2003 a significant fraud was discovered at K&H Equities, a member of the Group. As at 31 December 2005 the Group has a provision of HUF 11,775 million for its potential liability to clients as a result of the fraud. The ultimate outcome of this matter cannot presently be determined and due to its fundamental uncertainty the actual loss incurred by the Group might be significantly different from the provision created.

  
Ernst & Young Kft.  
Budapest, Hungary  
21 March 2006

**KERESKEDELMI ÉS HITELBANK RT.**

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

**FOR THE YEAR ENDED 31 DECEMBER 2005**

**WITH THE REPORT OF INDEPENDENT AUDITORS**

# KERESKEDELMI ÉS HITELBANK RT.

## CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2005

### CONSOLIDATED BALANCE SHEET

	Notes	31 December 2005 MHUF	(restated) 31 December 2004 MHUF
<b>ASSETS</b>			
Cash and balances with the National Bank of Hungary	3	128 341	79 254
Trading securities	5	6 264	6 905
Balances due from other banks		141 794	197 635
Derivative financial instruments	6	20 279	28 926
Loans to customers	4	1 308 906	1 096 734
Investment securities	5	211 313	144 461
Securities pledged under repurchase agreements	5	39 441	97 288
Investments in associates		3 434	4 105
Accrued interest receivable		13 856	16 287
Bank premises and equipment	7	35 668	36 053
Intangible assets	8	986	595
Income tax asset		972	528
Other assets	9	31 015	18 781
Total assets		<u>1 942 269</u>	<u>1 727 552</u>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>			
Trading liabilities	5	7 573	-
Balances due to banks	11	287 349	332 801
Derivative financial instruments	6	16 039	30 212
Deposits and certificates of deposit	10	1 212 547	984 955
Refinancing credits	12	165 239	171 959
Subordinated debt	14	14 823	14 551
Accrued interest payable		8 243	7 809
Deferred tax	23	433	783
Provisions	22	14 271	13 379
Other liabilities	13	60 230	33 740
Total liabilities		<u>1 786 747</u>	<u>1 590 189</u>
Share capital	15	52 507	52 507
Share premium		48 775	48 775
Statutory risk reserve	17	4 916	3 144
Available for sale reserve		654	175
Cash flow reserve		849	917
Accumulated profit		47 821	31 845
Total shareholders' equity		<u>155 522</u>	<u>137 363</u>
Total liabilities and shareholders' equity		<u>1 942 269</u>	<u>1 727 552</u>

### MEMORANDUM ITEMS

Credit commitments and credit contingent liabilities	32	539 544	452 238
--	----	---------	---------

Approved by the Management on the 21<sup>st</sup> of March 2006.

  
 John Hollows  
 Chief Executive Officer

  
 Attila Gambás  
 Chief Financial Officer

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

# KERESKEDELMI ÉS HITELBANK RT.

## CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2005

### CONSOLIDATED INCOME STATEMENT

		(restated)	
	Notes	31 December 2005 MHUF	31 December 2004 MHUF
Interest and similar income		120 193	130 111
Interest and similar charges		<u>(64 061)</u>	<u>(72 867)</u>
Net interest and similar income	19	56 132	57 244
Fee and commission income		32 889	29 781
Fee and commission expense		<u>(9 739)</u>	<u>(11 414)</u>
Net fee and commission income	20	23 150	18 367
Gains less losses from trading securities		854	467
Gains less losses from disposal of investments		40	(289)
Gains less losses on foreign exchange		23 623	19 393
Dividend income		32	34
Other operating income		<u>1 640</u>	<u>1 922</u>
Total income		105 471	97 138
General administrative expenses	21	<u>(67 458)</u>	<u>(67 693)</u>
		38 013	29 445
Impairment and provision losses on loans, commitments and legal cases	22	(15 110)	(8 587)
Share of the profit of associates		802	994
Gain on disposal of bank premises and equipment		<u>11</u>	<u>184</u>
Profit before income taxes		23 716	22 036
Income taxes	23	<u>(5 968)</u>	<u>(3 869)</u>
Net profit for the year		<u>17 748</u>	<u>18 167</u>
Earnings per share (HUF)	24	0.34	0.35

Approved by the Management on the 21<sup>st</sup> of March 2006.

  
John Hollows  
Chief Executive Officer

  
Attila Gombás  
Chief Financial Officer

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

# KERESKEDELMI ÉS HITELBANK RT.

## CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2005

### CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

	Share capital MHUF	Share premium MHUF	Statutory risk reserve MHUF	Available for sale reserve MHUF	Cash flow reserve MHUF	(restated) Accumu- lated profit MHUF	Total MHUF
<i>Balance at 31 December 2003 as previously stated</i>	52 507	48 775	924	(1 467)	-	19 498	120 237
Change in accounting policy for the amortization of loan origination fees	-	-	-	-	-	(3 597)	(3 597)
<i>Balance at 31 December 2003 as restated</i>	52 507	48 775	924	(1 467)	-	15 901	116 640
Net gains on available-for- sale financial assets	-	-	-	1 642	-	-	1 642
Net gains on cash flow hedges	-	-	-	-	917	-	917
Total income and expenses for the year recognized directly in equity	-	-	-	1 642	917	-	2 559
Net profit for the year	-	-	-	-	-	18 167	18 167
Purchase of treasury shares	-	-	-	-	-	(3)	(3)
Transfer from accumulated profit to statutory risk reserve	-	-	2 220	-	-	(2 220)	-
<i>Balance at 31 December 2004</i>	52 507	48 775	3 144	175	917	31 845	137 363
Net gains on available-for- sale financial assets	-	-	-	479	-	-	479
Net loss on cash flow hedges	-	-	-	-	(68)	-	(68)
Total income and expenses for the year recognized directly in equity	-	-	-	479	(68)	-	411
Net profit for the year	-	-	-	-	-	17 748	17 748
Transfer from accumulated profit to statutory risk reserve	-	-	1 772	-	-	(1 772)	-
<i>Balance at 31 December 2005</i>	<u>52 507</u>	<u>48 775</u>	<u>4 916</u>	<u>654</u>	<u>849</u>	<u>47 821</u>	<u>155 522</u>

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

# KERESKEDELMI ÉS HITELBANK RT.

## CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2005

### CONSOLIDATED STATEMENT OF CASH FLOWS

	Notes	Year ended 31 December 2005 MHUF	(restated) Year ended 31 December 2004 MHUF
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Profit before income taxes		23 716	22 036
Adjustments for:			
Depreciation, amortization and impairment	21	9 559	10 049
Impairment and provision losses on loans, commitments and legal cases	22	10 743	7 673
Provisions for other liabilities		69	(785)
Unrealised revaluations		(5 682)	(8 119)
Share of the profit of associates and gains less losses from disposal of investments		(842)	(705)
Gain on disposal of bank premises and equipment		(11)	(184)
<b>(Increase)/decrease in operating assets:</b>			
Loans to customers		(222 053)	(149 496)
Balances due from NBH and other banks		(21 299)	(19 890)
Trading securities		8 964	2 528
Other assets		(12 203)	3 804
Accrued interest receivable		2 431	(1 755)
<b>Increase/(decrease) in operating liabilities:</b>			
Deposits and certificates of deposit		227 592	136 345
Balances due to other banks		(45 452)	116 412
Refinancing credits		(6 720)	22 993
Other liabilities and minority interest		26 480	7 399
Accrued interest payable		434	(3 894)
Taxes paid		(6 886)	(3 225)
Net cash used in operating activities		<u>(11 160)</u>	<u>141 186</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Increase in investment securities		(36 843)	(58 291)
Decrease in investment securities		29 982	43 777
Purchase of bank premises and equipment		(11 928)	(15 187)
Disposal of bank premises and equipment		2 374	3 707
Net cash used in investing activities		<u>(16 415)</u>	<u>(25 994)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
(Increase) / decrease in subordinated debt		272	(652)
Purchase of treasury shares		-	(3)
Net cash (used in) / provided by financing activities		<u>272</u>	<u>(655)</u>
Net increase / (decrease) in cash and cash equivalents		(27 303)	114 537
Cash and cash equivalents at beginning of year	3	<u>229 587</u>	<u>115 050</u>
Cash and cash equivalents at end of year	3	<u>202 284</u>	<u>229 587</u>

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.



# KERESKEDELMI ÉS HITELBANK RT.

## CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2005

### NOTES TO THE FINANCIAL STATEMENTS

---

#### **NOTE 1 – GENERAL**

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 158 branches. K&H Bank's registered office is at Vigadó tér 1, Budapest.

#### **NOTE 2 – ACCOUNTING POLICIES**

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

##### ***Basis of presentation***

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") and all applicable IFRS's that have been adopted by the EU.

Effective 1 January 2005, the change in the Hungarian Accounting Act allows the Group to prepare its consolidated financial statements in accordance with IFRS that have been adopted by the EU. At this particular time, due to the endorsement process of the EU, and the activities of the Group, there is no difference in the policies applied by the Group between IFRS and IFRS that have been adopted by the EU.

The consolidated 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 presented 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 IFRS, certain adjustments have been made to the Group's Hungarian consolidated statutory accounts. Details on these adjustments are presented in note 35.

##### ***Revenue recognition***

Interest income is recognised on a time proportionate basis, taking account of the principal outstanding and the rate applicable. Fees related to financial instruments are recognized as part of the effective interest of the instrument, 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 consolidated income statement.

##### ***Principles of consolidation***

The consolidated financial statements comprise the financial statements of the Bank and all significant entities it controlled as at 31 December 2005. 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.

## KERESKEDELMI ÉS HITELBANK RT.

### CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2005

#### NOTES TO THE FINANCIAL STATEMENTS

---

##### **NOTE 2 – ACCOUNTING POLICIES (continued)**

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 consolidated 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.

A list of subsidiary and associated companies is provided in Note 33.

##### **Acquisitions**

Upon acquisition, subsidiaries are accounted for using the fair value method of accounting for acquisitions. 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. An impairment test is performed on any goodwill held in the consolidated balance sheet on an annual basis. Any impairment of goodwill is recognised immediately as an expense.

##### **Financial assets**

Financial assets in the scope of IAS 39 are classified as either financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, or available-for-sale financial assets, as appropriate. When financial assets are recognised initially, they are measured at fair value, plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs. The Group determines the classification of its financial assets after initial recognition and, where allowed and appropriate, re-evaluates this designation at each financial year-end.

##### **Financial assets at fair value through profit or loss**

Any financial asset can be designated as at fair value upon initial recognition. They are considered as trading assets although there is no trading intention.

