K&H Bank Zrt.

SEMI-ANNUAL REPORT

1H 2009

Budapest, 27 August 2009

Content

Statement of the Issuer

K&H Bank Zrt. as the Issuer (represented by: Marko Voljč, CEO and Attila Gombás, Head of the Finance and Risk Management Division) hereby declare that the Year 2009 Semi-annual Report and the Year 2009 Consolidated Semi-annual Report of K&H Bank Zrt. have been prepared, to the best of the Issuer's knowledge, in compliance with the applicable accounting laws and regulations, and the financial details contained therein reflect a true and reliable status of the assets, liabilities, financial position and profitability of K&H Bank Zrt. and the enterprises involved in the consolidation, and the Business Report shows a faithful picture of the situation, development and performance of K&H Bank Zrt. and the enterprises involved in the consolidation, including the major risks and uncertainty factors.

Furthermore, the Issuer hereby declares that the Semi-annual Report has not been verified by an independent auditor, so the financial details contained therein are not audited figures.

Budapest, 27 August 2009

Marko Voljč
Chief Executive Officer

Attila Gombás
Head of the Finance and Risk Management Division

HUF millions

Balance Sheet - Assets	Audited	Not audited
Description	**31.12.2008.**	**30.06.2009.**
1. CASH AND EQUIVALENTS	**124 297**	**97 707**
2. GOVERNMENT SECURITIES	**953 907**	**1 103 391**
a) held for trading	695 220	815 816
b) held for investment	258 687	287 575
2/A. VALUATION DIFFERENCE OF GOVERNMENT SECURITIES	**4 029**	**2 157**
3. AMOUNTS DUE FROM CREDIT INSTITUTIONS	**95 196**	**53 397**
a) on demand	23 425	16 457
b) other receivables from financial services	71 771	36 940
ba) short-term	57 553	17 477
bb) long-term	14 218	19 463
c) from investment services		
3/A. VALUATION DIFFERENCE OF AMOUNTS DUE FROM CREDIT INSTITUTIONS		
4. AMOUNTS DUE FROM CLIENTS	**1 764 606**	**1 713 512**
a) from financial services	1 763 487	1 711 905
aa) short-term	500 608	322 645
ab) long-term	1 262 879	1 389 260
b) from investment services	1 119	1 607
ba) receivables from stock exchange investment services		
bb) receivables from over-the-counter investment services		
bc) amounts due from clients, arising from investment services	1 118	1 606
bd) amounts due from the clearing house	1	1
be) other receivables from investment services		
4/A. VALUATION DIFFERENCE OF AMOUNTS DUE FROM CLIENTS		
5. DEBT SECURITIES, INCLUDING THOSE WITH A FIXED INTEREST RATE	**57 268**	**60 816**
a) securities issued by local municipalities and other administrative institutions (excluding government securities)	42 811	42 864
aa) held for trading		
ab) held for investment	42 811	42 864
b) securities issued by third-party issuers	14 457	17 952
ba) held for trading	8 334	10 955
bb) held for investment	6 123	6 997
5/A. VALUATION DIFFERENCE OF DEBT SECURITIES	**-978**	**-729**
6. SHARES AND OTHER VARIABLE YIELD SECURITIES	**465**	**143**
a) shares and participations held for trading		
b) variable yield securities	465	143
ba) held for trading	465	143
bb) held for investment		
6/A. VALUATION DIFFERENCE OF SHARES AND OTHER VARIABLE YIELD SECURITIES	**-41**	**6**
7. SHARES AND PARTICIPATIONS HELD FOR INVESTMENT	**1 775**	**1 680**
a) shares and participations held for investment	1 775	1 680
b) adjustments to the value of shares and participations held for investment		
7/A. VALUATION DIFFERENCE OF SHARES AND PARTICIPATIONS		
8. SHARES AND PARTICIPATIONS IN AFFILIATED UNDERTAKINGS	**16 516**	**8 672**
a) shares and participations held for investment	16 516	8 672
b) adjustments to the value of shares and participations held for investment		
9. INTANGIBLE ASSETS	**7 203**	**7 388**
a) intangible assets	7 203	7 388

