



**Kereskedelmi és Hitelbank Rt.**

**Annual Report**

**31 December 2005**

10195664652111401

statistical number

**Kereskedelmi és Hitelbank Rt.**  
**Balance Sheet (Credit Institutions) – Assets**

HUF millions

No.	Description	Previous year 31.12.2004	Reporting year 31.12.2005.
a	b	c	d
01.	<b>1. CASH AND EQUIVALENTS</b>	79 229	128 309
02.	<b>2. GOVERNMENT SECURITIES</b>	146 101	213 225
03.	a) held for trading	106 384	194 090
04.	b) held for investment	39 717	19 135
05.	<b>3. AMOUNTS DUE FROM CREDIT INSTITUTIONS</b>	195 267	130 940
06.	a) on demand	4 328	10 367
07.	b) other receivables from financial services	190 939	120 573
08.	ba) short-term	160 415	60 969
09.	- from affiliated undertakings		
10.	- from other associated undertakings		
11.	- from the NBH		
12.	bb) long-term	30 524	59 604
13.	- from affiliated undertakings		
14.	- from other associated undertakings		
15.	- from the NBH		
16.	c) from investment services		
17.	- from affiliated undertakings		
18.	- from other associated undertakings		
19.	<b>4. AMOUNTS DUE FROM CLIENTS</b>	1 118 577	1 347 773
20.	a) from financial services	1 118 575	1 336 036
21.	aa) short-term	502 021	610 899
22.	- from affiliated undertakings	154 144	170 429
23.	- from other associated undertakings		
24.	ab) long-term	616 554	725 137
25.	- from affiliated undertakings	155	155
26.	- from other associated undertakings		
27.	b) from investment services	2	11 737
28.	- from affiliated undertakings		
29.	- from other associated undertakings		
30.	ba) receivables from stock exchange investment services		1
31.	bb) receivables from over-the-counter investment services		
32.	bc) amounts due from clients, arising from investment services		11 735
33.	bd) amounts due from the clearing house	2	1
34.	be) other receivables from investment services		
35.	<b>5. DEBT SECURITIES, INCLUDING THOSE WITH A FIXED INTEREST RATE</b>	986	1 333
36.	a) securities issued by local municipalities and other administrative institutions (excluding government securities)		
37.	aa) held for trading		
38.	ab) held for investment		
39.	b) securities issued by third-party issuers	986	1 333
40.	ba) held for trading	521	601
41.	- issued by affiliated undertakings		
42.	- issued by other associated undertakings		
43.	- Treasury stock		
44.	bb) held for investment	465	732
45.	- issued by affiliated undertakings		
46.	- issued by other associated undertakings		

No.	Description	Previous year 31.12.2004.	Reporting year 31.12.2005.
a	b	c	d
47.	<b>6. SHARES AND OTHER VARIABLE YIELD SECURITIES</b>	903	904
48.	a) shares and participations held for trading	3	4
49.	- issued by affiliated undertakings		
50.	- issued by other associated undertakings		
50.	b) variable yield securities	900	900
51.	ba) held for trading		
52.	bb) held for investment	900	900
53.	<b>7. SHARES AND PARTICIPATIONS HELD FOR INVESTMENT</b>	2 737	2 596
54.	a) shares and participations held for investment	2 737	2 596
55.	- participations in credit institutions		
56.	b) adjustments to the value of shares and participations held for investment		
57.	- participations in credit institutions		
58.	<b>8. SHARES AND PARTICIPATIONS IN AFFILIATED UNDERTAKINGS</b>	5 189	5 810
59.	a) shares and participations held for investment	5 189	5 810
60.	- participations in credit institutions		
61.	b) adjustments to the value of shares and participations held for investment		
62.	- participations in credit institutions		
63.	<b>9. INTANGIBLE ASSETS</b>	9 022	8 538
64.	a) intangible assets	9 022	8 538
65.	b) adjustments to the value of intangible assets		
66.	<b>10. TANGIBLE ASSETS</b>	20 449	20 224
67.	a) tangible assets used in financial and investment services	20 389	20 160
68.	aa) land and buildings	12 215	11 708
69.	ab) technical equipment, machinery and vehicles	6 663	6 563
70.	ac) capital expenditure	1 511	1 889
71.	ad) advances for capital investments		
72.	b) tangible assets not directly used in financial and investment services	60	64
73.	ba) land and buildings	3	2
74.	bb) technical equipment, machinery and vehicles	57	62
75.	bc) capital expenditure		
76.	bd) advances for capital investments		
77.	c) adjustments to the value of tangible assets		
78.	<b>11. TREASURY STOCK</b>		
79.	<b>12. OTHER ASSETS</b>	6 446	8 066
80.	a) inventories	301	249
81.	b) other receivables	6 145	7 817
82.	- amounts due from affiliated undertakings	140	42
83.	- amounts due from other associated undertakings		
84.	<b>13. PREPAYMENTS AND ACCRUED INCOME</b>	22 322	20 619
85.	a) accrued income	21 297	18 817
86.	b) prepayments	1 025	1 802
87.	c) deferred expense		
88.	<b>TOTAL ASSETS</b>	<b>1 607 228</b>	<b>1 888 337</b>
89.	of which: - CURRENT ASSETS [1+2.a)+3.c)+3.a)+3.ba)+4.aa)+4.b)+5.aa)+5.ba)+6.a)+6.ba)+11+12]	859 349	1 025 042
90.	- FIXED ASSETS [ 2.b)+3.bb)+4.ab)+5.ab)+5.bb)+6.bb)+7+8+9+10 ]	725 557	842 676

Budapest, 21 March 2006

John Hollows  
Chief Executive OfficerAttila Gombás  
Head of the Finance Division

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statistical number

**Kereskedelmi és Hitelbank Rt.**  
**Balance Sheet (Credit Institutions) – Liabilities & Equity**

HUF millions

No.	Description	Previous year 31.12.2004.	Reporting year 31.12.2005.
a	b	c	d
91.	<b>1. AMOUNTS DUE TO CREDIT INSTITUTIONS</b>	402 373	408 734
92.	a) on demand	3 895	9 458
93.	b) fixed-term liabilities from financial services	398 478	399 276
94.	ba) short-term	137 375	146 739
95.	- to affiliated undertakings		
96.	- to other associated undertakings		
97.	- to the NBH	26	958
98.	bb) long-term	261 103	252 537
99.	- to affiliated undertakings		
100.	- to other associated undertakings		
101.	- to the NBH	2 717	
102.	c) from investment services		
103.	- to affiliated undertakings		
104.	- to other associated undertakings		
105.	<b>2. AMOUNTS DUE TO CLIENTS</b>	1 008 111	1 250 699
106.	a) savings deposits		
107.	aa) on demand		
108.	ab) short-term		
109.	ac) long-term		
110.	b) other liabilities from financial services	1 006 375	1 236 969
111.	ba) on demand	304 853	646 411
112.	- to affiliated undertakings	16 407	19 383
113.	- to other associated undertakings		
114.	bb) short-term	662 972	542 150
115.	- to affiliated undertakings	1 700	2 008
116.	- to other associated undertakings		
117.	bc) long-term	38 550	48 408
118.	- to affiliated undertakings		
119.	- to other associated undertakings		
120.	c) from investment services	1 736	13 730
121.	- to affiliated undertakings		
122.	- to other associated undertakings		
123.	ca) liabilities from stock exchange investment services	1	
124.	cb) liabilities from over-the-counter investment services		
125.	cc) amounts due to clients from investment services	1 735	13 730
126.	cd) amounts due to the clearing house		
127.	ce) other liabilities from investment services		
128.	<b>3. LIABILITIES FROM SECURITIES ISSUED</b>	544	439
129.	a) bonds issued	4	4
130.	aa) short-term	4	4
131.	- to affiliated undertakings		
132.	- to other associated undertakings		
133.	ab) long-term		
134.	- to affiliated undertakings		
135.	- to other associated undertakings		

No.	Description	Previous year 31.12.2004.	Reporting year 31.12.2005.
a	b	c	d
136.	b) other debt securities issued		
137.	ba) short-term		
138.	- to affiliated undertakings		
139.	- to other associated undertakings		
140.	bb) long-term		
141.	- to affiliated undertakings		
142.	- to other associated undertakings		
143.	c) debt instruments treated as securities for accounting purposes but not deemed securities under the Securities Act	540	435
144.	ca) short-term	540	435
145.	- to affiliated undertakings		
146.	- to other associated undertakings		
147.	cb) long-term		
148.	- to affiliated undertakings		
149.	- to other associated undertakings		
150.	<b>4. OTHER LIABILITIES</b>	<b>22 025</b>	<b>33 336</b>
151.	a) short-term	22 025	33 336
152.	- to affiliated undertakings	6	
153.	- to other associated undertakings		
154.	- other financial contributions made by members of co-operative credit institutions		
155.	b) long-term		
156.	- to affiliated undertakings		
157.	- to other associated undertakings		
158.	<b>5. ACCRUALS AND DEFERRED INCOME</b>	<b>20 045</b>	<b>19 490</b>
159.	a) accrued income	1 501	2 584
160.	b) accrued cost and expense	18 448	16 567
161.	c) deferred income	96	339
162.	<b>6. PROVISIONS</b>	<b>15 705</b>	<b>19 220</b>
163.	a) provisions for retirement benefits and severance pay		
164.	b) risk provisions for contingent and future liabilities	135	620
165.	c) general risk provision	13 462	16 402
166.	d) other provisions	2 108	2 198
167.	<b>7. SUBORDINATED LIABILITIES</b>	<b>14 551</b>	<b>14 823</b>
168.	a) subordinated debt	14 551	14 823
169.	- to affiliated undertakings		
170.	- to other associated undertakings		
171.	b) other financial contributions made by members of co-operative credit institutions		
172.	c) other subordinated liabilities		
173.	- to affiliated undertakings		
174.	- to other associated undertakings		
175.	<b>8. SUBSCRIBED CAPITAL</b>	<b>52 507</b>	<b>52 507</b>
176.	- repurchased ownership interest at par value		
177.	<b>9. SUBSCRIBED CAPITAL UNPAID (-)</b>		
178.	<b>10. CAPITAL RESERVE</b>	<b>28 070</b>	<b>28 070</b>
179.	a) differences between the par value and offering price of shares and participations (premium)	14 393	14 393
180.	b) other	13 677	13 677
181.	<b>11. GENERAL RESERVE</b>	<b>3 144</b>	<b>4 916</b>
182.	<b>12. PROFIT RESERVE (+/-)</b>	<b>20 178</b>	<b>40 153</b>
183.	<b>13. EARMARKED RESERVE</b>		
184.	<b>14. VALUATION RESERVE</b>		
185.	<b>15. RETAINED EARNINGS (+/-)</b>	<b>19 975</b>	<b>15 950</b>
186.	<b>TOTAL LIABILITIES &amp; EQUITY</b>	<b>1 607 228</b>	<b>1 888 337</b>
187.	of which: - SHORT-TERM LIABILITIES [ (1.a)+1.ba)+1.c)+2.aa)+2.ab)+2.ba)+2.bb)+2.c)+3.aa)+3.ba)+3.ca)+4.a) ]	1 133 400	1 392 263
188.	- LONG-TERM LIABILITIES [ 1.bb)+2.ac)+2.bc)+3.ab)+3.bb)+3.cb)+4.b)+7 ]	314 204	315 768
189.	- EQUITY (8-9+10+11+12+13+14+15)	123 874	141 596