Financial assets classified as trading securities are also included in the category 'financial assets at fair value through profit or loss'. Financial assets are classified as trading securities if they are acquired for the purpose of selling in the near term. Derivatives are also classified as held for trading unless they are designated and effective hedging instruments.

Assets classified as financial assets at fair value through profit and loss subsequently measured at fair value, whereby the difference between the fair value and the amortized cost is recorded in net profit and loss as a trading result. The interest component is recognized as interest income using the effective interest rate method.

##### **Held-to-maturity investments**

Non-derivative financial assets with fixed or determinable payments and fixed maturity are classified as held-to-maturity when the Group has the positive intention and ability to hold to maturity. Investments intended to be held for an undefined period are not included in this classification. Held-to-maturity investments are subsequently measured at amortised cost. This cost is computed as the amount initially recognised minus principal repayments, plus or minus the cumulative amortization using the effective interest method of any difference between the initially recognised amount and the maturity amount. This calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums and discounts. For investments carried at amortised cost, gains and losses are recognised in the consolidated income statement when the investments are derecognised or impaired, as well as through the amortization process.

##### **Loans and receivables**

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are carried at amortised cost using the effective interest method. Gains and losses are recognised in the consolidated income statement when the loans and receivables are derecognised or impaired, as well as through the amortization process.

# KERESKEDELMI ÉS HITELBANK RT.

## CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2005

### NOTES TO THE FINANCIAL STATEMENTS

---

#### **NOTE 2 – ACCOUNTING POLICIES (continued)**

##### *Available-for-sale financial assets*

Available-for-sale financial assets are those non-derivative financial assets that are designated as available-for-sale or are not classified in any of the three preceding categories. After initial recognition available-for sale financial assets are measured at fair value with gains or losses being recognised as a separate component of equity until the investment is derecognised or until the investment is determined to be impaired at which time the cumulative gain or loss previously reported in equity is included in the consolidated income statement. However, interest calculated using the effective interest method is recognised in the consolidated income statement.

The fair value of investments that are actively traded in organised financial markets is determined by reference to quoted market bid prices at the close of business on the balance sheet date. For investments where there is no active market, fair value is determined using valuation techniques. Such techniques include using recent arm's length market transactions, reference to the current market value of another instrument, which is substantially the same, and discounted cash flow analysis.

##### *Repurchase and resale agreements*

Assets sold with a simultaneous commitment to repurchase at a specified future date (repos) continue to be recognised in the consolidated 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 balances due to banks or deposits and certificates of deposit, 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 consolidated balance sheet, as the Group does not obtain control over the assets. Amounts paid under these agreements are included in balances due from other banks or loans 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.

##### *Balances due to banks*

Balances due to banks are stated at amortized 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 consolidated income statement.

##### *Balances due from other banks*

Balances due from other banks are stated at amortised cost less provision for impairment. Interest is accrued and credited to the consolidated income statement using the effective interest method.

##### **Allowances for impairment of financial assets**

The Group assesses at each balance sheet date whether a financial asset or group of financial assets is impaired.

##### *Assets carried at amortised cost*

If there is objective evidence that an impairment loss on financial assets carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition). The carrying amount of the asset shall be reduced through use of an allowance account. The amount of the loss shall be recognised in the consolidated income statement.

The calculation of the present value of the estimated future cash flows of a collateralised financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not the foreclosure is probable.

# KERESKEDELMI ÉS HITELBANK RT.

## CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2005

---

### NOTES TO THE FINANCIAL STATEMENTS

#### **NOTE 2 –ACCOUNTING POLICIES (continued)**

The Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If it is determined that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, the asset is included in a group of financial assets with similar credit risk characteristics and that group of financial assets is collectively assessed for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed. Any subsequent reversal of an impairment loss is recognised in the consolidated income statement, to the extent that the carrying value of the asset does not exceed its amortised cost at the reversal date.

When a loan is uncollectible, it is written off against the related allowance for loan impairment. Such loans are written off after all necessary procedures have been completed and the amount of the loss has been determined. Subsequent recoveries of amounts previously written off decrease the amount of allowance for loan impairment in the consolidated income statement.

#### *Available-for-sale financial assets*

If an available-for-sale asset is impaired, an amount comprising the difference between its cost (net of any principal payment and amortization) and its current fair value, less any impairment loss previously recognised in the consolidated income statement, is transferred from equity to the consolidated income statement. Reversals in respect of equity instruments classified as available-for-sale are not recognised in the consolidated income statement. Reversals of impairment losses on debt instruments are reversed through the consolidated income statement if the increase in fair value of the instrument can be objectively related to an event occurring after the impairment loss was recognised in profit or loss.

#### *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 consolidated income statement when liability is derecognised or impaired.

#### *Bank premises and equipment*

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

Buildings	2 - 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 consolidated income statement as incurred. The Group assesses at each reporting date whether there is an indication that an asset may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the Group makes an estimate of the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating unit's fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

# KERESKEDELMI ÉS HITELBANK RT.

## CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2005

---

### NOTES TO THE FINANCIAL STATEMENTS

#### **NOTE 2 – ACCOUNTING POLICIES (continued)**

##### ***Intangible assets***

Intangible assets are stated at cost less accumulated amortization. Amortization is computed using the straight-line method over the estimated useful lives of the assets based on the following rates:

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 consolidated financial statements if and when they become payable.

The allowance for losses on commitments and contingent liabilities reflects Managements best estimate of incurred losses on this portfolio. 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 Group 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.

##### ***Derivatives***

The Group enters into derivative instruments including FRA's, 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.

Derivatives are classified as either trading or hedging. 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 consolidated income statement. The hedged item is adjusted for fair value changes relating to the risk being hedged and the difference is recognised in the consolidated income statement.

# KERESKEDELMI ÉS HITELBANK RT.

## CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2005

### NOTES TO THE FINANCIAL STATEMENTS

#### **NOTE 2 – ACCOUNTING POLICIES (continued)**

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 in the cash flow reserve and the ineffective portion is recognised in the consolidated income statement. The gains or losses on effective cash flow hedges recognised initially in equity are either transferred to the consolidated income statement in the period in which the hedged transaction impacts the consolidated income statement or included in the initial measurement of the cost of the related non financial asset or liability.

For hedges which do not qualify for hedge accounting and trading derivatives, any gains or losses arising from changes in the fair value of the hedging instrument are taken directly to the consolidated income statement 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 a cash flow hedge is 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 consolidated income statement for the period. Also at that time an item subject to a fair value hedge ceases to be revalued.

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

#### ***Fiduciary assets***

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

#### ***Leases***

##### *Where the Group 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 consolidated income statement.

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

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 or income in the consolidated income statement a straight-line basis over the lease term.

##### *Where the Group is the lessor*

When assets held are subject to a finance lease, the present value of lease payments and the unguaranteed residual value 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 are included in bank premises and equipment in the balance sheet and lease payments received are presented as income in the consolidated income statement.

#### ***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 Group intends to either settle on a net basis, or to realise the asset and settle the liability simultaneously.

# KERESKEDELMI ÉS HITELBANK RT.

## CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2005

### NOTES TO THE FINANCIAL STATEMENTS

---

#### **NOTE 2 – ACCOUNTING POLICIES (continued)**

##### ***Cash and cash equivalents***

For the purposes of reporting cash flows, cash and cash equivalents comprise balances with less than 90 days maturity, including cash, due from banks and balances with the National Bank of Hungary (including obligatory reserves), balances with other banks and trading securities.

##### ***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 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 consolidated income statement.

##### ***Reclassification***

Certain comparative information has been reclassified in these accounts for presentation purposes.

In accordance with IAS 39 (amended 2004) the Group reclassified securities pledged under repurchase agreements, which the transferee has the right to sell or repledge, separately from other assets in the balance sheet. Comparative figures have been amended accordingly.

##### ***Changes in accounting policies***

The International Accounting Standards Board (IASB) has issued new accounting Standards and has introduced numerous changes to the Standards effective 1 January 2005, many of which are to be applied retrospectively. The Bank has also amended its accounting practice relating to loan origination fees. As a result of the retrospective application certain comparative balances for 2004 have been restated.

The changes in accounting policies result from adoption of the following new or revised standards:

IFRS 2 "Share-Based Payment";  
IFRS 3 "Business Combinations", IAS 36 (revised) "Impairment of Assets" and IAS 38 (revised) "Intangible Assets";  
IFRS 5 "Non-current Assets Held for Sale and Discontinued Operations";  
IAS 1 (revised) "Presentation of Financial Statements";  
IAS 2 (revised) "Inventories";  
IAS 8 (revised) "Accounting Policies, Changes in Accounting Estimates and Errors";  
IAS 10 (revised) "Events after the Balance Sheet Date";  
IAS 16 (revised) "Property, Plant and Equipment";  
IAS 17 (revised) "Leases";  
IAS 21 (revised) "The Effects of Changes in Foreign Exchange Rates";  
IAS 24 (revised) "Related Party Disclosures";  
IAS 27 (revised) "Consolidated and Separate Financial Statements";  
IAS 28 (revised) "Investments in Associates";  
IAS 31 (revised) "Interests in Joint Ventures";  
IAS 32 (revised) "Financial Instruments: Presentation and Disclosure";  
IAS 33 (revised) "Earnings per Share";  
IAS 39 (revised) "Financial Instruments: Recognition and Measurement"; and  
IAS 40 (revised) "Investment property".

Where transition provisions in IFRSs adopted give an entity a choice of whether to apply the new standard prospectively or retrospectively (such as IFRS 5) the Group has elected to apply the standard prospectively from the date of transition.