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**Kereskedelmi és Hitelbank Rt.**  
**Profit & Loss Account (Credit Institutions)**

HUF millions

No.	Description	Previous year 31.12.2004.	Reporting year 31.12.2005.
a	b	c	d
01.	<b>1. Interest received and similar income</b>	<b>129 304</b>	<b>133 704</b>
02.	a) interest received (receivable) on fixed-interest debt securities	22 611	16 310
03.	- from affiliated undertakings		
04.	- from other associated undertakings		
05.	b) other interest received and similar income	106 693	117 394
06.	- from affiliated undertakings	3 143	3 054
07.	- from other associated undertakings		
08.	<b>2. Interest paid and similar expense</b>	<b>82 114</b>	<b>75 446</b>
09.	- to affiliated undertakings	1 303	971
10.	- to other associated undertakings		
11.	<b>NET INTEREST INCOME (1-2)</b>	<b>47 190</b>	<b>58 258</b>
12.	<b>3. Income from securities</b>	<b>562</b>	<b>652</b>
13.	a) income from shares and participations held for trading (dividend, minority interest)		
14.	b) income from participations in affiliated undertakings (dividend, minority interest)	562	652
15.	c) income from other participations (dividend, minority interest)		
16.	<b>4. Fees and commissions received (receivable)</b>	<b>30 922</b>	<b>34 237</b>
17.	a) income from other financial services	28 215	31 000
18.	- from affiliated undertakings	215	214
19.	- from other associated undertakings		
20.	b) income from investment services (excluding income from trading operations)	2 707	3 237
21.	- from affiliated undertakings	1 927	2 051
22.	- from other associated undertakings		
23.	<b>5. Fees and commissions paid (payable)</b>	<b>11 059</b>	<b>9 465</b>
24.	a) expense on other financial services	10 905	9 262
25.	- to affiliated undertakings		
26.	- to other associated undertakings		
27.	b) expense on investment services (excluding expense on trading operations)	154	203
28.	- to affiliated undertakings	26	56
29.	- to other associated undertakings		
30.	<b>6. Profit/loss from financial transactions</b>	<b>15 920</b>	<b>11 186</b>
31.	a) income from other financial services	28 369	7 031
32.	- from affiliated undertakings		
33.	- from other associated undertakings		
34.	b) expense on other financial services	13 365	73
35.	- to affiliated undertakings		
36.	- to other associated undertakings		
37.	c) income from investment services (income from trading operations)	1 900	12 214
38.	- from affiliated undertakings		
39.	- from other associated undertakings		
40.	- writeback of impairment on securities held for trading		
41.	d) expense on investment services (expense on trading operations)	984	7 986
42.	- to affiliated undertakings		
43.	- to other associated undertakings		
44.	- impairment on securities held for trading		

No.	Description	Previous year 31.12.2004.	Reporting year 31.12.2005.
a	b	c	d
45.	<b>7. Other income from business activities</b>	24 286	4 072
46.	a) income from non-financial and investment services	386	804
47.	- from affiliated undertakings	106	164
48.	- from other associated undertakings		
49.	b) other income	23 900	3 268
50.	- from affiliated undertakings		
51.	- from other associated undertakings		
52.	- writeback of impairment on inventories		
53.	<b>8. General and administrative expenses</b>	51 537	48 832
54.	a) personnel expense	24 034	25 435
55.	aa) salaries and wages	15 466	16 977
56.	ab) other personnel expense	2 844	2 398
57.	- social security expense	428	498
58.	- retirement expense	387	380
59.	ac) contributions payable on salaries and wages	5 724	6 060
60.	- social security expense	2 017	2 112
61.	- retirement expense	2 980	3 154
62.	b) other administrative expenses (material-type expenses)	27 503	23 397
63.	<b>9. Depreciation</b>	5 063	6 815
64.	<b>10. Other expenses on business activities</b>	11 493	12 703
65.	a) expense on non-financial and investment services	436	634
66.	- to affiliated undertakings		
67.	- to other associated undertakings		
68.	b) other expense	11 057	12 069
69.	- to affiliated undertakings	33	
70.	- to other associated undertakings		
71.	- impairment on inventories		
72.	<b>11. Impairment on receivables and risk provisioning for contingent and future liabilities</b>	6 030	9 083
73.	a) impairment on receivables	5 947	8 492
74.	b) risk provisioning for contingent and future liabilities	83	591
75.	<b>12. Writeback of impairment on receivables and risk provisions used for contingent and future liabilities</b>	2 862	6 283
76.	a) writeback of impairment on receivables	2 578	6 180
77.	b) risk provisions used for contingent and future liabilities	284	103
78.	<b>13. Impairment on debt securities held for investment and shares and participations in affiliated and other associated undertakings</b>	12 343	4 663
79.	<b>14. Writeback of impairment on debt securities held for investment and shares and participations in affiliated and other associated undertakings</b>	342	1 644
80.	<b>15. Profit/loss from ordinary activities</b>	24 559	24 771
81.	of which: - profit/loss from financial and investment services	24 609	24 601
82.	- profit/loss from non-financial and investment services	- 50	170
83.	<b>16. Extraordinary income</b>	1 184	1 158
84.	<b>17. Extraordinary expense</b>	1 185	2 870
85.	<b>18. Extraordinary profit/loss</b>	- 1	- 1 712
86.	<b>19. Pretax profit/loss</b>	24 558	23 059
87.	<b>20. Taxation</b>	2 363	5 337
88.	<b>21. Net profit/loss</b>	22 195	17 722
89.	<b>22. General provisions made/used</b>	- 2 220	- 1 772
90.	<b>23. Profit reserve used for dividend and minority interest</b>		
91.	<b>24. Dividend and minority interest approved</b>		
92.	of which: - to affiliated undertakings		
93.	- to other associated undertakings		
94.	<b>25. Retained earnings</b>	19 975	15 950

Budapest, 21 March 2006

John Hollows                      Attila Gombás  
Chief Executive Officer    Head of the Finance Division

**Kereskedelmi és Hitelbank Rt.**

**Notes to the Financial Statements**

**31 December 2005**



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## I. OVERVIEW

## I/1. Kereskedelmi és Hitelbank Rt. – key facts

type of company: company limited by shares ("Rt.")

date of establishment: 20 February 1987

shareholders:

Shareholder	31 December 2004		31 December 2005	
	Subscribed capital (HUF m)	Stake (%)	Subscribed capital (HUF m)	Stake (%)
KBC Bank N.V. B-1080 Brussels, Havenlaan 2.	31 220	59.46	31 226	59.47
ABN AMRO Bank N.V. NL-1082 Amsterdam, Gustav Mahlerlaan 10.	21 123	40.23	21 123	40.23
Other	164	0.31	158	0.3
<b>Total subscribed capital</b>	<b>52 507</b>	<b>100.00</b>	<b>52 507</b>	<b>100.00</b>

## Activities:

- 65.12 Other monetary intermediation
- 65.21 Financial leasing
- 65.22 Other lending
- 65.23 Other financial intermediation not elsewhere classified
- 67.12 Securities brokerage, fund management
- 67.13 Other auxiliary financial activities not elsewhere classified
- 67.20 Activities auxiliary to insurance and pension funding
- 65.12 Other monetary intermediation
- 74.14 Management consulting
- 74.87 Other business services not elsewhere classified

## **I/2. Kereskedelmi és Hitelbank Rt. – significant accounting policies**

The Bank keeps its business records in compliance with applicable accounting regulations. These business records (general ledger and subledger ["analytical"] systems) support the Bank's internal and external reporting obligations, including reporting to the Hungarian Financial Supervisory Authority (PSZÁF) and the National Bank of Hungary.

The Bank's Accounting Policy and related internal regulations set out the valuation methods, principles and processes used by management in preparing reports and other financial statements. Furthermore, the Accounting Policy also sets forth requirements concerning disclosures, announcements and auditing.

The Bank observes statutory – extended - accounting principles in both bookkeeping and the preparation of annual reports. The enforcement of these standards ensures that the Bank's books and annual reports give a fair and reliable view of the Bank's state of affairs.

The Bank's accounting policy, bookkeeping procedures, interim financial statements and annual reports comply with the following laws and regulations:

- Act C of 2000 on Accounting, and its amendments
- Government Decree No. 250/2000 (XII.24.) on the special bookkeeping and annual reporting obligations of credit institutions and financial enterprises (hereinafter referred to as the "Government Decree on Credit Institutions"), and its amendments
- Act LXXXI of 1996 on Corporation Tax and Dividend Tax (hereinafter referred to as the "Corporation Tax Act"), and its amendments
- Act CXII of 1996 on Credit Institutions and Financial Enterprises (hereinafter referred to as the "Credit Institutions Act"), and its amendments
- Decree No. 14/2001 (III.9.) of the Finance Minister on the rating and valuation criteria of outstanding receivables, investments, off-balance sheet items and collaterals, and its amendments
- Act CXX of 2001 on the Capital Market and its amendments

The Bank's – analytical and general ledger – records continuously capture any and all economic events arising in the course of its business activities that can have an impact on the Bank's net worth, financial position and income. The books are closed at the end of each business year. The Bank uses double-entry bookkeeping, and its books are in Hungarian.

Accounting operations at the Bank's head office and branch network units are supported primarily by product-focused IT systems, which comprise local as well as central systems. Automatic posting by these systems is occasionally complemented by manual bookkeeping, these being the two general ledger inputs of the branch network and the Bank as a whole.

The Bank's (annual consolidated) report – supported by bookkeeping records – reflects the Bank's operations, net worth, financial position and income and is prepared in Hungarian upon the closing of the Bank's books for the business year. The consolidated annual report is compiled according to international accounting standards.

Business year refers to the period covered by the Bank's annual report and business report. The business year is identical to the calendar year.

**The balance sheet date is 31 December of the reporting year.**

**The balance sheet is prepared on the 4<sup>th</sup> working day following the reporting year (5 January 2006).**

The annual report consists of the following parts:

- Balance Sheet,
- Profit & Loss Account,
- Cash Flow Statement,
- Notes to the Financial Statements.

The structure and content of the annual report and the consolidated annual report are governed by the Accounting Act, as amended, the Credit Institutions Act and the Government Decree on the special bookkeeping and reporting obligations of credit institutions and financial enterprises – in accordance with the accounting standards of the European Community.

The Balance Sheet and Profit & Loss Account must show the corresponding previous-year figure for each item, and if the two figures are not comparable, the Bank must provide an explanation in the Notes to the Financial Statements.

### **Valuation of Balance Sheet assets and liabilities**

The valuation of assets and liabilities is regulated in detail by the Accounting Act and the Government Decree on the special bookkeeping and reporting obligations of credit institutions and financial enterprises.

Regulations applicable to the valuation of assets and liabilities are set forth in a separate internal policy, as part of the Bank's Accounting Policy, pursuant to the legislation mentioned above.

The Accounting Policy merely summarizes the key principles.

The Bank values fixed and current assets – with the exception of foreign exchange (foreign currency) inventories – at original cost less depreciation (ordinary and extraordinary depreciation) and impairment, and after writeback.

The Bank's foreign exchange (foreign currency) inventories and its receivables and payables denominated in a foreign currency are stated at the daily foreign exchange rate of the National Bank of Hungary (NBH). Foreign exchange (foreign currency) inventories and receivables denominated in currencies not quoted by the NBH are stated at the Bank's own exchange rate. The Bank posts any interim exchange rate gain/loss under other receivables on a technical account, against the revalued foreign exchange assets or liabilities account. During monthly general ledger account closing the balance of this technical account is transferred to income from other financial services or expense on other financial services, depending on the nature of the account. At the beginning of the following month, this balance is written back to the technical account. At yearend (at the balance sheet date) the balance of the account is posted to income from other financial services or expense on other financial services.

If the market value of a right, trademark, patent or tangible asset – with the exception of capital investments (capital expenditure) and advances on capital investments – is significantly higher than the book value (original cost) of such asset after writeback, then the difference is stated as a value adjustment or valuation reserve.

Liabilities – with the exception of the above foreign exchange items – are stated at book value.

### **Impairment and provisioning**

The Bank recognizes *impairment* on its investments in other undertakings, debt securities with a maturity of over one year and inventories if their book value is permanently and significantly higher than their market value. The impairment recognized equals the difference between the book value and the market value.

In accordance with the classification of its accounts receivable and its debtor ratings, the Bank recognizes *impairment* on its receivables that equals the difference between book value and the likely recoverable amount, provided that such difference is negative (i.e., a loss), significant and appears to be permanent.

If, as a result of a change in market conditions, the market value of an asset is permanently higher than its book value, or debtor rating is improved, the book value of the asset is adjusted by *writing back the impairment* already recognized.

In accordance with applicable accounting legislation, the Bank makes *provisions* for the following purposes:

- provisions for contingent and future liabilities,
- provisions for pensions paid under an early retirement scheme,
- provisions for liabilities related to severance pay,
- provisions for options, futures and swaps,
- other provisions,
- general risk provision.

The Bank's Impairment and Provisioning Policy sets out detailed rules for impairment and provisioning by asset class.

### **Interest accounting and accrued interest**

The Bank recognizes transaction and late interest, interest-type commission and fees of financial services listed in the Government Decree receivable on amounts due from credit institutions and clients as follows:

During the year the Bank accrues interest in the following cases:

- during the year, interest and interest-type commission receivable must be accrued at the due date if one or more principal or interest installment related to the underlying receivable has been delinquent for 30 days or longer and has not been paid yet. Accrued interest or commission cannot be stated under receivables or income, and no provision or impairment may be made or recognized in relation to it; instead, it must be posted to account class 0 (contingent accounts);
- during the year, interest and interest-type commission receivable must be recognized at the due date as interest receivable and interest income if it is still outstanding and does not have to be accrued as described above,
- during the year, any pro-rated part of interest and interest-type commission receivable but not yet due must be stated under prepayments and accrued income and interest receivable and similar income. No pro-rated interest and interest-type commission receivable but not yet due may be recognized under prepayments and accrued income or interest income if the underlying receivable is rated other than "performing" or "special mention".

At the end of the year the Bank accrues interest in the following cases:

- at yearend, any pro-rated interest and interest-type commission receivable for the financial year at the balance sheet date and due by the date the balance sheet is prepared but not yet received must be accrued,
- at yearend, any pro-rated interest and interest-type commission receivable for the financial year but not due by the date the balance sheet is prepared must be accrued if the underlying receivable is rated other than "performing" or "special mention".

At yearend, any pro-rated interest and interest-type commission receivable for the financial year, due and received by the date the balance sheet is prepared, and any pro-rated interest and interest-type commission receivable for the financial year as at the balance sheet date, but not due by the date the balance sheet is prepared and related to any underlying receivable rated "performing" or "special mention" must be recognized under prepayments and accrued income and interest receivable and similar income.

When interest and interest-type commission receivable is received by the due date, or accrued interest and interest-type commission is subsequently recovered, any such amount must be recognized as an increment to cash and equivalents and interest receivable and similar income.

### **Futures/forward trades**

In the case of futures/forward trades made for hedging purposes either on or off the stock exchange and not closed by the balance sheet date, the difference between the trading (market) price of the traded instrument (security, currency, option, listed instrument; e.g. foreign currency exchange rate deposit and loan interest rate) and its market value as at the balance sheet date may be posted under either (a) prepayments and accrued income *and* income, or (b) accruals and deferred income *and* expenses in an amount that does not exceed the pro-rated gain/loss recognized on the hedged trade(s) by the balance sheet date, but with the opposite sign.

In the case of interest rate swaps, the pro-rated part for the financial year of the financially settled difference between the fixed and the variable interest rate is stated by the Bank as at the balance sheet date either (a) under accruals and deferred income against interest paid and similar expense, or (b) under prepayments and accrued income against interest received and similar income.

If the trade is made for hedging purposes, the pro-rated part for the financial year of the gain/loss realized by the date the balance sheet is prepared may only be recognized for the financial year in an amount that does not exceed the pro-rated gain/loss recognized on the hedged trade(s) by the balance sheet date, but with the opposite sign.

Swap trades made for the purpose of interest arbitrage or in order to convert an existing currency into receivables in another currency and reconvert it at the end of the term at a pre-agreed exchange rate are governed by the accounting rules applicable to swaps made for hedging purposes, excluding the stipulation whereby any pro-rated gain/loss incurred by the balance sheet date and any pro-rated gain/loss realized by the date the balance sheet is prepared may only be recognized in an amount that does not exceed the pro-rated gain/loss recognized on the hedged trade for the financial year, but with the opposite sign.

Complex trades created by matching off-exchange spot and forward foreign exchange trades made with different counterparties for the purpose of interest arbitrage or in order to convert an existing currency into receivables in another currency and reconvert it at the end of the term at a pre-agreed exchange rate – which are thus similar to swap trades – are governed by the rules set forth in the paragraph above. It must be ensured in the accounting records that the forward trade matched to the spot trade in the complex trade is properly marked until the end of the term (i.e., until the trade is closed).

The Bank makes provisions, in the amount specified in Sections 23(2), (4)-(5) and 24(5) of Government Decree 250/2000 (XII.24.) on the special bookkeeping and annual reporting obligations of credit institutions and financial enterprises, for the forward leg of all forward, option and swap trades not made for interest arbitrage or hedging purposes that are not closed by the date the balance sheet is prepared and are likely to result in a loss.

## Profit & Loss Account

The Profit & Loss Account presents the calculation of the Bank's retained earnings – i.e., net profit/loss after taxation and dividends – for the reporting year, showing separately any adjustment to the retained earnings of previous years required by any audit or self-audit. It presents all key factors contributing to or affecting net profit/loss, as well as the components and development thereof.

Retained earnings are the aggregate of operating profit/loss and extraordinary profit/loss (pretax profit/loss), less taxation (net profit/loss), adjusted for the general reserve, plus valuation reserve used, less dividend and minority interest paid (approved).

The vertically arranged Profit & Loss Account prepared using the so-called turnover cost accounting method calculates the Bank's retained earnings through various profit/loss categories.

The Profit & Loss Account also includes the corresponding figures of the previous year.

## Notes to the Financial Statements

The Notes to the Financial Statements present every item prescribed by the Accounting Act and the Government Decree, and all information necessary to give a reliable, true and fair view of the Bank's net worth, financial position and business results.

They provide a more detailed explanation on specific lines of the Balance Sheet and the Profit & Loss Account, and include comments on any item that requires further explanation.

The corresponding figures of the previous calendar year must be shown alongside each item of the Balance Sheet and the Profit & Loss Account; if the figures are not comparable, an explanation must be given in the Notes to the Financial Statements, to quantify the impact of any change for the purposes of comparability.

The Bank's Notes to the Financial Statements are structured as follows:

- Overview
- Notes to the Balance Sheet
- Notes to the Profit & Loss Account
- Additional Information
- Evaluation of the Bank's Net Worth and Financial Position.

The Bank's **Cash Flow Statement** is prepared in compliance with the Version "A" form and content requirements set forth in the Government Decree on Credit Institutions.

## Depreciation of assets

The Bank calculates ordinary depreciation on assets acquired before 1 January 2001 on the basis of original cost, using the straight-line depreciation method and the rates defined in the Corporation Tax Act.

Assets purchased before 1 January 2001 to which the Bank will apply the accelerated depreciation method in the future are presented in an appendix to the Accounting Policy.

Accelerated depreciation is applicable in accordance with the principle of case-by-case valuation when some event reduces the useful life of an asset below its life expectancy established at the time of purchase. The new depreciation rate must be determined on a case-by-case basis in view of the documented actual useful life of the asset in a manner whereby the net value of the asset is reduced to the residual value determined for the end of its useful life.

In relation to assets purchased after 1 January 2001, ordinary depreciation is calculated based on original cost less the residual value of the asset, using the straight-line depreciation method.

The original cost of intangible and tangible assets less the residual value expected at the end of their useful life – with the exception of goodwill and formation-reorganization – must be divided among the years when the Bank is expected to use these assets.

The expected useful life of tangible assets is calculated on the basis of the physical wear-and-tear and obsolescence of the individual asset, as well as its role in the life of the enterprise.

The useful life and residual value of an asset is determined upon the recommendation of the organizational unit responsible for purchasing.

Residual value must be determined in the same way for assets purchased in bulk and assets purchased separately but possessing similar parameters and used under similar circumstances. Particular care should be exercised in connection with purchasing high-value assets.

The Bank depreciates goodwill and the capitalized value of formation-reorganization in 5 years.

No ordinary depreciation may be recognized on land, building lots, works of art and capital investment projects not yet put into operation.

Extraordinary depreciation must be recognized on:

- intangible and tangible assets – excluding capital investments – if their book value permanently and significantly exceeds their market value,
- trademarks, patents and tangible assets if their value is permanently reduced because they have become redundant, been damaged or destroyed or cannot be properly used due to any incompleteness,
- rights if they cannot be enforced at all or can only be enforced with restrictions due to any amendment to the underlying agreement.

No ordinary or extraordinary depreciation may be recognized on any intangible or tangible asset that has been written off in full or reached its planned residual value.

For the purposes of depreciation, a permanent difference between book value and market value is any difference that exists for more than one year.

For the purposes of depreciation, a significant difference between book value and market value is any amount that exceeds the annual depreciation of the given asset.

Tangible assets purchased individually at an original cost of less than HUF 50,000 may be depreciated in one sum at the time they are put into operation.

#### Closing the books and stocktaking

A statement presenting the balance of, and activity on general ledger accounts is prepared on a monthly basis. In order to ensure the completeness of accounting records, the Bank performs the necessary additions, corrections, reconciliations and consolidations monthly, quarterly and annually. The Bank issues monthly account closing directives to regulate the closing process.