# KERESKEDELMI ÉS HITELBANK RT.

## CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2005

### NOTES TO THE FINANCIAL STATEMENTS

#### NOTE 2 – ACCOUNTING POLICIES (continued)

The effect of adoption of the new accounting policy can be summarized as follows:

#### Consolidated balance sheet as at 31 December 2004:

	<u>As previously reported MHUF</u>	<u>Effect of changes in accounting policies MHUF</u>	<u>As restated MHUF</u>
<b>Assets</b>			
Loans to customers	1 102 668	(5 934)	1 096 734
Investments in associates	4 111	(6)	4 105
<b>Liabilities</b>			
Deferred tax liability	1 987	(1 204)	783
Accumulated profit	36 581	(4 736)	31 845

#### Consolidated income statement for the year ended 31 December 2004:

	<u>As previously reported MHUF</u>	<u>Effect of changes in accounting policies MHUF</u>	<u>As restated MHUF</u>
Interest and similar income	129 429	682	130 111
Fee and commission income	32 171	(2 390)	29 781
Fee and commission expense	(11 773)	359	(11 414)
Share of the profit of associates	1 000	(6)	994
Income taxes	(4 085)	216	(3 869)

#### *IFRSs and IFRIC interpretations not yet effective*

The Group has not applied the following IFRSs and Interpretations of the International Financial Reporting Interpretations Committee (IFRIC) that have been issued but are not yet effective:

- IAS 19 (amended 2004) "Employee Benefits";
- IAS 21 (amended 2005) "The Effects of Changes in Foreign Exchange Rates";
- IAS 39 (amended 2005) "Financial Instruments: Recognition and Measurement";
- IFRS 6 "Exploration for and Evaluation of Mineral Resources";
- IFRS 7 "Financial Instruments: Disclosures";
- IFRIC 4 "Determining whether an Arrangement contains a Lease";
- IFRIC 5 "Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds";
- IFRIC 6 "Liabilities arising from Participating in a Specific Market-Waste Electrical and Electronic Equipment";
- IFRIC 7 "Applying the Restatement Approach under IAS 29 "Financial Reporting in Hyperinflationary Economies".

The Group expects that the adoption of the pronouncements listed above will have no significant impact on the Group's consolidated financial statements in the period of initial application.



# KERESKEDELMI ÉS HITELBANK RT.

## CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2005

---

### NOTES TO THE FINANCIAL STATEMENTS

#### NOTE 2 – ACCOUNTING POLICIES (continued)

##### *Significant accounting judgements and estimates*

###### *Judgements*

###### Finance Lease Commitments – Group as Lessor

The Group has entered into commercial leasing arrangements with a large number of its customers. In most of these transactions the Group has determined that it has transferred all the significant risks and rewards of ownership to its customers and accounts for them as finance leases.

###### *Estimation uncertainty*

The key assumptions concerning the future and other key sources of estimation uncertainty at the balance sheet date and that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below:

###### Allowance for impairment of loans and receivables

The Group regularly reviews its loans and receivables to assess impairment. The Group uses its experienced judgement to estimate the amount of any impairment loss in cases where a borrower is in financial difficulties and where there is little available historical data relating to similar borrowers. Similarly, the Group estimates changes in future cash flows based on the observable data indicating that there has been an adverse change in the payment status of borrowers in a group, or national or local economic conditions that correlate with defaults on assets in the group. Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the group of loans and receivables.

###### Provision for losses due to fraud at K&H Equities

The amount of provision required to meet losses incurred as a result of the fraud at K&H Equities is another principal area of estimation uncertainty in these financial statements. Refer to note 22 for further details.

**KERESKEDELMI ÉS HITELBANK RT.****CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2005****NOTES TO THE FINANCIAL STATEMENTS****NOTE 3 - CASH AND BALANCES WITH THE NATIONAL BANK OF HUNGARY**

	<b>31 December 2005</b>	<b>31 December 2004</b>
	<b>MHUF</b>	<b>MHUF</b>
Cash in hand	12 641	10 973
Balances with the National Bank of Hungary		
- less than 90 days	115 700	68 281
- equal or greater than 90 days	-	-
	<u>128 341</u>	<u>79 254</u>

Balances with the National Bank of Hungary include the Bank's obligatory reserves. In Hungary obligatory reserve requirements are based on average monthly balances and as a result daily balances may fluctuate. The required average monthly balance for the month of December 2005 was HUF 61 762 million (HUF 53 403 million for December 2004).

**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:

	<b>31 December 2005</b>	<b>31 December 2004</b>
	<b>MHUF</b>	<b>MHUF</b>
Cash and balances with the National Bank of Hungary	128 341	79 254
Balances less than 90 days maturity with other banks	72 511	149 651
Trading securities (see note 5)	1 432	682
Cash and cash equivalents	<u>202 284</u>	<u>229 587</u>

**KERESKEDELMI ÉS HITELBANK RT.**

**CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2005  
NOTES TO THE FINANCIAL STATEMENTS**

**NOTE 4 – LOANS TO CUSTOMERS**

	<b>31 December 2005</b>	<b>(restated) 31 December 2004</b>
	<b>MHUF</b>	<b>MHUF</b>
<u>Industry sector</u>		
Service industry	223 685	179 156
Agriculture	118 352	116 482
Manufacturing and building	173 305	149 268
Food processing	58 019	61 796
Wholesale and retail	221 400	146 427
Power industry	74 935	63 590
Other	64 007	66 465
Individuals	408 089	339 002
Gross loans	<u>1 341 792</u>	<u>1 122 186</u>
Collective allowance for loan losses	(3 482)	(2 261)
Specific allowance for loan losses	<u>(29 404)</u>	<u>(23 191)</u>
Allowance for loan losses (see Note 22)	<u>(32 886)</u>	<u>(25 452)</u>
Loans to customers	<u>1 308 906</u>	<u>1 096 734</u>

Analysis of loans by type

	<b>31 December 2005</b>	<b>(restated) 31 December 2004</b>
	<b>MHUF</b>	<b>MHUF</b>
<u>Corporate loans</u>		
Current account advances	86 796	67 701
Term loans to 1 year	217 261	165 626
Term loans over 1 year	521 464	481 879
Corporate loans	<u>825 521</u>	<u>715 206</u>
<u>Retail loans</u>		
Current account advances	5 942	5 099
Term loans to 1 year	2 674	2 804
Term loans over 1 year	344 788	239 653
Retail loans	<u>353 404</u>	<u>247 556</u>
Lease receivables	47 839	40 558
Loans originated by lease companies	113 543	103 948
Other loans (factoring, trade bills & acceptances, etc.)	<u>1 485</u>	<u>14 918</u>
Gross loans	<u>1 341 792</u>	<u>1 122 186</u>

**KERESKEDELMI ÉS HITELBANK RT.****CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2005****NOTES TO THE FINANCIAL STATEMENTS****NOTE 5 – TRADING AND INVESTMENT SECURITIES**

	<b>31 December 2005</b>	<b>31 December 2004</b>
	<b>MHUF</b>	<b>MHUF</b>
<u>Trading securities</u>		
Treasury bills		
- maturing in less than 90 days	1 432	682
- maturing in 90 days or more	289	1 258
Government bonds	2 869	4 822
Listed shares	1 674	143
	<u>6 264</u>	<u>6 905</u>

	<b>31 December 2005</b>	<b>31 December 2004</b>
	<b>MHUF</b>	<b>MHUF</b>
<u>Investment securities</u>		
Available for sale	142 742	94 210
Held to maturity	60 992	37 675
Financial instruments at fair value through the profit and loss (b)	7 579	12 576
	<u>211 313</u>	<u>144 461</u>

	<b>31 December 2005</b>	<b>31 December 2004</b>
	<b>MHUF</b>	<b>MHUF</b>
<u>Investment securities – available for sale</u>		
Consolidation bonds issued in HUF (a)	82 755	22 843
Other government bonds issued in HUF	56 668	67 898
Other bonds – listed issued in HUF	610	599
Listed shares	819	549
Unlisted shares	1 889	2 302
Other	1	19
	<u>142 742</u>	<u>94 210</u>

**KERESKEDELMI ÉS HITELBANK RT.****CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2005****NOTES TO THE FINANCIAL STATEMENTS****NOTE 5 – TRADING AND INVESTMENT SECURITIES (continued)**

	<b>31 December 2005</b>	<b>31 December 2004</b>
	<b>MHUF</b>	<b>MHUF</b>
<u>Investment securities – held to maturity</u>		
Treasury bills	286	-
Government bond issued in HUF	60 706	37 675
Total held to maturity investment securities	60 992	37 675
	<b>31 December 2005</b>	<b>31 December 2004</b>
	<b>MHUF</b>	<b>MHUF</b>
<u>Securities pledged under repurchase agreements</u>		
Consolidation bonds issued in HUF – available for sale (see (a) below)	27 900	87 812
Other governments bonds issued in HUF – available for sale	3 790	4 648
Other governments bonds issued in HUF – held to maturity	7 751	4 828
Total securities pledged	39 441	97 288

(a) Consolidation bonds 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.

(b) Government bonds issued in foreign currencies are hedged with variable interest rate cross currency swaps.

The Group had HUF 7 573 million short position from trading government bonds as at 31 December 2005, which is recorded as trading liability in the consolidated balance sheet.

# KERESKEDELMI ÉS HITELBANK RT.

## CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2005

### NOTES TO THE FINANCIAL STATEMENTS

#### NOTE 6 – DERIVATIVE FINANCIAL INSTRUMENTS

	Year ended 31 December 2005			Year ended 31 December 2004		
	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
<b>Derivatives held for trading</b>						
<b>Foreign exchange derivatives</b>						
Currency forwards	155 013	1 174	(2 935)	115 966	1 952	(5 186)
Currency swaps	1 023 293	10 066	(6 094)	608 431	22 265	(17 845)
Currency options bought and sold	250 497	2 516	(2 315)	183 259	454	(307)
Total foreign exchange derivatives	1 428 803	13 756	(11 344)	907 656	24 671	(23 338)
<b>Interest rate derivatives</b>						
Interest rate swaps	230 384	4 985	(2 067)	74 119	2 720	(2 123)
Interest rate options	42 447	31	(31)	42 546	74	(74)
Forward rate agreements	121 528	120	(98)	19 065	52	(25)
Total interest rate derivatives	394 359	5 136	(2 196)	135 730	2 846	(2 222)
<b>Total derivatives held for trading</b>	<b>1 823 162</b>	<b>18 892</b>	<b>(13 540)</b>	<b>1 043 386</b>	<b>27 517</b>	<b>(25 560)</b>
<b>Derivatives held for hedging</b>						
<b>Derivatives designated as fair value hedges</b>						
Interest rate swaps	2 435	-	(236)	2 435	-	(287)
Cross currency interest rate swaps	5 485	-	(1 987)	10 885	-	(4 163)
<b>Derivatives designated as cash flow hedges</b>						
Currency options	43 564	1 387	(276)	47 636	1 409	(202)
<b>Total derivatives held for hedging</b>	<b>51 484</b>	<b>1 387</b>	<b>(2 499)</b>	<b>60 956</b>	<b>1 409</b>	<b>(4 652)</b>
<b>Total derivative financial instruments</b>	<b>1 874 646</b>	<b>20 279</b>	<b>(16 039)</b>	<b>1 104 342</b>	<b>28 926</b>	<b>(30 212)</b>

#### Options

Although they are not accounted for as hedges, the Group has an operational policy where the risks of options sold and purchased are matched on a one to one basis with offsetting deals conducted with counterparties of sound credit standing.