During the monthly and quarterly closing of its books the Bank carries out the closing tasks prescribed in applicable laws and regulations.

In order to support the yearend closing of its books, the preparation of the annual report and to verify balance sheet items the Bank draws up and files for future record a detailed and verifiable inventory of the Bank's assets and liabilities as at the balance sheet date, stating both their quantity and value.



Stocktaking serves to determine the actual inventory of assets and liabilities in the Bank's ownership or under its management as well as any third-party assets.

During the year, the Bank continuously maintains subledger ("analytical") records to support its assets and liabilities, while at yearend it draws up an inventory in accordance with the annual stocktaking schedule.

The Bank's Stocktaking Policy sets forth detailed rules applicable to stocktaking activities performed according to standard principles, asset and liability stocktaking and the method and evaluation of stocktaking.

## II. NOTES TO THE BALANCE SHEET

**II/1. HUF equivalent of foreign currency assets within each asset class**

HUF millions

Description	Balance Sheet	31 December 2004			31 December 2005		
		HUF	Foreign currency	Total	HUF	Foreign currency	Total
Cash and equivalents	Line 1	78 169	1 060	79 229	126 935	1 374	128 309
Government securities	Line 2	135 030	11 071	146 101	206 867	6 358	213 225
Amounts due from credit institutions	Line 5	30 648	164 619	195 267	24 846	106 094	130 940
Amounts due from clients	Line 19	616 700	501 877	1 118 577	655 235	692 538	1 347 773
Debt securities, including those with a fixed interest rate	Line 35	986	0	986	1 333	0	1 333
Shares and other variable yield securities	Line 47	903	0	903	904	0	904
Shares and participations held for investment purposes	Line 53	2 737	0	2 737	2 587	9	2 596
Shares and participations in affiliated undertakings	Line 58	5 189	0	5 189	5 810	0	5 810
Intangible assets	Line 63	7 776	1 246	9 022	8 538	0	8 538
Tangible assets	Line 66	19 046	1 403	20 449	20 224	0	20 224
Treasury stock	Line 78	0	0	0	0	0	0
Other assets	Line 79	5 912	534	6 446	5 542	2 524	8 066
Prepayments and accrued income	Line 84	20 000	2 322	22 322	16 609	4 010	20 619
<b>Total assets</b>		<b>923 096</b>	<b>684 132</b>	<b>1 607 228</b>	<b>1 075 430</b>	<b>812 907</b>	<b>1 888 337</b>

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

Description	Balance Sheet	HUF millions					
		31 December 2004			31 December 2005		
		HUF	Foreign currency	Total	HUF	Foreign currency	Total
Amounts due to credit institutions	Line 91	139 104	263 269	402 373	114 599	294 135	408 734
Amounts due to clients	Line 105	830 963	177 148	1 008 111	992 505	258 194	1 250 699
Liabilities from securities issued	Line 128	544	0	544	439	0	439
Other liabilities	Line 150	11 891	10 134	22 025	21 089	12 247	33 336
Accruals and deferred income	Line 158	17 692	2 353	20 045	15 901	3 589	19 490
Provisions	Line 162	15 705	0	15 705	19 218	2	19 220
Subordinated liabilities	Line 167	4 714	9 837	14 551	4 714	10 109	14 823
Subscribed capital	Line 175	52 507	0	52 507	52 507	0	52 507
Subscribed capital unpaid (-)	Line 177	0	0	0	0	0	0
Capital reserve	Line 178	28 070	0	28 070	28 070	0	28 070
General reserve	Line 181	3 144	0	3 144	4 916	0	4 916
Profit reserve (+/-)	Line 182	20 178	0	20 178	40 153	0	40 153
Earmarked reserve	Line 183	0	0	0	0	0	0
Valuation reserve	Line 184	0	0	0	0	0	0
Retained earnings	Line 185	19 975	0	19 975	15 950	0	15 950
<b>Total liabilities &amp; equity</b>		<b>1 144 487</b>	<b>462 741</b>	<b>1 607 228</b>	<b>1 310 061</b>	<b>578 276</b>	<b>1 888 337</b>

**II/3. Amounts due from credit institutions and clients, by maturity  
31 December 2005**

Description	31 December 2004					Total
	0-3 months	3 months – 1 year	1-5 years	5+ years	Total	
	HUF millions					
Amounts due from credit institutions, arising from financial services (Balance Sheet line 07)	147 136	13 279	30 524	0	190 939	
Amounts due from clients, arising from financial services (Balance Sheet line 20)	189 973	312 048	341 873	274 681	1 118 575	
<b>Total</b>	<b>337 109</b>	<b>325 327</b>	<b>372 397</b>	<b>274 681</b>	<b>1 309 514</b>	

Description	31 December 2005					Total
	0-3 months	3 months – 1 year	1-5 years	5+ years	Total	
	HUF millions					
Amounts due from credit institutions, arising from financial services (Balance Sheet line 07)	45 960	13 568	58 123	2 922	120 573	
Amounts due from clients, arising from financial services (Balance Sheet line 20)	217 572	387 469	349 893	381 102	1 336 036	
<b>Total</b>	<b>263 532</b>	<b>401 037</b>	<b>408 016</b>	<b>384 024</b>	<b>1 456 609</b>	

**II/4. Amounts due to credit institutions and clients, by maturity**  
**31 December 2005**

Description	31 December 2004					Total
	0-3 months	3 months - 1 year	1-5 years	5+ years		
Amounts due to credit institutions - fixed-term liabilities from financial services (Balance Sheet line 93)	123 956	13 419	162 084	99 019		398 478
Amounts due to clients - other short-term liabilities from financial services (Balance Sheet line 114)	622 835	40 137	0	0		662 972
Amounts due to clients - other long-term liabilities from financial services (Balance Sheet line 117)	0	0	36 176	2 374		38 550
Subordinated liabilities (Balance Sheet line 167)	0	0	9 837	4 714		14 551
<b>Total</b>	<b>746 791</b>	<b>53 556</b>	<b>208 097</b>	<b>106 107</b>		<b>1 114 551</b>

HUF millions

Description	31 December 2005					Total
	0-3 months	3 months - 1 year	1-5 years	5+ years		
Amounts due to credit institutions - fixed-term liabilities from financial services (Balance Sheet line 93)	121 678	25 061	154 644	97 893		399 276
Amounts due to clients - other short-term liabilities from financial services (Balance Sheet line 114)	434 915	107 235	0	0		542 150
Amounts due to clients - other long-term liabilities from financial services (Balance Sheet line 117)	0	0	45 679	2 729		48 408
Subordinated liabilities (Balance Sheet line 167)	0	10 109	0	4 714		14 823
<b>Total</b>	<b>556 593</b>	<b>142 405</b>	<b>200 323</b>	<b>105 336</b>		<b>1 004 657</b>

HUF millions

**II/5. Gross value of intangible and tangible assets, 2005**

HUF millions

Description	Balance Sheet	Change in gross value					Closing value
		Opening value	Reclassification (+/-)	Merger (+)*	Increase (+)	Decrease (-)	
<b>Intangible assets</b>							
- rights	Line 63	28 141	121	0	2 379	-43	30 598
- trademarks and patents		440	275	0	356	0	1 071
- capital expenditure on intangible assets		27 701	-154	0	2 023	-43	29 527
		0					0
<b>Tangible assets used in financial services</b>							
- land and buildings	Line 67	28 524	-121	0	4 786	-2 266	30 923
- technical equipment, machinery and vehicles	Line 68	17 536	-7	0	951	-1 670	16 810
	Line 69	9 477	7	0	3 299	-559	12 224
- capital expenditure	Line 70	1 511	-121	0	536	-37	1 889
- advances for capital investments	Line 71	0	0	0	0	0	0
<b>Tangible assets not directly used in financial services</b>							
- land and buildings	Line 72	61	0	0	6	-1	66
- technical equipment, machinery and vehicles	Line 73	3	0	0	0	0	3
- capital expenditure	Line 74	58	0	0	6	-1	63
- advances for capital investments	Line 75	0	0	0	0	0	0
	Line 76	0	0	0	0	0	0

The amount stated for technical equipment, machinery and vehicles includes the value of tangible assets purchased at an original per-item cost of HUF 50,000 or less. The total value of such assets is HUF 157 million.

**II/6. Accumulated depreciation of intangible and tangible assets, 2005**

HUF millions

Description	Balance sheet	Accumulated depreciation					Closing value
		Opening value	Reclassification (+/-)	Increase (+)	Decrease (-)		
<b>Intangible assets</b>	Line 63	19 119	0	2 973	-32	22 060	
- rights		296	-5	50	0	341	
- trademarks and patents		18 823	5	2 923	-32	21 719	
- capital expenditure on intangible assets		0	0	0	0	0	
<b>Tangible assets used in financial services</b>	Line 67	8 135	0	3 841	-1 213	10 763	
- land and buildings	Line 68	5 321	0	648	-867	5 102	
- technical equipment, machinery and vehicles	Line 69	2 814	0	3 193	-346	5 661	
<b>Tangible assets not directly used in financial services</b>	Line 72	1	0	1	0	2	
- land and buildings	Line 73	0	0	1	0	1	
- technical equipment, machinery and vehicles	Line 74	1	0	0	0	1	

The amount stated for technical equipment, machinery and vehicles includes the depreciation of tangible assets purchased at an original per-item cost of HUF 50,000 or less. The total depreciation of such assets is HUF 157 million.



**II/7. Net value of intangible and tangible assets, 2005**

HUF millions

Description	Balance sheet	31.12.2004.	31.12.2005.
		Opening value	Closing value
<b><u>Intangible assets</u></b>	Line 63	<b>9 022</b>	<b>8 538</b>
- rights		144	730
- trademarks and patents		8 878	7 808
- capital expenditure on intangible assets		0	0
<b><u>Tangible assets used in financial services</u></b>	Line 67	<b>20 389</b>	<b>20 160</b>
- land and buildings	Line 68	12 215	11 708
- technical equipment, machinery and vehicles	Line 69	6 663	6 563
- capital expenditure	Line 70	1 511	1 889
- advances for capital investments	Line 71	0	0
<b><u>Tangible assets not directly used in financial services</u></b>	Line 72	<b>60</b>	<b>64</b>
- land and buildings	Line 73	3	2
- technical equipment, machinery and vehicles	Line 74	57	62
- capital expenditure	Line 75	0	0
- advances for capital investments	Line 76	0	0

**II/8. Annual depreciation of intangible and tangible assets, 2005**

HUF millions

<b>Description</b>	<b>Ordinary</b>	<b>Extraordinary</b>	<b>Total</b>
<u>Intangible assets</u>	2 971	0	2 971
<u>Tangible assets used in financial services</u>	3 763	0	3 763
- land and buildings	644	0	644
- technical equipment, machinery and vehicles	3 119	0	3 119
<u>Tangible assets not directly used in financial services</u>	1	0	1
- land and buildings	0	0	0
- technical equipment, machinery and vehicles	1	0	1
<u>Depreciation of tangible assets with a value of less than HUF 50,000</u>	49	0	49
<u>Adjustment due to self-audit</u>	31	0	31
<b>Total</b>	<b>6 815</b>	<b>0</b>	<b>6 815</b>

**II/9. Contingent and future liabilities by type**

Description	HUF millions	
	31.12.2004.	31.12.2005.
Guarantees issued	144 341	166 714
Credit and guarantee lines	304 934	425 671
Export letters of credit	687	21
Import letters of credit	1 757	2 793
Liabilities from lawsuits	519	2 444
Liabilities from options	231 364	337 004
<b>Total contingent liabilities</b>	<b>683 602</b>	<b>934 647</b>

Description	HUF millions	
	31.12.2004.	31.12.2005.
Foreign currency swaps	795 914	1 024 075
Foreign currency forwards	122 899	149 634
Liabilities from the sale/purchase of securities	103 463	18 932
Other future liabilities	5 053	15 738
<b>Total future liabilities</b>	<b>1 027 329</b>	<b>1 208 379</b>

**III/10. Impairment and risk provisioning in 2005**

Description	HUJF millions				
	Opening balance	Impairment recognized and provisions made in the reporting year (+)	Writeback of impairment recognized, and use/release of provisions made in the previous year (-)	Other changes	Closing balance
Impairment recognized on receivables (amounts due from credit institutions, clients)	18 532	8 492	6 180	476	21 320
Impairment recognized on financial investments	15 422	4 663	1 644	0	18 441
Impairment recognized on other receivables (operating)	18	0	0	0	18
<b>Total impairment recognized on assets</b>	<b>33 972</b>	<b>13 155</b>	<b>7 824</b>	<b>476</b>	<b>39 779</b>
Risk provisions for contingent and future liabilities	135	591	103	-3	620
Provisions for operating risks and other provisions	419	0	0	0	419
General risk provision	13 462	3 006	66	0	16 402
Provisions for future expenses	974	172	195	0	951
Provisions for futures/forward trades	715	113	0	0	828
<b>Total provisions</b>	<b>15 705</b>	<b>3 882</b>	<b>364</b>	<b>-3</b>	<b>19 220</b>

The "Other changes" column shows the change resulting from the 2005 revaluation.

**II/11. Other notes to the Balance Sheet****II/11.a., Listed securities held by the Bank****- Under financial fixed assets:**

HUF millions

Description	31 December 2004		31 December 2005	
	Par value	Book value	Par value	Book value
Government bonds	25 090	23 926	7 880	7 621
Corporate bonds	90	81	90	86
Investment units	401	384	754	732
<b>Total:</b>	<b>25 581</b>	<b>24 391</b>	<b>8 724</b>	<b>8 439</b>

**- Under current assets:**

HUF millions

Description	31 December 2004		31 December 2005	
	Par value	Book value	Par value	Book value
Government bonds	56 366	55 152	82 889	86 820
Discounted Treasury bills	866	830	582	567
Mortgage notes	500	510	500	510
Corporate bonds	10	9	10	9
<b>Total:</b>	<b>57 742</b>	<b>56 501</b>	<b>83 981</b>	<b>87 906</b>

- b., The total amount of loans, securities, participations and liabilities classified as legal lending limits pursuant to Section 79(1) of the Credit Institutions Act was HUF 1,137,859 million as at the balance sheet date.
- c., As at 31 December 2004 the Bank had subordinated loans of HUF 1.7 million (EUR 6,600, interest rate 2%) stated as subordinated receivables under assets. Under liabilities it had subordinated debt of HUF 14,823 million (HUF 4,714 million, maturity date 20.12.2014., interest rate: same as the rate of interest on 2014/B government bonds; and EUR 40 million, maturity date 31.07.2006., interest rate 3.771%).
- d., The Bank's own real estate properties are affected by mortgages as follows:
- 54559/O/A/45, Budapest II., Hidegkúti út, Széphalom Shopping Center – the Bank purchased a part of the property for the purpose of deploying an ATM machine. The property was encumbered at the time of purchase. The Bank has since paid off the debt, thus the mortgage is being deleted from the register (as shown on the land certificate in the form of a marginal note).
  - 2432/A/2 Hajdúszoboszló property – the Bank has paid off the debt, thus the mortgage is being deleted from the register.

- e., To cover potential losses related to risk exposure that cannot be foreseen or determined in advance, the Bank must make general risk provisions for up to 1.25% of the adjusted balance sheet total, not later than three years after the effective date of Act CXII of 1996 on Credit Institutions and Financial Enterprises. The Bank made general risk provisions of HUF 16,402 million by 31 December 2005.
- f., The amount of accrued interest (including transaction interest and late interest), interest-type commission and fees receivable totaled HUF 2,890 million at 31 December 2005.
- g., The HUF equivalent of receivables and liabilities arising from spot foreign exchange trades totaled HUF 12,698 million and HUF 12,698 million, respectively, at the balance sheet date, 31 December 2005.
- h., At 31 December 2005, the balances of swap sell and buy trades made in the interbank market stood at HUF 983,560 million and HUF 988,391 million, respectively, while the balances of swap sell and buy trades made with clients were HUF 40,515 million and HUF 40,386 million, respectively. The balances of forward sell and buy trades made in the interbank market stood at HUF 42,467 million and HUF 24,439 million, respectively, while the balance of FX forward sell and buy trades made with clients were HUF 105,883 million and HUF 120,552 million, respectively. The transactions served hedging as well as trading purposes.
- i., At the end of 2005 the Bank accrued interest income of HUF 3,705 million and prorated interest expense of HUF 2,568 million in respect of FX transactions.
- j., The Bank participates, for a fee, in the distribution of investment units issued by various investment funds. Settlements are effected with these funds on a daily basis, sometimes in arrears. At the end of the year the Bank had payables of HUF 828 million to, and receivables of HUF 15 million from, these funds. The par value of investment units distributed by the Bank itself and posted as off-balance sheet items (held on securities accounts) – expressed in Hungarian forints – totaled HUF 163,699 million at the end of the year.
- k., The Bank did not have any earmarked reserves at 31 December 2005.
- l., At 31 December 2005 the adjusted balance sheet total was HUF 1,312,408 million.
- m., The Bank did not have any retirement benefit payment obligations to its former Board of Directors or Supervisory Board members.
- n., The Bank manages securities with a total par value of HUF 778,142 million for its clients on custody and securities accounts. As part of its investment services, the Bank also maintains restricted cash accounts (client accounts) for its clients, the aggregate balance of which – expressed in Hungarian forints – was HUF 13,624 million as at 31 December 2005. Clients had receivables of HUF 13,757 million on their client accounts at the end of the year, where amounts deposited by clients to subscribe for investment units and blocked on their accounts represented HUF 11,602 million. The debit balance of client accounts was HUF 133 million, while the Bank also had HUF 11,602 million due from the issuers of investment funds; this latter amount is not debited to client accounts, but credited to special accounts earmarked for subscriptions to investment funds.
- o., The Bank did not provide any asset management services for insurance funds in 2005.
- p., At 31 December 2005 the Bank had a total amount of HUF 11,693 million due from its parent company; at the same time, the Bank had short-term liabilities of HUF 156,025 million to its parent. The net interest expense posted in respect of the parent company in 2005 totaled HUF 515 million. At 31 December 2005, amounts due from subsidiaries totaled HUF 170,626 million, while short-term liabilities amounted to HUF 21,391 million. The Bank had no subordinated or long-term liabilities to its subsidiaries. In relation to its subsidiaries, in 2004 the Bank posted net interest income of HUF 2,083 million and other income of HUF 2,429 million.

**II/12. Third-party securities****- Third-party securities (in safekeeping with KELER Rt.)**

HUF millions

Description	Par value		Comment
	31.12.2004.	31.12.2005.	
Investment units	66 114	143 178	dematerialized
Discounted Treasury bills	60 416	57 841	dematerialized
Other bonds	19 256	23 606	dematerialized
Mortgage notes	6 530	7 584	dematerialized
Interest-bearing Treasury bills	17 086	9 695	dematerialized
Government bonds for loan consolidation	12 700	13 478	dematerialized
Hungarian government bonds	367 969	347 932	dematerialized
Shares	91 531	94 026	dematerialized
<b>Total</b>	<b>641 602</b>	<b>697 340</b>	

**- Third-party securities (In safekeeping at the Bank's depository)**

HUF millions

Description	Par value		Comment
	31.12.2004.	31.12.2005.	
Other securities	15 072	16 221	physical
Compensation coupons	346	323	physical
Shares	36 885	42 754	physical
<b>Total</b>	<b>52 303</b>	<b>59 298</b>	

**- Third-party securities in safekeeping with third parties**

HUF millions\*\*

Description	Par value		Comment
	31.12.2004.	31.12.2005.	
Investment units	5 214	20 516	Budapest Bank (2.95), Clearstream (3053.95), Kreditbank (6317.00), KBC (11141.92), K&H Equities (0.1)
Other bonds	760	1 666	Clearstream
Shares	11	13	Bonbon Delicatesse Rt. (0.04); Clearstream (11.59), Concorde (0.043), K&H Equities (1.756)
<b>Total</b>	<b>5 985</b>	<b>22 195</b>	

**- Third-party securities in transit**

HUF millions\*\*

Description	Par value		Comment
	31.12.2004.	31.12.2005.	
Investment units	3	0	ZEUS records
Shares	0	0	ZEUS records
<b>Total</b>	<b>3</b>	<b>0</b>	

\*\* converted into HUF at the NBH exchange rate for 31.12.2005.

**II/13. Securities portfolio held by the Bank****- Securities held by the Bank (in safekeeping with KELER Rt.)**

HUF millions

Description	Par value		Book value	
	31.12.2004.	31.12.2005.	31.12.2004.	31.12.2005.
Investment units	1 301	1 654	1 284	1 632
Discounted Treasury bills	866	582	830	567
Other bonds	100	100	91	91
Mortgage notes	500	500	510	510
Interest-bearing Treasury bills	213	89	211	87
Government bonds for loan consolidation	21 542	81 455	21 482	81 345
Hungarian government bonds	108 792	118 115	106 413	118 818
NBH interest-bearing bonds	4 743	4 743	4 743	4 743
Shares	240	209	644	558
<b>Total</b>	<b>138 297</b>	<b>207 447</b>	<b>136 208</b>	<b>208 351</b>

**- Securities held by the Bank (in safekeeping at the Bank's depository)**

HUF millions

Description	Par value		Book value	
	31.12.2004.	31.12.2005.	31.12.2004.	31.12.2005.
Shares	3 184	4 034	3 373	5 946
<b>Total</b>	<b>3 184</b>	<b>4 034</b>	<b>3 373</b>	<b>5 946</b>

**- Securities held by the Bank (in safekeeping with third parties)**

HUF millions \*\*\*

Description	Par value		Book value		Comment
	31.12.2004.	31.12.2005.	31.12.2004.	31.12.2005.	
Government bonds for loan consolidation	1 300	1 300	1 332	1 298	Dresdner Bank, Frankfurt.
Hungarian government bonds	21	10	20	10	K&H Equities
NBH foreign currency bonds	10 622	5 971	11 071	6 358	EIB Luxemburg
<b>Total</b>	<b>11 943</b>	<b>7 281</b>	<b>12 423</b>	<b>7 666</b>	

\*\*\* converted into HUF at the NBH exchange rate for 31.12.2005.