#### Derivatives designated as fair value hedges

##### Interest rate swaps

In 2000, the Group entered into interest rate swaps that mature in 2010 to cover the interest rate risk of a long term fixed rate loan originated by the Group to a corporate customer. A fixed EURO interest rate of 7.38% was 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 that mature between 2004 and 2015 which are designated as being at fair value through the profit and loss. 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.

# KERESKEDELMI ÉS HITELBANK RT.

## CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2005

### NOTES TO THE FINANCIAL STATEMENTS

#### NOTE 6 – DERIVATIVE FINANCIAL INSTRUMENTS (continued)

##### Derivatives designated as cash flow hedges

###### Currency options

The Group entered into currency options to cover the foreign currency risk deriving from future currency cash flows of leasing companies of the Group, which are expected to occur evenly across the next two years.

#### 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
<b>At 1 January 2004</b>						
Cost	14 676	5 487	22 616	29 866	2 374	75 019
Accumulated depreciation	(6 817)	(1 240)	(12 841)	(19 582)	-	(40 480)
Net book value	7 859	4 247	9 775	10 284	2 374	34 539
<b>Movements in 2004</b>						
Additions	673	-	3 041	251	11 222	15 186
Disposals - net	(211)	(778)	(2 122)	(5)	(398)	(3 514)
Transfers	339	726	6 985	2 395	(10 695)	(250)
Impairment charge	(4)	(7)	(91)	-	(10)	(111)
Depreciation charge	(277)	(347)	(5 369)	(3 804)	-	(9 797)
<b>At 31 December 2004</b>						
Cost	12 870	4 145	17 790	31 115	2 493	68 413
Accumulated depreciation	(4 491)	(304)	(5 571)	(21 994)	-	(32 360)
Net book value	8 379	3 841	12 219	9 121	2 493	36 053
<b>Movements in 2005</b>						
Additions	-	-	-	-	11 928	11 928
Disposals - net	(676)	-	(1 679)	(5)	(3)	(2 363)
Transfers	857	1 149	6 544	862	(9 947)	(535)
Impairment charge	(23)	(32)	(154)	(7)	(20)	(236)
Depreciation charge	(254)	(400)	(4 770)	(3 755)	-	(9 179)
<b>At 31 December 2005</b>						
Cost	12 747	5 156	21 091	32 029	4 451	75 474
Accumulated depreciation	(4 464)	(598)	(8 931)	(25 813)	-	(39 806)
Net book value	8 283	4 558	12 160	6 216	4 451	35 668

**KERESKEDELMI ÉS HITELBANK RT.****CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2005****NOTES TO THE FINANCIAL STATEMENTS****NOTE 8 - INTANGIBLE ASSETS**

	<u>2005</u> <u>MHUF</u>	<u>2004</u> <u>MHUF</u>
<b>Leasehold rights at the beginning of the year</b>		
Cost	1 623	1 475
Accumulated depreciation	<u>(1 028)</u>	<u>(981)</u>
Net book value	595	494
<b>Movements</b>		
Disposals - net	-	(9)
Transfers	535	250
Depreciation charge	<u>(144)</u>	<u>(140)</u>
<b>Leasehold rights at the end of the year</b>		
Cost	1 850	1 623
Accumulated depreciation	<u>(864)</u>	<u>(1 028)</u>
Net book value	<u>986</u>	<u>595</u>

**NOTE 9 - OTHER ASSETS**

	<u>31 December</u> <u>2005</u> <u>MHUF</u>	<u>31 December</u> <u>2004</u> <u>MHUF</u>
Receivables from investment services	12 774	485
Prepayments and taxes receivable	686	1 733
Trade receivables	830	1 249
Receivables from employees	836	16
Receivables from bankcard service	1 859	1 411
Items in transit due to payment services	612	728
Items in transit due to trading in securities	56	114
Other accruals	8 555	9 833
Other inventories	1 298	1 468
Other receivables	<u>3 509</u>	<u>1 744</u>
	<u>31 015</u>	<u>18 781</u>



**KERESKEDELMI ÉS HITELBANK RT.****CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2005****NOTES TO THE FINANCIAL STATEMENTS****NOTE 10 - DEPOSITS AND CERTIFICATES OF DEPOSIT**

	<u>31 December 2005</u>	<u>31 December 2004</u>
	<u>MHUF</u>	<u>MHUF</u>
Individuals		
- current accounts	63 539	57 198
- term deposits, savings accounts	528 932	487 504
Corporations		
- current accounts	221 168	184 517
- term deposit	319 429	198 885
Other entities		
- current accounts	16 521	10 430
- term deposits	62 517	45 966
	<u>1 212 106</u>	<u>984 500</u>
Certificates of deposit	441	455
	<u>1 212 547</u>	<u>984 955</u>

**NOTE 11 – BALANCES DUE TO BANKS**

	<u>31 December 2005</u>	<u>31 December 2004</u>
	<u>MHUF</u>	<u>MHUF</u>
Current/settlements accounts	9 458	3 816
Term deposits	237 507	230 457
Liabilities to repurchase securities sold	40 384	98 528
	<u>287 349</u>	<u>332 801</u>

**NOTE 12 – REFINANCING CREDITS**

	<u>31 December 2005</u>	<u>31 December 2004</u>
	<u>MHUF</u>	<u>MHUF</u>
Refinancing credits from National Bank of Hungary	958	5 260
Other refinancing credits	164 281	166 699
	<u>165 239</u>	<u>171 959</u>

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, FHB – Mortgage 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 2005, management believes that the Bank is in compliance with all significant covenants.

# KERESKEDELMI ÉS HITELBANK RT.

## CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2005

### NOTES TO THE FINANCIAL STATEMENTS

#### NOTE 13 - OTHER LIABILITIES

	<u>31 December 2005</u> MHUF	<u>31 December 2004</u> MHUF
Trade creditors	3 704	3 383
Lease liabilities	229	519
Items in transit due to payment services	20 435	9 569
Vostro accounts	3 519	3 189
Items in transit due to lending activity	3 501	2 507
Items in transit due to trading in securities	973	465
Liabilities from bankcard service	1 297	1 111
Liabilities from brokerage services	14 645	1 637
Other	11 927	11 360
	<u>60 230</u>	<u>33 740</u>
Total other liabilities		

#### NOTE 14 - SUBORDINATED DEBT

	<u>31 December 2005</u> MHUF	<u>31 December 2004</u> MHUF
Subordinated loan from KBC Group	10 109	9 837
Bonds issued to the State	4 714	4 714
	<u>14 823</u>	<u>14 551</u>

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.

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 15 - SHARE CAPITAL

	<u>31 December 2005</u> MHUF	<u>31 December 2004</u> MHUF
Ordinary shares issued and outstanding	<u>52 507</u>	<u>52 507</u>

The nominal value of the ordinary shares issued and outstanding at 31 December 2005 is HUF 1 per share (2004: HUF 1).

#### Shareholders of the Bank:

	2005 Shares held (millions)	2005 Shareholding %	2004 Shareholding %
KBC Bank N. V.	31 226	59.47%	59.46%
ABN Amro N.V.	21 124	40.23%	40.23%
Other shareholders	157	0.30%	0.31%
	<u>52 507</u>	<u>100.0%</u>	<u>100.0%</u>

The shares of ABN Amro Bank N.V. will be purchased by KBC Bank N.V. in the first half of 2006 following regulatory approval.

# KERESKEDELMI ÉS HITELBANK RT.

## CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2005 NOTES TO THE FINANCIAL STATEMENTS

### NOTE 16 – 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 2005 was 11.19% (12.01% at 31 December 2004). The minimum ratio according to Hungarian regulations is 8.00%.

	<b>31 December 2005</b>	<b>(restated) 31 December 2004</b>
	<b>MHUF</b>	<b>MHUF</b>
Cash and balances with the National Bank of Hungary	346	210
Trading securities	-	-
Balances due from other banks	22 654	35 446
Derivative financial instruments	17 495	12 408
Loans to customers	959 431	792 777
Investment securities	2 912	813
Securities pledged under repurchase agreements	-	-
Investment in associates	3 434	2 376
Accrued interest receivable	5 584	7 220
Bank premises and equipment	35 668	36 053
Intangible assets	986	595
Income tax asset	-	-
Other assets	17 457	21 180
<b>Total risk-weighted assets</b>	<b>1 065 967</b>	<b>909 078</b>
Risk-weighted off-balance sheet items	261 128	182 341
<b>Total risk-weighted assets and off balance sheet items</b>	<b>1 327 095</b>	<b>1 091 419</b>
	<b>31 December 2005</b>	<b>(restated) 31 December 2004</b>
	<b>MHUF</b>	<b>MHUF</b>
Shareholders' equity	154 019	136 271
Capital requirement for trading book	(2 133)	(2 060)
<b>Tier 1 capital</b>	<b>151 886</b>	<b>134 211</b>
Available for sale reserve	654	175
Cash flow reserve	849	917
Subordinated debt	6 736	8 649
<b>Tier 2 capital</b>	<b>8 239</b>	<b>9 741</b>
<b>Tier 1+ Tier 2 capital</b>	<b>160 125</b>	<b>143 952</b>
Capital adequacy: Tier 1	11.45%	12.30%
Capital adequacy: Tier 1 + Tier 2	12.07%	13.19%

# KERESKEDELMI ÉS HITELBANK RT.

## CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2005

### NOTES TO THE FINANCIAL STATEMENTS

#### NOTE 17 – STATUTORY RISK RESERVE

The Bank is required to set aside 10% of its profit calculated in accordance with Hungarian Accounting standards as a non-distributable reserve for use against future losses. The balance of this reserve as at 31 December 2005 was HUF 4 916 million (HUF 3 144 million as at 31 December 2004).

#### NOTE 18 – DISTRIBUTABLE RESERVES

According to Hungarian corporate and banking law, only profit for the current period and the retained earnings included in the statutory standalone financial statements and calculated using Hungarian accounting principles may be distributed to shareholders. Additionally, this can occur only after the Group establishes the required minimum level of statutory risk reserve (see note 17).

Accordingly, the Bank had distributable reserves of HUF 56 103 million as at 31 December 2005 (HUF 40 153 million as at 31 December 2004).

#### NOTE 19 – NET INTEREST AND SIMILAR INCOME

	<b>Year ended 31 December 2005</b>	<b>(restated) Year ended 31 December 2004</b>
	<b>MHUF</b>	<b>MHUF</b>
Interest from credit institutions	10 256	11 706
Interest and fees on loans	88 461	94 791
Interest on trading securities	859	1 104
Interest on investment securities	20 617	22 510
Interest and similar income	<u>120 193</u>	<u>130 111</u>
Interest on deposits and certificates of deposit	(52 423)	(61 591)
Interest paid to banks	(6 901)	(6 248)
Interest on refinancing credits	(3 630)	(4 130)
Interest on subordinated debt	(815)	(898)
Net loss on hedging transactions	<u>(292)</u>	<u>-</u>
Interest and similar charges	<u>(64 061)</u>	<u>(72 867)</u>
Net interest and similar income	<u>56 132</u>	<u>57 244</u>

**KERESKEDELMI ÉS HITELBANK RT.****CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2005**

---

**NOTES TO THE FINANCIAL STATEMENTS****NOTE 20 – NET FEE AND COMMISSION INCOME**

	<b>Year ended 31 December 2005</b>	<b>(restated) Year ended 31 December 2004</b>
	<b>MHUF</b>	<b>MHUF</b>
Payment transactions	17 606	16 383
Card services	6 987	5 712
Brokerage services	5 064	3 351
Credit and guarantee fee income	2 544	3 733
Other	688	602
	<hr/>	<hr/>
Fee and commission income	32 889	29 781
	<hr/>	<hr/>
Payment transactions	(3 749)	(3 716)
Card services	(3 620)	(2 855)
Brokerage services	(681)	(597)
Credit and guarantee fee expense	(972)	(532)
Insurance services	(645)	(498)
Commission paid to exchange agents	-	(3 207)
Other	(72)	(9)
	<hr/>	<hr/>
Fee and commission expense	(9 739)	(11 414)
	<hr/>	<hr/>
Net fee and commission income	23 150	18 367
	<hr/> <hr/>	<hr/> <hr/>

Commission paid to exchange agents is matched with an exchange gain recognised in consolidated income statement in gains less losses on foreign exchange. On a net basis these fees have no impact on the Group profitability.

In 2004, the activity with foreign exchange bureau agents was closed.

# KERESKEDELMI ÉS HITELBANK RT.

## CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2005

### NOTES TO THE FINANCIAL STATEMENTS

#### NOTE 21 – GENERAL ADMINISTRATIVE EXPENSES

	Year ended 31 December 2005	Year ended 31 December 2004
	MHUF	MHUF
Personnel costs	28 802	27 145
Operations	9 327	9 035
Depreciation and amortization	9 323	9 937
Technology costs	8 235	9 313
Taxes and duties	4 796	4 665
Marketing cost	2 516	1 592
Other expenses	4 459	6 006
	67 458	67 693

The average number of employees in 2005 was 3 792 (3 874 in 2004).

#### NOTE 22 – ALLOWANCES AND PROVISIONS

Movements in allowance for loan losses and provisions for commitments and legal cases are the following:

	Allowance for loan losses		Allowance for other assets	Provisions for commitments and contingent liabilities		Provisions for losses from legal cases	Total
	Collective MHUF	Specific MHUF	Specific MHUF	Collective MHUF	Specific MHUF	Specific MHUF	MHUF
<b>Balance as at 1 January 2004</b>	4 229	17 569	291	556	182	9 066	31 893
Additions	918	8 922	24	-	83	3 877	13 824
Reversals	(2 886)	(1 672)	(40)	(419)	(193)	(157)	(5 367)
Write offs	-	(1 374)	-	-	-	(914)	(2 288)
Foreign exchange revaluation	-	(254)	-	-	(4)	-	(258)
<b>Balance as at 31 December 2004</b>	2 261	23 191	275	137	68	11 872	37 804
Additions	1 221	13 107	4	-	33	5 945	20 310
Reversals	-	(4 387)	(35)	(1)	(53)	(724)	(5 200)
Write offs	-	(2 568)	(12)	-	-	(4 366)	(6 946)
Foreign exchange revaluation	-	240	7	(1)	(3)	(9)	234
Discount effect	-	(179)	-	-	-	-	(179)
<b>Balance as at 31 December 2005</b>	3 482	29 404	239	135	45	12 718	46 023

# KERESKEDELMI ÉS HITELBANK RT.

## CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2005

---

### NOTES TO THE FINANCIAL STATEMENTS

#### NOTE 22 – ALLOWANCES AND PROVISIONS (continued)

In 2003, the Group created a provision of HUF 8 600 million for its liability to clients as a result of the fraud that occurred at K&H Equities. In 2005 the Group revised its previous estimate and increased the provision by HUF 5 386 million (HUF 3 744 million in 2004) of which HUF 674 million was subsequently released.

In 2004, an extensive reconciliation of all client accounts involved in the case was finalised. Following this process some clients were offered a settlement of which some accepted. For the majority of claims, criminal investigations were launched which are likely to be litigated in Court. Some contested claims have already been determined by the Courts. As a result of this in total K&H Equities has incurred and charged against the provision HUF 914 million in 2004 and HUF 4 366 million in 2005.

The further timing and the final decisions of the Courts are uncertain. As a result of this the amount of the provision may be subject to changes in the years ahead. However after careful consideration, based on comprehensive investigation and substantiated legal opinions the Group believes that the amount of provision raised is the best possible estimate and is at this moment adequate to cover actual losses. This provision does not include legal and ancillary costs of settling claims.

The two shareholders of the Bank KBC N.V. and ABN AMRO N.V. issued a letter of commitment that they will maintain the legally required level of equity in K&H Bank Rt. The Bank also issued a letter of commitment that it will maintain the legally required level of equity at K&H Equities.

The K&H Group is also party to litigation and claims arising in the normal course of business. An allowance of HUF 943 million at 31 December 2005 (HUF 442 million at 31 December 2004) has been made relating to these contingencies and included in provisions for losses from legal cases. Management believes that adequate allowance has been made in the consolidated financial statements for potential losses from litigation.

The Group recognized provisions for other purposes. Movements in other provisions are the following:

	<u>2005</u> MHUF	<u>2004</u> MHUF
<b>Other provisions at the beginning of the year</b>	1 302	1 910
Additions	293	189
Reversals	(224)	(909)
Foreign exchange revaluation	2	112
<b>Other provisions at the end of the year</b>	<u>1 373</u>	<u>1 302</u>

Other provisions include provision for the cancellation of lease contracts totalling HUF 951 million as at December 2005 (HUF 973 million as at 31 December 2004). The release of these provisions in this financial year relates to expenditure incurred.

**KERESKEDELMI ÉS HITELBANK RT.**

**CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2005  
NOTES TO THE FINANCIAL STATEMENTS**

**NOTE 23 - INCOME TAXES**

	Year ended 31 December 2005 MHUF	(restated) Year ended 31 December 2004 MHUF
Statutory income tax expense	6 442	3 171
Deferred taxation (credit)/charge	(474)	698
Income tax charge	<u>5 968</u>	<u>3 869</u>

Statutory income tax expense

Corporate income tax is payable at 24% (16% corporate tax plus 8% bank tax) on taxable statutory profits with an additional 20% tax on dividends, a percentage that 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 K&H have been reviewed and closed off by the taxation authorities for the years up to 2003. 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 2005 MHUF	(restated) Year ended 31 December 2004 MHUF
Deferred tax liability / (asset) at the beginning of the year	783	(539)
Deferred tax effect of AFS investments	152	334
Deferred tax effect of cash flow hedge	(28)	290
Total deferred tax effect for the year recognized directly in equity	124	624
Deferred tax (credit)/charge of temporary differences		
Collective allowance for loan losses	124	506
Revaluation of real estates and leasehold rights	174	192
Other provisions	184	1 293
Fair value evaluation of financing instruments	(227)	(854)
Holiday accruals	(9)	(117)
Amortization of loan origination fees	(88)	(216)
Other	(632)	(106)
Total deferred tax (credit)/charge for the year	(474)	698
Deferred tax liability at the end of the year	<u>433</u>	<u>783</u>



**KERESKEDELMI ÉS HITELBANK RT.****CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2005****NOTES TO THE FINANCIAL STATEMENTS****NOTE 23 - INCOME TAXES (continued)**

Deferred income taxes are calculated on all temporary differences under the asset and liability method using a principal rate of 16%. On temporary differences which expire before 31 December 2006 a further 8% banking tax is calculated.

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.

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

	<b>Year ended 31 December 2005</b>	<b>(restated) Year ended 31 December 2004</b>
	<b>MHUF</b>	<b>MHUF</b>
<b><u>Deferred income tax assets</u></b>		
Differences between taxation and IFRS book values		
- revaluation of property and leasehold rights	(322)	(496)
- other provisions	(108)	(292)
- holiday accruals	(126)	(117)
- amortization of loan origination fees	(1 292)	(1 204)
- other	(505)	-
Total deferred income tax assets	<u>(2 353)</u>	<u>(2 109)</u>
<b><u>Deferred income tax liabilities</u></b>		
Differences between taxation and IFRS book values		
- collective allowance for loan losses	1 894	1 770
- fair value evaluation of financing instruments	386	613
- available for sales assets adjustments recognised in equity	206	55
- cash flow hedge adjustments recognised in equity	262	290
- other	38	164
Total deferred tax liabilities	<u>2 786</u>	<u>2 892</u>
Net deferred tax liability	<u>433</u>	<u>783</u>

**KERESKEDELMI ÉS HITELBANK RT.****CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2005****NOTES TO THE FINANCIAL STATEMENTS****NOTE 23 - INCOME TAXES (continued)**

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

	<b>Year ended 31 December 2005</b>	<b>Tax rate</b>	<b>(restated) Year ended 31 December 2004</b>	<b>(restated) Tax rate</b>
	<b>MHUF</b>		<b>MHUF</b>	
Income before income taxes	23 716		22 036	
Tax at statutory rate of 16%	3 795	16.00%	3 526	16.00%
Tax at statutory rate of 8%	1 897	8.00%	-	-
Effect of future changes in the tax rate	(448)	(1.89%)	180	0.82%
Tax effect of permanent differences	724	3.05%	163	0.74%
Tax charge for the period	5 968	25.16%	3 869	17.56%

**NOTE 24 - 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 2005 and 2004. The following amounts were used in the calculation of earnings per share:

	<b>31 December 2005</b>	<b>restated 31 December 2004</b>
Net profit attributable to shareholders (MHUF)	17 748	18 167
Weighted average shares outstanding (in millions)	52 507	52 507
Earnings per share (HUF)	0.34	0.35

# KERESKEDELMI ÉS HITELBANK RT.

## CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2005

### NOTES TO THE FINANCIAL STATEMENTS

#### NOTE 25 - RELATED PARTY TRANSACTIONS

For the purposes of these financial statements, related parties include all 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), key management and associated companies.