**II/14. Accruals**

HUF millions

<b>Prepayments and accrued income</b>	<b>31.12.2004.</b>	<b>31.12.2005.</b>
<b>Accrued income</b>	<b>21 297</b>	<b>18 817</b>
Accrued interest and interest-type commissions	21 139	18 024
Other accrued income	158	793
<b>Prepaid costs and expenses</b>	<b>1 025</b>	<b>1 802</b>
<b>Deferred expense</b>	<b>0</b>	<b>0</b>
<b>Total (Balance Sheet line 84)</b>	<b>22 322</b>	<b>20 619</b>

HUF millions

<b>Accruals and deferred income</b>	<b>31.12.2004.</b>	<b>31.12.2005.</b>
<b>Accrued income</b>	<b>1 501</b>	<b>2 584</b>
<b>Accrued costs and expenses</b>	<b>18 448</b>	<b>16 567</b>
Accrued interest	13 909	10 957
Other accrued expenses	3	1
Accrued costs	4 536	5 609
<b>Deferred income</b>	<b>96</b>	<b>339</b>
<b>Total (Balance Sheet line 158)</b>	<b>20 045</b>	<b>19 490</b>

**II/15. Changes in equity**

	HUF millions					
	Subscribed capital	Capital reserve	Profit reserve	General reserve	Retained earnings for the year	Total
Balance 31.12.2004.	52 507	28 070	20 178	3 144	19 975	123 874
Distribution of 2004 profits			19 975		-19 975	0
Retained earnings for the year					15 950	15 950
General reserve				1 772		1 772
Capital increase						0
Balance 31.12.2005.	52 507	28 070	40 153	4 916	15 950	141 596

**II/16. Intangible assets by type**

<b>Description</b>	HUF millions	
	<b>31.12.2004.</b>	<b>31.12.2005.</b>
Telephone network access fee	40	27
Internet	1	1
Data transmission network access fee	95	72
Trademarks	1	0
Image manual	7	5
License	0	625
<b>Rights</b>	<b>144</b>	<b>730</b>
Basic software	1 325	1 004
User software	7 553	6 800
Trademarks	0	4
<b>Patents</b>	<b>8 878</b>	<b>7 808</b>
<b>Total</b>	<b>9 022</b>	<b>8 538</b>

**II/17. Inventories purchased or received in debt settlement and intended for resale**

<b>Description</b>	HUF millions	
	<b>31.12.2004.</b>	<b>31.12.2005.</b>
<b>Inventories purchased</b>		
Materials	280	221
Goods	3	28
Other assets	18	0
<b>Total (Balance Sheet line 80)</b>	<b>301</b>	<b>249</b>

**II/18. Risk-free government securities held for investment**

Currency of issue	Description	HUF millions	
		2004	2005
HUF	Government bonds for loan consolidation	6 436	6 436
HUF	Bonds issued by the NBH	2 076	2 076
HUF	Securities issued by the State of Hungary	33 550	17 070
<b>HUF Total</b>		<b>42 062</b>	<b>25 582</b>
JPY	Bonds issued by the NBH	0	6 358
<b>JPY Total</b>		<b>0</b>	<b>6 358</b>

### III. NOTES TO THE PROFIT & LOSS ACCOUNT

**III/1. Expense on non-financial and investment services**

No.	Description	HUF millions	
		31.12.2004.	31.12.2005.
1.	Re-invoiced value of third-party services	418	624
2.	Book value of inventories sold	7	8
3.	Direct cost of other services	11	2
<b>Total: (Profit &amp; Loss Account line 65)</b>		<b>436</b>	<b>634</b>

**III/2. Income from and expense on investment services**

Income from investment services	HUF millions	
	31.12.2004.	31.12.2005.
1. Income from custody services	245	388
2. Income from trading	1 900	12 214
3. Income from commission-based activities	2 265	2 636
4. Other income	197	213
<b>Total: (Profit &amp; Loss Account lines 20 + 37)</b>	<b>4 607</b>	<b>15 451</b>

Expense on investment services	HUF millions	
	31.12.2004.	31.12.2005.
1. Expense on custody services	8	15
2. Expense on trading	984	7 986
3. Expense on commission-based activities	146	188
<b>Total: (Profit &amp; Loss Account lines 27 + 41)</b>	<b>1 138</b>	<b>8 189</b>

**III/3. Provisions required but not made  
(In the breakdown set forth in Section II/10)**

The Bank has made all the provisions prescribed by applicable regulations to cover credit, interest, investment and other risks related to its activities in 2005.

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

**a) Contributions to deposit insurance and institutional protection funds**

HUF millions

Description	Amount		Purpose
	2004	2005	
National Deposit Insurance Fund	137	144	Costs of other services
Investor Protection Fund	64	68	Contribution

**b) Financial assistance received**

HUF millions

Date	Purpose	Amount received	Grantor	Usage schedule		Repayable
				2004	2005	
31.12.2005.	Implementation of the Sinsys system	244	KBC Bank N.V.	10	234	No

**c) Geographical breakdown of income in 2005**

Profit & Loss Account	Geographical breakdown				Breakdown of non-EU countries				HUF millions
	Hungary	EU member states	Non-EU countries	United States	Norway	Switzerland			
<b>1. Interest received and similar income</b>	129 148	4 422	134	132	1			1	
<b>3. Income from securities</b>	652	0	0						
<b>4. Fees and commissions received (receivable)</b>	34 218	19	0						
<b>6. Profit/loss from financial transactions</b>									
a) income from other financial services	7 031								
c) income from investment services	11 154	1 060	0						
<b>7. Other income from business activities</b>	4 070	2	0						



**III/5. Extraordinary expense and extraordinary income recognized in 2005**

Extraordinary expense	Amount		Extraordinary income	Amount	
	31.12.2004.	31.12.2005.		31.12.2004.	31.12.2005.
	HUF millions				
Extraordinary expense related to the dissolution of a business association with ownership interest	1 185	1 219	Extraordinary income related to the dissolution of a business association with ownership interest	1 184	1 073
Extraordinary expense arising from the withdrawal of capital from a business association		1360	Extraordinary income arising from the withdrawal of capital from a business association		80
Extraordinary expense related to previous years		42	Extraordinary income related to previous years		5
Amounts due from private individuals not deemed uncollectible but nevertheless cancelled		1			
Amounts due from enterprises not deemed uncollectible but nevertheless cancelled		248			
<b>Total (Profit &amp; Loss Account line 84)</b>	<b>1 185</b>	<b>2 870</b>	<b>Total (Profit &amp; Loss Account line 83)</b>	<b>1 184</b>	<b>1 158</b>

**III/6. Profit/loss from closed forwards, options and swaps in 2005**

Description	HUF millions
	Amount
Profit/loss from asset swaps	-401
Profit/loss from foreign currency swaps (hedge)	13 559
Profit/loss from foreign currency swaps (non-hedge)	14 134
Profit/loss from forwards (hedge)	-318
Profit/loss from forwards (non-hedge)	-5 115
Profit/loss from FRAs	-33
Profit/loss from interest rate swaps	214
Profit/loss from options	391

#### **IV. ADDITIONAL INFORMATION**

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

- I. Name: John Arthur HOLLOWES  
Address: 1124 Budapest János Zsigmond utca 40.
- II. Name: Attila GOMBÁS  
Address: 5008 Szolnok, Molnár F. u. 65.

**IV/2. Audit**

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

**IV/3. Person in charge of accounting tasks**

Name: Tamás KOVALOVSKI  
Registration number: 141812  
Address: 2011 Budakalász, Szentendrei út 13.

**IV/4. Registered office**

Registered office: 1051 Budapest, Vigadó tér 1.

**IV/5. Number and par value of the Bank's shares by type**

**Key details of the K&H Bank Rt. share (HU0000075304):**

type: registered, dematerialized ordinary share  
basic denomination: HUF 1  
amount issued: 52,507,204,412 shares  
par value: HUF 52,507,204,412.00

**IV/6. Business associations that have an ownership interest in the Bank**

<b>Company name</b>	<b>Registered office</b>	<b>Voting rights (%)</b>
<u>Significant interest:</u> ABN AMRO Bank N.V.	NL-1082 Amsterdam, Gustav Mahlerlaan 10.	40.23
<u>Controlling interest:</u> KBC Bank N.V.	B-1080 Brussels, Havenlaan 2.	59.47

**IV/7. Details of the company consolidating the Bank as its subsidiary**

<b>Consolidating unit</b>	<b>Company name</b>	<b>Registered office</b>	<b>Public</b>	<b>Available for inspection</b>
Biggest	KBC Group N.V.	B-1080 Brussels, Havenlaan 2.	Yes	At its registered office.
Smallest	KBC Bank N.V.	B-1080 Brussels, Havenlaan 2.	Yes	At its registered office.

## IV/8. The Bank's participations

## a. Participations in subsidiaries

No.	Company name	Registered office	Stake (%)	Equity (HUF m) 31.12.2005.	Subscribed capital (HUF m) 31.12.2005.	Reserves (HUF m) 31.12.2005.	Retained earnings for the last financial year (HUF m) 31.12.2005.
1	K&H Pannonlizing Pénzügyi Szolgáltató ZRt.	1068 Budapest, Dózsa György út 84/A.	100.00	3 035	503	1 563	969
2	K&H Equities (Hungary) ZRt.	1051 Budapest, Vigadó tér 1.	100.00	2 785	201	7 066	-4 482
3	K&H Értékpapír Befektetési Alapkezelő Rt.	1051 Budapest, Vigadó tér 1.	100.00	1 353	850	207	296
4	K&H Autófinanszírozó Pü-i Szolg. ZRt.	1068 Budapest, Dózsa György út 84/A.	100.00	818	50	654	114
5	Talentum Rt. "v.a." (in dissolution)	1051 Budapest, Vigadó tér 1.	100.00	502	400	100	2
6	Risk Kft. f.a. (in liquidation)	1087 Budapest, Könyves Kálmán krt. 76.	100.00	444	444	0	0
7	K&H Lizing ZRt.	1068 Budapest, Dózsa György út 84/A.	100.00	380	50	330	0
8	K&H Alkusz Kft.	1068 Budapest, Dózsa György út 84/A.	100.00	149	5	117	27
9	K&H Eszközfinanszírozó Rt.	1068 Budapest, Dózsa György út 84/A.	100.00	109	100	138	-129
10	K&H Csoportszolgáltató Kft.	1051 Budapest, Vigadó tér 1.	100.00	88	60	45	-17
11	Kvantum Követeléskezelő és Befektetési Rt. "v.a." (in dissolution)	1074 Budapest, Dohány u. 98.	100.00	85	350	-265	0
12	K&H Általános Tanácsadó Rt. "v.a." (in dissolution)	1051 Budapest, Vigadó tér 1.	100.00	79	20	55	4
13	K&H Lizingadminisztrációs Rt.	1068 Budapest, Dózsa György út 84/A.	100.00	78	20	58	0
14	K&H Autópark Bérleti és Szolg. Kft.	1068 Budapest, Dózsa György út 84/A.	100.00	54	10	403	-359
15	K&H Ingatlanlizing Rt.	1068 Budapest, Dózsa György út 84/A.	100.00	48	50	0	-2
16	K&H DLH Lizing Kft.	1068 Budapest, Dózsa György út 84/A.	100.00	36	32	5	-1
17	MHB Work Out Kft. "v.a." (in dissolution)	1051 Budapest, Vigadó tér 1.	100.00	9	10	-1	0
18	Piac és Pénz Kiadó Kft. v.a. (in dissolution)	1051 Budapest, Sas u. 3.	100.00	5	5	0	0
19	Fordat Kft.	1074 Budapest, Dohány u. 98.	100.00	3	216	-234	21
20	K&H Vagyonkezelési Holding Kft. "v.a." (in dissolution)	1051 Budapest, Vigadó tér 1.	100.00	1	3	-1	-1
21	BST Invest Kft. "f.a." (in liquidation)	1117 Budapest, Karinthy F. u. 17.	100.00	1	1	0	0
22	K&H Eszközlizing Kft.	1068 Budapest, Dózsa György út 84/A.	100.00	-41	50	126	-217
23	K&H Lizingház Rt.	1068 Budapest, Dózsa György út 84/A.	100.00	-67	20	48	-135
24	GIRO Bankkártya Rt.	1205 Budapest, Mártonffy u. 25-27.	74.58	1 077	177	333	567

The table contains data available as at 31 January 2006.