##### *Parent:*

KBC Bank N.V. owns 59.47% of the ordinary shares in K&H Bank.

##### *Entity with significant influence over the Group:*

ABN Amro N.V. owns 40.23% of the ordinary shares in K&H Bank.

##### *Subsidiaries:*

see list of subsidiaries in Note 33.

##### *Associates:*

see list of associates in Note 33.

##### *Other related parties, members of KBC Group:*

CBC Banque SA Brussels  
Ceskoslovenska Obchodni Banka A.S. Bratislava  
Ceskoslovenska Obchodni Banka Praha  
Irish Intercontinental Bank  
KBC Bank Deutschland AG.  
KBC Exploitatie N.V.  
Kredyt Bank PBI SA Warsaw

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 loans and advances to related parties are performing and are free of any provision for possible loan losses.

The year-end balances and the incomes and expenses in respect of related parties included in the consolidated financial statements are as follows:

As at 31 December 2005:

	<b>Balances due from related parties</b>	<b>Balances due to related parties</b>	<b>Subordinated debt</b>	<b>Commitments and contingent liabilities</b>	<b>Guarantees received</b>	<b>Nominal amount of derivatives</b>
	<b>MHUF</b>	<b>MHUF</b>	<b>MHUF</b>	<b>MHUF</b>	<b>MHUF</b>	<b>MHUF</b>
Parent	11 689	156 025	-	1 084	37 808	346 360
Entity with significant influence over the Group	512	774	-	848	-	348 959
Subsidiaries	-	123	-	7	-	-
Associates	980	1 790	-	-	-	-
Other related parties	556	1 357	10 109	632	-	4 991
	<b>13 737</b>	<b>160 069</b>	<b>10 109</b>	<b>2 571</b>	<b>37 808</b>	<b>700 310</b>

**KERESKEDELMI ÉS HITELBANK RT.**
**CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2005  
NOTES TO THE FINANCIAL STATEMENTS**
**NOTE 25 - RELATED PARTY TRANSACTIONS (continued)**

	<u>Interest income</u> MHUF	<u>Interest expense</u> MHUF	<u>Net interest income</u> MHUF	<u>Commission income</u> MHUF	<u>Commission expense</u> MHUF	<u>Net commission income</u> MHUF
Parent	435	(783)	(348)	39	(83)	(44)
Entity with significant influence over the Group	560	(53)	507	-	-	-
Subsidiaries	-	(5)	(5)	-	-	-
Associates	72	(151)	(79)	15	(745)	(730)
Other related parties	31	(419)	(388)	24	-	24
	<u>1 098</u>	<u>(1 411)</u>	<u>(313)</u>	<u>78</u>	<u>(828)</u>	<u>(750)</u>

As at 31 December 2004:

	<u>Balances due from related parties</u> MHUF	<u>Balances due to related parties</u> MHUF	<u>Subordinated debt</u> MHUF	<u>Commitments and contingent liabilities</u> MHUF	<u>Guarantees received</u> MHUF	<u>Nominal amount of derivatives</u> MHUF
Parent	107 611	93 569	-	1 508	7 470	288 199
Entity with significant influence over the Group	7 911	1 761	-	3 646	-	-
Other related parties	563	417	9 837	-	-	1 063
	<u>116 085</u>	<u>95 747</u>	<u>9 837</u>	<u>5 154</u>	<u>7 470</u>	<u>289 262</u>
	<u>Interest income</u> MHUF	<u>Interest expense</u> MHUF	<u>Net interest income</u> MHUF			
Parent	286	(1 188)	(903)			
Entity with significant influence over the Group	1 057	(202)	855			
Other related parties	11	(431)	(420)			
	<u>1 354</u>	<u>(1 821)</u>	<u>(468)</u>			

# KERESKEDELMI ÉS HITELBANK RT.

## CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2005

---

### NOTES TO THE FINANCIAL STATEMENTS

#### NOTE 25 - RELATED PARTY TRANSACTIONS (continued)

##### *Transactions with key management*

###### *Loans*

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

At the end of 2005 loans with the above conditions were housing loans and were long-term obligations (15-20 years).

The outstanding amount of loans at 31 December 2005 was HUF 30 million.

###### *Deposits*

In accordance with the Group's internal policy, all K&H employees, including key management staff are entitled to have a bank account and a securities/bonds account free from transaction or other applicable fees (only the cost of services provided by a third-party supplier are required to be reimbursed). All K&H employees, including key management staff receives the basic interest rate of the Hungarian National Bank less 0.5% on the first HUF 3 million of deposit.

The outstanding amount of deposits at 31 December 2005 was HUF 79 million. In 2005 the Bank paid HUF 5 million interest on these deposits.

For 2005 the following amounts have been granted to key management personnel:

<b>Type of benefit</b>	<b>31 December 2005</b>
	<b>MHUF</b>
Short-term employee benefits	284
Post-employment benefits	-
Other long-term benefits	-
Termination benefits	-
Total benefits	<u>284</u>

# KERESKEDELMI ÉS HITELBANK RT.

## CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2005

### NOTES TO THE FINANCIAL STATEMENTS

#### NOTE 26 - CURRENCY EXPOSURE

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

	HUF MHUF	EURO MHUF	USD MHUF	CHF MHUF	JPY MHUF	Other MHUF	Total MHUF
<b>At 31 December 2005</b>							
<b>Assets</b>							
Cash and balances with the National Bank of Hungary	126 967	823	312	36	13	190	128 341
Trading securities	6 264	-	-	-	-	-	6 264
Balances due from other banks	35 786	72 551	21 299	9 732	245	2 181	141 794
Derivative financial instruments	20 279	-	-	-	-	-	20 279
Loans to customers	630 641	244 518	22 781	410 960	-	6	1 308 906
Investment securities	203 725	9	-	-	7 579	-	211 313
Securities pledged under repurchase agreements	39 441	-	-	-	-	-	39 441
Investments in associates	3 434	-	-	-	-	-	3 434
Accrued interest receivable	12 003	815	357	600	80	1	13 856
Bank premises and equipment	35 668	-	-	-	-	-	35 668
Intangible assets	986	-	-	-	-	-	986
Income tax asset	972	-	-	-	-	-	972
Other assets	28 320	389	2 306	-	-	-	31 015
<b>Total assets</b>	<b>1 144 486</b>	<b>319 105</b>	<b>47 055</b>	<b>421 328</b>	<b>7 917</b>	<b>2 378</b>	<b>1 942 269</b>
<b>Liabilities</b>							
Trading liabilities	7 573	-	-	-	-	-	7 573
Balances due to banks	19 919	105 127	10 950	149 344	-	2 009	287 349
Derivative financial instruments	15 803	236	-	-	-	-	16 039
Deposits and certificates of deposit	955 565	194 172	53 660	1 750	877	6 523	1 212 547
Refinancing credits	112 773	42 860	9 606	-	-	-	165 239
Subordinated debt	4 714	10 109	-	-	-	-	14 823
Accrued interest payable	6 283	1 285	435	145	80	15	8 243
Deferred tax	433	-	-	-	-	-	433
Provisions	14 269	-	2	-	-	-	14 271
Other liabilities	48 019	9 809	1 234	553	17	598	60 230
<b>Total liabilities and subordinated debt</b>	<b>1 185 351</b>	<b>363 598</b>	<b>75 887</b>	<b>151 792</b>	<b>974</b>	<b>9 145</b>	<b>1 786 747</b>
<b>Net balance sheet position</b>	<b>(40 865)</b>	<b>(44 493)</b>	<b>(28 832)</b>	<b>269 536</b>	<b>6 943</b>	<b>(6 767)</b>	<b>155 522</b>
<b>Credit commitments and contingent liabilities</b>							
Net position of foreign exchange derivatives	427 666	89 955	15 228	6 312	2	381	539 544
	208 326	40 974	29 686	(279 293)	(4 997)	6 579	1 275

**KERESKEDELMI ÉS HITELBANK RT.**
**CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2005**
**NOTES TO THE FINANCIAL STATEMENTS**
**NOTE 26 - CURRENCY EXPOSURE (continued)**

	(restated)						Total MHUF
	HUF MHUF	EURO MHUF	USD MHUF	CHF MHUF	JPY MHUF	Other MHUF	
<b>At 31 December 2004</b>							
<u>Assets</u>							
Cash and balances with the National Bank of Hungary	78 193	635	291	19	8	108	79 254
Trading securities	6 905	-	-	-	-	-	6 905
Balances due from other banks	33 132	45 396	112 131	3 698	344	2 934	197 635
Derivative financial instruments	28 670	187	69	-	-	-	28 926
Loans to customers	606 042	237 056	20 239	233 386	-	11	1 096 734
Investment securities	131 884	-	-	-	12 577	-	144 461
Securities pledged under repurchase agreements	97 288	-	-	-	-	-	97 288
Investments in associates	4 105	-	-	-	-	-	4 105
Accrued interest receivable	13 497	921	223	1 137	509	-	16 287
Bank premises and equipment	36 053	-	-	-	-	-	36 053
Intangible assets	595	-	-	-	-	-	595
Income tax asset	528	-	-	-	-	-	528
Other assets	17 921	575	285	-	-	-	18 781
<b>Total assets</b>	<b>1 054 813</b>	<b>284 770</b>	<b>133 238</b>	<b>238 240</b>	<b>13 438</b>	<b>3 053</b>	<b>1 727 552</b>
<u>Liabilities</u>							
Trading liabilities	-	-	-	-	-	-	-
Balances due to banks	102 632	86 584	2	142 144	-	1 439	332 801
Derivative financial instruments	25 541	465	34	9	4 163	-	30 212
Deposits and certificates of deposit	809 126	121 208	45 915	2 015	125	6 566	984 955
Refinancing credits	113 908	55 304	2 747	-	-	-	171 959
Subordinated debt	4 714	9 837	-	-	-	-	14 551
Accrued interest payable	6 822	429	95	153	295	15	7 809
Deferred tax	783	-	-	-	-	-	783
Provisions	13 379	-	-	-	-	-	13 379
Other liabilities	24 913	4 528	2 392	431	717	759	33 740
<b>Total liabilities and subordinated debt</b>	<b>1 101 818</b>	<b>278 355</b>	<b>51 185</b>	<b>144 752</b>	<b>5 300</b>	<b>8 779</b>	<b>1 590 189</b>
<b>Net balance sheet position</b>	<b>(47 005)</b>	<b>6 415</b>	<b>82 053</b>	<b>93 488</b>	<b>8 138</b>	<b>(5 726)</b>	<b>137 363</b>
Credit commitments and contingent liabilities	345 073	77 742	17 749	6 990	-	4 684	452 238
Net position of foreign exchange derivatives	196 570	(10 447)	(82 047)	(100 120)	(10 548)	5 520	(1 072)

# KERESKEDELMI ÉS HITELBANK RT.

## CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2005 NOTES TO THE FINANCIAL STATEMENTS

### NOTE 27 – INTEREST RATE RISK

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 on a total basis.

Interest bearing assets and liabilities at 31 December 2005:

	<b>Below 1 month</b>	<b>1-3 months</b>	<b>3-12 months</b>	<b>1-5 years</b>	<b>Over 5 years</b>	<b>Not interest bearing</b>	<b>Trading</b>	<b>Total</b>
	<b>MHUF</b>	<b>MHUF</b>	<b>MHUF</b>	<b>MHUF</b>	<b>MHUF</b>	<b>MHUF</b>	<b>MHUF</b>	<b>MHUF</b>
Cash and balances with the National Bank	115 698	-	-	-	-	12 643	-	128 341
Balances due from other banks	135 367	6 427	-	-	-	-	-	141 794
Derivative financial instruments	4 601	4 023	7 941	3 613	101	-	-	20 279
Loans to customers	687 156	414 832	124 835	82 083	-	-	-	1 308 906
Securities and investments	22 032	10 463	118 979	52 221	44 349	6 144	6 264	260 452
<b>Total</b>	<b>964 854</b>	<b>435 745</b>	<b>251 755</b>	<b>137 917</b>	<b>44 450</b>	<b>18 787</b>	<b>6 264</b>	<b>1 859 772</b>

	<b>Below 1 month</b>	<b>1-3 months</b>	<b>3-12 months</b>	<b>1-5 years</b>	<b>Over 5 years</b>	<b>Not interest bearing</b>	<b>Trading</b>	<b>Total</b>
	<b>MHUF</b>	<b>MHUF</b>	<b>MHUF</b>	<b>MHUF</b>	<b>MHUF</b>	<b>MHUF</b>	<b>MHUF</b>	<b>MHUF</b>
Trading liabilities	-	-	-	-	-	-	7 573	7 573
Balance due to banks	135 446	131 622	20 281	-	-	-	-	287 349
Derivative financial instruments	3 934	3 545	5 825	2 341	394	-	-	16 039
Deposits and certificates of deposit	963 083	142 962	105 319	1 183	-	-	-	1 212 547
Refinancing credits	64 088	29 942	4 156	66 415	638	-	-	165 239
Subordinated debt	14 823	-	-	-	-	-	-	14 823
<b>Total</b>	<b>1 181 374</b>	<b>308 071</b>	<b>135 581</b>	<b>69 939</b>	<b>1 032</b>	<b>-</b>	<b>7 573</b>	<b>1 703 570</b>



**KERESKEDELMI ÉS HITELBANK RT.**

**REPORT AND CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2005**

**NOTES TO THE FINANCIAL STATEMENTS**

**NOTE 27 – INTEREST RATE RISK (continued)**

Interest bearing assets and liabilities at 31 December 2004:

	<b>Below 1 month MHUF</b>	<b>1-3 months MHUF</b>	<b>3-12 months MHUF</b>	<b>1-5 years MHUF</b>	<b>(restated) Over 5 years MHUF</b>	<b>(restated) Not interest bearing MHUF</b>	<b>Trading MHUF</b>	<b>Total MHUF</b>
Cash and balances with the National Bank of Hungary	68 281	-	-	-	-	10 973	-	79 254
Balances due from other banks	192 522	5 113	-	-	-	-	-	197 635
Derivative financial instruments	4 994	5 801	18 057	74	-	-	-	28 926
Loans to customers	595 635	288 395	88 984	93 401	30 319	-	-	1 096 734
Securities and investments	21 932	38 334	106 588	38 947	35 805	4 248	6 905	252 759
<b>Total</b>	<b>883 364</b>	<b>337 643</b>	<b>213 629</b>	<b>132 422</b>	<b>66 124</b>	<b>15 221</b>	<b>6 905</b>	<b>1 655 308</b>

	<b>Below 1 month MHUF</b>	<b>1-3 months MHUF</b>	<b>3-12 months MHUF</b>	<b>1-5 years MHUF</b>	<b>Over 5 years MHUF</b>	<b>Not interest bearing MHUF</b>	<b>Trading MHUF</b>	<b>Total MHUF</b>
Trading liabilities	-	-	-	-	-	-	-	-
Balance due to banks	158 735	174 066	-	-	-	-	-	332 801
Derivative financial instruments	6 146	4 830	18 159	1 077	-	-	-	30 212
Deposits and certificates of deposit	657 063	283 853	43 989	50	-	-	-	984 955
Refinancing credits	-	96 715	2 734	71 846	664	-	-	171 959
Subordinated debt	-	9 837	4 714	-	-	-	-	14 551
<b>Total</b>	<b>821 944</b>	<b>569 301</b>	<b>69 596</b>	<b>72 973</b>	<b>664</b>	<b>-</b>	<b>-</b>	<b>1 534 478</b>

# KERESKEDELMI ÉS HITELBANK RT.

## REPORT AND CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2005

### NOTES TO THE FINANCIAL STATEMENTS

#### NOTE 28 – 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 2005:

	<b>Below 1 month MHUF</b>	<b>1-3 months MHUF</b>	<b>3-12 months MHUF</b>	<b>1-5 years MHUF</b>	<b>Over 5 years MHUF</b>	<b>Total MHUF</b>
Cash and balances with the National Bank of Hungary	128 341	-	-	-	-	128 341
Balances due from other banks	65 600	6 911	20 432	47 411	1 440	141 794
Derivative financial instruments	4 601	4 027	7 941	3 613	97	20 279
Loans to customers	151 470	34 780	224 799	389 106	508 751	1 308 906
Securities and investments	12 278	10 739	20 028	54 131	163 276	260 452
<b>Total</b>	<b>362 290</b>	<b>56 457</b>	<b>273 200</b>	<b>494 261</b>	<b>673 564</b>	<b>1 859 772</b>

	<b>Below 1 month MHUF</b>	<b>1-3 months MHUF</b>	<b>3-12 months MHUF</b>	<b>1-5 years MHUF</b>	<b>Over 5 years MHUF</b>	<b>Total MHUF</b>
Trading liabilities	-	-	1 037	4 023	2 513	7 573
Balance due to banks	135 282	3 205	35 471	113 391	-	287 349
Derivative financial instruments	3 394	3 310	4 967	2 677	1 691	16 039
Deposits and certificates of deposit	940 854	110 807	115 585	45 248	53	1 212 547
Refinancing credits	1 944	5 816	14 869	42 037	100 573	165 239
Subordinated debt	-	-	10 109	-	4 714	14 823
<b>Total</b>	<b>1 081 474</b>	<b>123 138</b>	<b>182 038</b>	<b>207 376</b>	<b>109 544</b>	<b>1 703 570</b>

# KERESKEDELMI ÉS HITELBANK RT.

## REPORT AND CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2005

### NOTES TO THE FINANCIAL STATEMENTS

#### NOTE 28 – LIQUIDITY RISK (continued)

The following table shows a breakdown of the balance sheet by maturity at 31 December 2004:

	Below 1 month MHUF	1-3 months MHUF	3-12 months MHUF	(restated) 1-5 years MHUF	(restated) Over 5 years MHUF	Total MHUF
Cash and balances with the National Bank of Hungary	79 254	-	-	-	-	79 254
Balances due from other banks	143 072	8 207	7 570	38 786	-	197 635
Derivative financial instruments	5 080	5 811	14 427	3 503	105	28 926
Loans to customers	131 590	70 152	201 246	423 157	270 589	1 096 734
Securities and investments	80	358	26 701	70 969	154 651	252 759
<b>Total</b>	<b>359 076</b>	<b>84 528</b>	<b>249 944</b>	<b>536 415</b>	<b>425 345</b>	<b>1 655 308</b>

	Below 1 month MHUF	1-3 months MHUF	3-12 months MHUF	1-5 years MHUF	Over 5 years MHUF	Total MHUF
Trading liabilities	-	-	-	-	-	-
Balance due to banks	118 354	79 601	-	134 846	-	332 801
Derivative financial instruments	8 142	5 026	11 721	3 503	1 820	30 212
Deposits and certificates of deposit	652 547	257 376	30 446	44 586	-	984 955
Refinancing credits	78 210	1 447	9 865	32 557	49 880	171 959
Subordinated debt	-	-	-	9 837	4 714	14 551
<b>Total</b>	<b>857 253</b>	<b>343 450</b>	<b>52 032</b>	<b>225 329</b>	<b>56 414</b>	<b>1 534 478</b>

#### NOTE 29 – FAIR VALUE

Substantially all the Group's monetary assets and liabilities are carried at their fair values as of December 31, 2005 and 2004.

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

##### *Balances due from other banks*

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

##### *Loans to customers*

Loans to customers are carried net of incurred credit 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, management believes that the carrying value approximates the fair value.

Loans with a net book value of HUF 72 billion (HUF 72 billion at 31 December 2004), a portion of which is at fixed rate, are refinanced through facilities with the FHB on substantially the same terms and conditions. As such any difference in the fair values from the carrying value will be largely offset by a corresponding variance between the carrying value and the fair value of refinancing credits that were used to finance the loans.

# KERESKEDELMI ÉS HITELBANK RT.

## REPORT AND CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2005

### NOTES TO THE FINANCIAL STATEMENTS

---

#### **NOTE 29 – FAIR VALUE (continued)**

##### *Investments*

Trading securities, financial assets at fair value through profit and loss 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 for treasury bills and they reprice regularly the carrying value approximates their fair value.

Bonds and other investments held to maturity are carried at amortised cost. The fair value of these bonds is HUF 553 million greater than their carrying value.

##### *Deposits and certificates of deposit*

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 due to banks are short term placements with market interest rates.