**b. Participations in jointly managed undertakings**

No.	Company name	Registered office	Stake (%)	Equity (HUF m) 31.12.2005.	Subscribed capital (HUF m) 31.12.2005.	Reserves (HUF m) 31.12.2005.	Retained earnings for the last financial year (HUF m) 31.12.2005.
1	K&H Életbiztosító ZRt.	1068 Budapest, Benczúr u. 47.	50.00	2 109	1 200	410	499

The table contains data available as at 31 January 2006.

**c. Participations in affiliated undertakings**

No.	Company name	Registered office	Stake (%)	Equity (HUF m) 31.12.2005.	Subscribed capital (HUF m) 31.12.2005.	Reserves (HUF m) 31.12.2005.	Retained earnings for the last financial year (HUF m) 31.12.2005.
1	ABN AMRO International Treasury Service Szolgáltató Kft.	1051 Budapest, Vigadó tér 1.	49.00	97	6	79	12
2	Budatrend III. Ingatlanhasznosító Rt.	1022 Budapest, Csepaki u. 6-8.	34.34	305	193	108	4
3	Hage Hajdúsági Agráripari Rt.	4181 Nádudvar, Kossuth u. 2.	25.00	6 528	2 689	3 638	201
4	GIRO Elszámolásforgalmi Rt.	1054 Budapest, Vadász u. 31.	20.99	7 211	2 496	2 230	2 485
5	Hitelgarancia Rt.	1053 Budapest, Szép u. 2.	13.30	n.a.	4 812	n.a.	n.a.

The table contains data available as at 31 January 2006.

**d. Indirect participations in affiliated undertakings**

No.	Company name	Registered office	Stake (%)	Equity (HUF m) 31.12.2005.	Subscribed capital (HUF m) 31.12.2005.	Reserves (HUF m) 31.12.2005.	Retained earnings for the last financial year (HUF m) 31.12.2005.
1	Terményfeltáró Kft.	4152 Püspökladány, I. dűlő	25.00	n.a.	74	n.a.	n.a.
2	Hage Invest Kft.	4181 Nádudvar, Kossuth u. 2.	24.16	n.a.	450	n.a.	n.a.
3	Bankközi Informatika Szolgáltató Rt.	1205 Budapest Mártonffy u. 25-27.	20.99	n.a.	167	n.a.	n.a.
4	Debreceni Lovasakadémia Kht.	n.a.	20.83	n.a.	12	n.a.	n.a.
5	Kabai Táp Rt.	4183 Kaba, Daróczi major, hrsz:070/4.	15.88	n.a.	230	n.a.	n.a.
6	Gyulai Húskombinát Rt.	5700 Gyula, Kétegyházi út 3.	14.83	n.a.	2 092	n.a.	n.a.
7	Mezőhegyesi Sertésenyésztő és Ért. Kft.	5820 Mezőhegyes, Kozma F. u. 30.	14.74	n.a.	390	n.a.	n.a.
8	Kisvállalkozás-fejlesztő Pénzügyi Részvénytársaság	1053 Budapest Szép u. 2.	0.20	n.a.	1 700	n.a.	n.a.
9	NAGISZ Rt.	4181 Nádudvar, Fő u. 119.	6.21	n.a.	5 835	n.a.	n.a.

The table contains data available as at 31 January 2006.

**e. Participations in other associated undertakings**

No.	Company name	Registered office	Stake (%)	Equity (HUF m) 31.12.2005.	Subscribed capital (HUF m) 31.12.2005.	Reserves (HUF m) 31.12.2005.	Retained earnings for the last financial year (HUF m) 31.12.2005.
1	Árpád Üzletház Egyesülés	1045 Budapest, Árpád út 112.	9.45	n.a.	2	n.a.	n.a.
2	Budapesti Értéktőzsde Rt.	1052 Budapest, Deák F. u. 5.	2.00	n.a.	541	n.a.	n.a.
3	Golf & Country Club Rt.	1036 Budapest, Lajos u. 127.	0.02	n.a.	42	n.a.	n.a.
4	Swift SC	Belgium, Avenue Adèle 1. B-1310, La Hulde	0.00	n.a.	39 426	n.a.	n.a.

The table contains data available as at 31 January 2006.



**IV/9. Business associations in which the Bank has an ownership interest**

Company name	Registered office	Subscribed capital (HUF m)	Voting rights
<b>Significant interest:</b>			
Hitelgarancia Rt.	1053 Budapest, Szép u. 2.	4 812	13.30%
GIRO Elszámolásforgalmi Rt.	1054 Budapest, Vadász u. 31.	2 496	20.99%
Hage Hajdúsági Agráripari Rt.	4181 Nádudvar, Kossuth u. 2.	2 689	25.00%
Budatrend III.Ingatlanhasznosító Rt.	1022 Budapest, Csopaki u. 6-8.	193	34.34%
Talentum Rt. "v.a." (in dissolution)	1051 Budapest, Vigadó tér 1.	400	49.00%
ABN AMRO International Treasury Service Szolgáltató Kft.	1051 Budapest, Vigadó tér 1.	6	49.00%
K&H Életbiztosító ZRt.	1068 Budapest, Benczúr u. 47.	1 200	50.00%
<b>Controlling interest:</b>			
GIRO Bankkártya Rt.	1205 Budapest, Mártonffy u. 25-27.	177	74.58%
<b>Direct control:</b>			
K&H Pannonlizing Pénzügyi Szolgáltató ZRt.	1068 Budapest, Dózsa György út 84/A.	503	99.98%
K&H Vagyonkezelési Holding Kft. „v.a.” (in dissolution)	1051 Budapest, Vigadó tér 1.	3	100.00%
K&H Alkusz Kft.	1068 Budapest, Dózsa György út 84/A.	5	100.00%
Piac és Pénz Kiadó Kft. v.a. (in dissolution)	1051 Budapest, Sas u. 3.	5	100.00%
MHB Work Out Kft. "v.a." (in dissolution)	1051 Budapest, Vigadó tér 1.	10	100.00%
K&H Lizingadminisztrációs Rt.	1068 Budapest, Dózsa György út 84/A.	20	100.00%
K&H Csoportszolgáltató Kft.	1051 Budapest, Vigadó tér 1.	60	100.00%
K&H Equities (Hungary) ZRt.	1051 Budapest, Vigadó tér 1.	201	100.00%
Kvantum Követeléskezelő és Befektetési Rt. "v.a." (in dissolution)	1074 Budapest, Dohány u. 98.	350	100.00%
Risk Kft. f.a. (in liquidation)	1087 Budapest, Könyves Kálmán krt. 76.	444	100.00%
K&H Értékpapír Befektetési Alapkezelő Rt.	1051 Budapest, Vigadó tér 1.	850	100.00%

#### **IV/10. Impairment recognized on the investment in K&H Equities Rt.**

In 2004 the Bank recognized an impairment of HUF 12.8 billion on the investment in its subsidiary, K&H Equities Rt. due to the loss of capital resulting from the provisions made for legitimate client claims anticipated to arise from fraudulent practices that had occurred at K&H Equities Rt. before 2003.

The Bank implemented three capital increases in the investment company during 2005: in the amount of HUF 4 billion effective 1 August 2005, HUF 760 million effective 15 November 2005 and HUF 1.5 billion effective 7 December 2005.

As at 31.12.2005. the Bank had provisions of HUF 17.3 billion recognized on its investment, of which HUF 4.5 billion were recognized in 2005.

Criminal investigations have been launched into most of the claims, and these cases are likely to end up in court. The claims awarded in 2005 court proceedings are being settled continuously by K&H Equities Rt. The timetable and outcome of further court proceedings is uncertain. Taking into account the findings of a comprehensive audit and well-founded legal opinions, after careful consideration the Bank believes that the provisions made reflect the best possible estimate and are at present sufficient to cover the possible exposure.

In 2003 the Bank had undertaken to guarantee that the equity of K&H Equities Rt. would comply with applicable regulations. At the same time the Bank's shareholders had also agreed to guarantee the Bank's equity in compliance with applicable regulations.

The amount of loss of capital referred to above does not include legal and other costs to be incurred in the future.

**IV/11. Average number of employees and wage costs by employee category**

Employees by category	Average statistical number of employees		Salaries and wages (HUF millions)	
	2004	2005	2004	2005
Full-time	3 590	3 457	15 307	16 768
Part-time	30	42	99	84
Retired	10	15	42	88
Not on payroll			18	37
<b>Total (Profit &amp; Loss Account line 55)</b>	<b>3 630</b>	<b>3 514</b>	<b>15 466</b>	<b>16 977</b>

**IV/12. Other personnel expenses**

Description	HUF millions	
	31.12.2004.	31.12.2005.
Housing allowance	9	11
Per diem allowance – in Hungary	7	6
Per diem allowance – abroad	0	4
Scholarships	9	7
Cost of benefits paid to temporarily disabled employees	172	196
Daily travel allowance (for travelling to work)	65	64
Life insurance contribution	44	47
Vacation allowance	46	74
Clothing allowance	218	166
Food allowance	154	172
Fringe benefits	243	140
Personal income tax (44%)	368	306
Pension fund contribution	387	380
Health fund contribution	255	302
Severance pay	6	11
Wage cost of dismissals	435	0
Other personnel expense	426	512
<b>Total (Profit &amp; Loss Account line 56)</b>	<b>2 844</b>	<b>2 398</b>

The wage cost of dismissals has been reclassified from other personnel expense to salaries and wages.