As detailed under loans to customers any difference between the carrying value and the fair value of refinancing credits from the FHB will be largely offset by a corresponding variance between the carrying value and the fair value of the loans granted to customers that these funds were used to finance.

##### *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.

# KERESKEDELMI ÉS HITELBANK RT.

## REPORT AND CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2005

### NOTES TO THE FINANCIAL STATEMENTS

#### NOTE 30 - 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 Group 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 Group's performance to developments affecting a particular industry or geographic location.

The Group 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:

	<u>Total assets</u> MHUF	<u>Equity and liabilities</u> MHUF	<u>Credit commitment and credit contingent liabilities</u> MHUF
<b>As at 31 December 2005</b>			
Hungary	1 855 201	1 522 124	528 792
EMU countries	42 832	383 338	5 977
East-European countries	11 677	5 157	7
Russia	139	3 178	-
Other European countries	10 610	13 263	813
Non - European Countries	21 810	15 209	3 955
	<u>1 942 269</u>	<u>1 942 269</u>	<u>539 544</u>

	<u>(restated) Total assets</u> MHUF	<u>(restated) Equity and liabilities</u> MHUF	<u>Credit commitment and credit contingent liabilities</u> MHUF
<b>As at 31 December 2004</b>			
Hungary	1 567 413	1 370 419	442 907
EMU countries	128 341	308 432	1 458
East-European countries	8 809	6 458	6
Russia	223	2 017	-
Other European countries	18 119	29 483	5 036
Non - European countries	4 647	10 743	2 831
	<u>1 727 552</u>	<u>1 727 552</u>	<u>452 238</u>

**KERESKEDELMI ÉS HITELBANK RT.****REPORT AND CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2005  
NOTES TO THE FINANCIAL STATEMENTS****NOTE 31 – FINANCE AND OPERATING LEASES*****Lessee position***

The Group has the following finance leases:

	<b>31 December 2005</b>	<b>31 December 2004</b>
	<b>MHUF</b>	<b>MHUF</b>
Net carrying amount of leased assets in the Balance Sheet		
Bank premises and equipment-software	416	1 125
Finance lease liabilities-minimum lease payments		
less than one year	171	293
one to five years	-	171
	<u>171</u>	<u>464</u>

The present value of finance lease liabilities may be analysed as follows:

less than one year	165	443
one to five years	-	-
	<u>165</u>	<u>443</u>

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:

	<b>31 December 2005</b>	<b>31 December 2004</b>
	<b>MHUF</b>	<b>MHUF</b>
Total of future minimum lease payments under non-cancellable operating leases:		
less than one year	1 476	1 453
one to five years	6 225	6 639
more than five years	1 517	2 946
	<u>9 218</u>	<u>11 038</u>

	<b>31 December 2005</b>	<b>31 December 2004</b>
	<b>MHUF</b>	<b>MHUF</b>
Lease and sublease payments recognised in income for the period		
minimum lease payments	3 326	4 041
sublease payments	(90)	(97)

# KERESKEDELMI ÉS HITELBANK RT.

## REPORT AND CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2005

### NOTES TO THE FINANCIAL STATEMENTS

#### NOTE 31 – FINANCE AND OPERATING LEASES (continued)

##### *Lessor position*

The leasing subsidiaries of the Group 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

	<b>31 December 2005</b>	<b>31 December 2004</b>
	<b>MHUF</b>	<b>MHUF</b>
Total of gross investment in the lease:		
less than one year	20 870	13 689
one to five years	30 086	46 726
more than five years	2 132	4 186
	<u>53 088</u>	<u>64 601</u>
The present value of minimum lease payments receivables:		
less than one year	16 031	15 095
one to five years	28 579	24 555
more than five years	3 229	908
	<u>47 839</u>	<u>40 558</u>
Unearned finance income	5 249	24 043
Non-guaranteed residual values	1 567	1 671
Accumulated allowance on minimum lease payments receivable	2 429	2 203

The term of the contracts are between 12 and 120 months, and the interest rates are in a range BUBOR, EURIBOR or CHF LIBOR plus an average margin of 4.02%-5.77% (3%-8.5% in 2004).

##### Operating leases

	<b>31 December 2005</b>	<b>31 December 2004</b>
	<b>MHUF</b>	<b>MHUF</b>
Gross carrying amount of equipment for operating leases	7 117	4 363
Accumulated depreciation of equipment for operating leases	(1 736)	(1 123)
	<u>5 381</u>	<u>3 240</u>
Depreciation recognised in income for the period	1 084	924

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 CHF LIBOR plus an average margin of 1.6%. All lease contracts are non-cancellable and lease payments do not contain contingent rents.

# KERESKEDELMI ÉS HITELBANK RT.

## REPORT AND CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2005

### NOTES TO THE FINANCIAL STATEMENTS

#### NOTE 32 – CREDIT COMMITMENTS AND CREDIT 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.

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 Group has the following credit related commitments:

	31 December 2005		31 December 2004	
	Amount	Allowance	Amount	Allowance
	MHUF	MHUF	MHUF	MHUF
Commitments to extend credit	370 083	7	304 934	56
Guarantees	164 203	173	144 341	149
Trade finance commitments	2 814	-	2 444	-
Other	2 444	-	519	-
Credit commitment and credit contingent liabilities	<u>539 544</u>	<u>180</u>	<u>452 238</u>	<u>205</u>



# KERESKEDELMI ÉS HITELBANK RT.

## REPORT AND CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2005 NOTES TO THE FINANCIAL STATEMENTS

### NOTE 33 – SUBSIDIARIES AND ASSOCIATES

	Effective Shareholding 2005 %	Effective Shareholding 2004 %
<b>Fully consolidated subsidiaries</b>		
K&H Ingatlanlízing Rt.	100	-
K&H Lízing ZRt.	100	100
K&H Lízingház Rt.	100	100
K&H Alkusz Kft.	100	100
K&H Csoportszolgáltató Kft.	100	100
Pannonlízing Pü-i Szolg. ZRt.	100	100
K&H DLH Lízing Kft.	100	100
K&H Autófinanszírozó Pü-i Szolg. ZRt.	100	100
K&H Letét Kft.	-	100
K&H Box Bt.	-	100
K&H Autópark Bérleti és Szolg. Kft.	100	100
K&H Eszközlízing Gép- és Tehergépjármű Bérleti Kft.	100	100
K&H Eszközfinanszírozó Rt.	100	100
K&H Lízingadminisztrációs Rt.	100	100
K&H Vagyonkezelési Holding Kft. "v.a."	-	100
K&H Értékpapír Befektetési Alapkezelő Rt.	100	100
K&H Általános Tanácsadó Rt. "v.a."	-	100
Talentum Rt. "v.a."	100	100
MHB Work Out Kft. "v.a."	100	100
Kvantum Követeléskezelő és Befektetési Rt. "v.a."	100	100
Fordat Kft.	100	100
K&H Equities ZRt.	100	100
GIRO Bankkártya Rt.	75	-
<b>Associates consolidated using the equity method</b>		
K&H Vagyonkezelési Holding Kft. "v.a."	100	-
K&H Általános Tanácsadó Rt. "v.a."	100	-
AA International Treasury Szolg. Kft.	49	49
K&H Életbiztosító Rt.	50	50
Giro Bankkártya Rt.	-	75
Giro Elszámolásforgalmi Rt.	21	21
Budatrend III. Ingatlanhasznosító Rt.	34	34
HAGE Rt.	25	-
<b>Immaterial, non consolidated subsidiaries</b>		
K&H Pénztárszolgáltató Kft.	-	100
Risk Kft. "f.a."	100	100
Piac és Pénz Kiadó Kft.	100	100

During 2005, K&H Letét Kft., K&H Box Bt. and K&H Pénztárszolgáltató Kft. were liquidated. The Group changed the consolidation method of its investments in K&H Vagyonkezelési Holding Kft., K&H Általános Tanácsadó Rt. (as these companies are now dormant with a view to liquidation) and in GIRO Bankkártya Rt. (from equity consolidation to full consolidation).

The Group's investment in HAGE Rt. was held at cost in 2004 as the shares were held with a view to dispose in the near future. According to IFRS 5 only assets which meet the requirements of the standard can be classified as held for sale, therefore the investment was consolidated using the equity method retrospectively in 2004.

# KERESKEDELMI ÉS HITELBANK RT.

## REPORT AND CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2005

### NOTES TO THE FINANCIAL STATEMENTS

#### NOTE 34 – SUBSEQUENT EVENTS

There were no material subsequent events, except for the change in Group ownership in 2006 (see Note 15).

#### NOTE 35 - RECONCILIATION OF STATUTORY ACCOUNTS TO IFRS ACCOUNTS

	Profit/(loss) for the year MHUF	Shareholders' equity <sup>1</sup> MHUF	Assets MHUF	Subordinated debt and liabilities MHUF
K&H Bank accounts prepared under Hungarian Accounting Rules	17 722	123 874	1 888 337	1 746 741
<u>Adjustments for IFRS accounts</u>				
Capitalization of VAT, financial leases and revaluation of real estates	(436)	987	2 078	1 527
Collective allowance for loan losses	1 739	11 982	(2 546)	(16 267)
Specific allowance for loan losses	(481)	(69)	(550)	-
Adjustment on delivery repos	(2 935)	1 350	46 382	47 967
Fair valuation of trading portfolio and derivatives	1 444	1 359	12 971	10 168
Fair valuation of AFS portfolio	-	860	860	-
Cash flow hedge on FX options	137	1 111	1 558	310
Holiday accruals	(57)	(728)	-	785
Amortization of loan origination fees	(993)	(5 934)	(6 927)	-
Deferred tax	432	(1 032)	-	600
K&H Bank standalone IFRS adjustments	(1 150)	9 886	53 826	45 090
Subsidiaries accounts prepared under Hungarian Accounting Standards	(3 487)	13 666	196 600	186 421
<u>Adjustments for IFRS accounts</u>				
Collective allowance for loan losses	(19)	(918)	(937)	-
Financial leases	130	132	197	(65)
Mark to market evaluation of trading portfolio	(4)	4	-	-
Deferred tax	42	125	-	(167)
Subsidiaries standalone IFRS adjustments	149	(657)	(740)	(232)
Adjustments for consolidation	4 514	(8 995)	(195 754)	(191 273)
Balance per IFRS report.	<u>17 748</u>	<u>137 774</u>	<u>1 942 269</u>	<u>1 786 747</u>

<sup>1</sup> Excluding the current year profit / (loss)