**IV/13. Remuneration paid to members of the Board of Directors, Executive Management and the Supervisory Board for the business year**

HUF millions

Description	Number of persons receiving remuneration		Remuneration	
	31.12.2004.	31.12.2005.	31.12.2004.	31.12.2005.
Board of Directors	1	5	25	272
Executive Management	22	30	745	680
Supervisory Board	1	1	1	1
<b>Total:</b>	<b>24</b>	<b>36</b>	<b>771</b>	<b>953</b>

**IV/14. Loans extended to members of the Board of Directors, Executive Management and the Supervisory Board**

31 December 2005

The Bank extended internal loans in the amount of HUF 26 million.

**IV/15. Adjustments to the Bank's taxable income**  
**31 December 2005**

HUF millions

Items decreasing taxable income	Amount	Items increasing taxable income	Amount
Depreciation according to the Corporation Tax Act	7 138	Depreciation according to the Accounting Act	6 783
Book value of tangible assets removed from the books	1 123	Book value of tangible assets removed from the books	1 049
Provisions used	244	Provisions made, released	833
Impairment, write-offs, repayments	34	Receivables waived	258
Income related to previous years	88	Cash and equivalents transferred definitively	236
Dividend received	652	Fines	17
50% of local trade tax	1 099	Expenses related to previous years	146
Donations	210	Other	35
<b>Total</b>	<b>10 588</b>	<b>Total</b>	<b>9 357</b>

**IV/16. Cash Flow Statement (presenting the sources and use of the Bank's funds)**

HUF millions

No.	Description	Previous year	Reporting year
<b>A.</b>			
01.	+ Interest income	129 304	133 704
02.	+ Income from other financial services (excluding writeback of impairment on securities)	56 584	38 031
03.	+ Other income (excluding use of provisions, writeback of surplus provisions, writeback of impairment on inventories and writeback of extraordinary depreciation)	5 189	3 007
04.	+ Income from investment services (excluding writeback of impairment on securities)	4 607	15 451
05.	+ Income from non-financial and investment services	386	804
06.	+ Dividend income	562	652
07.	+ Extraordinary income	1 184	1 158
08.	- Interest expense	82 114	75 446
09.	- Expense on other financial services (excluding impairment on securities)	24 274	8 862
10.	- Other expense (excluding provisioning, impairment on inventories and extraordinary depreciation)	8 962	7 477
11.	- Expense on investment services (excluding impairment on securities)	1 138	8 189
12.	- Expense on non-financial and investment services	436	634
13.	- General and administrative expense	51 537	48 832
14.	- Extraordinary expense (excluding corporation tax liability for the year)	1 185	2 870
15.	- Corporation tax liability for the year	2 363	5 337
16.	- Dividend paid	0	0
<b>17.</b>	<b>OPERATING CASH-FLOW (lines 01-16)</b>	<b>25 807</b>	<b>35 160</b>
18.	Change in liabilities (+ if increase, - if decrease)	201 752	260 427
19.	Change in receivables (- if increase, + if decrease)	-265 388	-169 329
20.	Change in inventories (- if increase, + if decrease)	74	52
21.	Change in securities stated under current assets (- if increase, + if decrease)	7 817	-87 787
22.	Change in securities stated under fixed assets (- if increase, + if decrease)	71 564	16 816
23.	Change in capital expenditure (including advances) (- if increase, + if decrease)	-1 388	-415
24.	Change in intangible assets (- if increase, + if decrease)	-5 006	-2 498
25.	Change in tangible assets (excluding capital expenditure and advances for capital investments) (- if increase, + if decrease)	-15 805	-4 258
26.	Change in prepayments and accrued income (- if increase, + if decrease)	499	1 703
27.	Change in accruals and deferred income (+ if increase, - if decrease)	-3 771	-555
28.	Share offering at sale price	0	0
29.	Cash and equivalents received definitively under applicable law	23	0
30.	Cash and equivalents transferred definitively under applicable law	-247	-236
31.	Par value of Treasury stock and equity bonds retired	0	0
32.	Change in capital reserve	0	0
33.	Change in general reserve	0	0
34.	Change in profit reserve	-4	0
<b>35.</b>	<b>NET CASH FLOW (lines 17-34)</b>	<b>15 927</b>	<b>49 080</b>
36.	of which: - change in cash (HUF and foreign currency cash and checks)	-3 849	1 661
37.	- change in account balances (short-term, HUF and foreign currency technical and deposit accounts maintained with the NBH, and HUF transaction accounts maintained with other credit institutions under separate laws)	19 776	47 419

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

The 2005 activities and financial operations of K&H Bank were characterized by the following:

- The Bank retained its role and presence in the market, and even managed to strengthen its positions in certain – mainly retail – segments.
- Financial results – apart from the provisions made due to Equities – improved further.
- The implementation of the integrated banking system continued and is expected to be completed in the first half of 2006.

2005 business activities and the conditions and results of financial operations are summarized below.

### 1. Balance Sheet and Profit & Loss Account

#### 1.1. Balance Sheet

As at 31 December 2005 K&H Bank had a balance sheet total of HUF 1,888.3 billion, which means an increase of 17.5% (HUF 281.1 billion) as compared to the end of the previous year. On the asset side, the expansion was mainly linked to loans to clients, which was accompanied by similar growth in funds received from clients.

Under **assets**, loans extended to clients showed impressive growth at 20.5% (HUF 229.2 billion).

#### Retail lending

The dynamic expansion of retail loans continued in 2005: after the previous year's 62.8%, retail lending volume grew by 42.6% (as a result of which the relative weight of retail loans within the total loan portfolio increased to 27% from the year-earlier 22%). Foreign currency-based home and personal loans continued to gain ground (as at 31 December these products already accounted for approximately 57% of the K&H retail loan portfolio, versus 36% in 2004). 2005 was a successful year for the Bank, as it managed to boost its market share significantly in retail lending.

#### Corporate lending

2005 was the year of transformation for the Corporate Banking Division: in response to changes in market conditions and the challenges presented by competitors, major organizational changes took place to improve the efficiency and flexibility of business operations. As part of these changes, large corporate clients and project finance were brought under the same management, while a dedicated directorate was set up to strengthen the sales support function. The beneficial impact of the reorganization was already reflected in the growth figures of the second half of the year – at the end of the year the loan portfolio exceeded that of the previous year by 14%.

Under **liabilities & equity**, the amounts due to clients rose by HUF 242.6 billion in total, their weight within total liabilities growing to 66.2% (versus 62.7% in 2004).

Both the corporate and the retail divisions managed to increase their deposits considerably in 2005. In the corporate division, growth was mainly driven by the large corporations segment, where deposits expanded by 35%. Retail deposits rose by 12% during the year, while K&H Befektetési Alapkezelő Rt., the Bank's fund management subsidiary, reported a more than twofold increase in the assets managed in its funds (which in turn resulted in substantial growth in the deposits placed by these funds with the Bank).

The growth in equity is linked to retained earnings (HUF 17.7 billion).

## 1.2. Profit & Loss Account

The Bank's **profit from ordinary activities** remained at the previous year's level (HUF 24.8 billion in 2005 versus HUF 24.6 billion in 2004). The significant changes in certain profit & loss items mainly stemmed from one-off items:

- The 23.5% increase in *net interest income* is mainly related to a change in the accounting of derivative transactions (against the profit/loss from financial transactions, included in other income). If this factor is ignored, the comparable net interest income shows a 7.1% rise as compared to the previous year. The 20-bp improvement in the interest spread linked to client loans-deposits was mainly driven by retail portfolios, where – similarly to the banking sector as a whole – the decrease in loan interest rates fell short of that in deposit interest rates, which were in line with market interest rates. The HUF 1.6 billion increase in disbursement fee income is also related primarily to foreign currency-based retail (mortgage-backed) home and personal loans.
- The rise in *net commission income* (HUF 24.8 billion in 2005 versus HUF 19.9 billion in 2004) is in part related to the gross accounting of currency exchange operations: the income from currency exchange operations is posted under foreign currency income, while the costs of these activities (i.e., the agency commission paid to the exchange agents) are shown under commission expense. The Bank terminated its cooperation with exchange agents in 2004, which therefore adds HUF 3.2 billion to commission income (and means a similar cut in net foreign currency income). Currency exchange operations excluded, net commission income shows a 7.4% (HUF 1.7 billion) improvement as compared to the previous year. The main components (loan and guarantee fees and commissions, account maintenance fees, transaction commissions, bankcards, etc.) all show growth year-on-year. At the same time, the income from investment services rose perceptibly in connection with the distribution of the new guaranteed funds launched by K&H Értékpapír Befektetési Alapkezelő Rt., the Bank's wholly-owned subsidiary.
- The substantial drop in other profit/loss was caused by certain one-off items not related to business activities (in addition to the derivative transactions referred to in connection with net interest income, these items include, for instance, the reclassification of Equities-related provisions to impairment recognized on investments in 2004, the accounting procedures linked to exchange agents, etc.).

The Bank's operating costs were HUF 1 billion, or 1.7% lower than the previous year's corresponding figure (HUF 55.6 billion in 2005 versus HUF 56.6 billion in 2004).

Personnel expenses rose by HUF 1.4 billion, or 5.8% - mainly as a result of the cost implications of the salary increase – while their relative weight within total costs increased from 42.5% to 45.7%.

The amalgamation of two subsidiaries (Gondnok Kft. and Beruházó Kft.) into the Bank effective 1 July 2004 had a major impact on assets and thus also on depreciation, which rose by HUF 1.8 billion, or 34.6%.

Other costs remained HUF 4.1 billion (14.9%) the year-earlier figure even though this cost group includes the expenses related to the new logo and image introduced on 1 June 2005. The key factors behind the drop in costs are as follows: IT and property rent (HUF -4.0 billion), expenses linked to business activities (HUF -0.5 billion) and consulting (HUF -0.7 billion). Rent was influenced by the above-mentioned amalgamation of the Bank's two subsidiaries (in parallel with that, there was a HUF 1.8 billion rise in depreciation recognized). As for expenses linked to business activities, the expenses related to any collateral pledged to secure retail loans have been borne directly by the clients since 2005, while the costs related to debt collection have been removed from among operating costs.



## **2. The Bank's operating environment**

As part of its branch capital expenditure program the Bank completed 16 branch investment projects; another 10 branches are under construction and expected to be completed in the first quarter of 2006. The interior and exterior image of the entire branch network was transformed pursuant to the principles of re-branding, and 58 ATM-related capital investment projects were implemented. In 2005 (and January 2006) all branches were equipped with an uninterrupted power supply.

7 real estate properties were sold during the year, 3 properties were returned to the lessors and 10 new properties were leased in order to open new branches.

In information technology, the most important tasks of the year were as follows:

- Continuing the implementation of the Equation/EBA integrated system and archiving the systems replaced.
- Implementing developments in line with business objectives, providing support for product development and service expansion.
- Increasing the degree of regulation, creating safer and more secure operating conditions.

The Bank began the migration of corporate and premium clients and thus the gradual replacement of the ManTec and Midas/HFS systems. We also continued with the data warehouse project started in the previous year as well as the functional expansion of the Treasury systems (Murex and Zeus), the automation of funds transfers related to securities transactions, and the implementation of e-banking and Mobilinfo access to investment services.