HUF millions

Balance Sheet - Assets	Audited	Not audited
Description	31.12.2008.	30.06.2009.
b) adjustments to the value of intangible assets		
10. TANGIBLE ASSETS	**24 157**	**23 010**
a) tangible assets used in financial and investment services	24 098	22 956
aa) land and buildings	13 944	14 237
ab) technical equipment, machinery and vehicles	7 806	7 384
ac) capital expenditure	2 348	1 335
ad) advances for capital investments		
b) tangible assets not directly used in financial and investment services	59	54
ba) land and buildings		
bb) technical equipment, machinery and vehicles	59	54
bc) capital expenditure		
bd) advances for capital investments		
c) adjustments to the value of tangible assets		
11. TREASURY STOCK		
12. OTHER ASSETS	**16 219**	**34 531**
a) inventories	178	177
b) other receivables	16 041	34 354
12/A. VALUATION DIFFERENCE OF OTHER RECEIVABLES		
12/b. POSITIVE VALUATION DIFFERENCE OF DERIVATIVE TRANSACTIONS	**65 364**	**42 973**
13. PREPAYMENTS AND ACCRUED INCOME	**48 387**	**46 988**
a) accrued income	47 988	46 063
b) prepayments	399	925
c) deferred expense		
TOTAL ASSETS	**3 178 370**	**3 195 642**

Budapest, 27 August 2009

Marko Voljč
Chief Executive Officer

Attila Gombás
Head of the Finance and Risk Management Division

HUF millions

Balance Sheet - Liabilities & Equity	Not audited	Not audited
Description	**31.12.2008.**	**30.06.2009.**
1. AMOUNTS DUE TO CREDIT INSTITUTIONS	**818 615**	**888 158**
a) on demand	10 609	14 217
b) fixed-term liabilities from financial services	808 006	873 941
ba) short-term	639 900	611 995
bb) long-term	168 106	261 946
c) from investment services		
1/A. VALUATION DIFFERENCE OF AMOUNTS DUE TO CREDIT INSTITUTIONS		
2. AMOUNTS DUE TO CLIENTS	**1 948 432**	**1 893 609**
a) savings deposits		0
aa) on demand		
ab) short-term		
ac) long-term		
b) other liabilities from financial services	1 945 649	1 889 725
ba) on demand	515 791	491 974
bb) short-term	1 049 893	959 891
bc) long-term	379 965	437 860
c) from investment services	2 783	3 884
ca) liabilities from stock exchange investment services	2	16
cb) liabilities from over-the-counter investment services		
cc) amounts due to clients from investment services	2 781	3 868
cd) amounts due to the organization performing clearing house activities		
ce) other liabilities from investment services		
2/A. VALUATION DIFFERENCE OF AMOUNTS DUE TO CLIENTS		
3. LIABILITIES FROM SECURITIES ISSUED	**5 094**	**10 113**
a) bonds issued	4 802	9 832
aa) short-term		
ab) long-term	4 802	9 832
b) other debt securities issued	0	0
ba) short-term		
bb) long-term		
c) debt instruments treated as securities for accounting purposes but not deemed securities under the Securities Act	292	281
ca) short-term	292	281
cb) long-term		
4. OTHER LIABILITIES	**38 491**	**40 233**
a) short-term	38 491	40 233
b) long-term		
4/A. NEGATIVE VALUATION DIFFERENCE OF DERIVATIVE TRANSACTIONS	**77 982**	**46 245**
5. ACCRUALS AND DEFERRED INCOME	**60 370**	**67 829**
a) accrued income	352	317
b) accrued cost and expense	59 699	67 218
c) deferred income	319	294
6. PROVISIONS	**42 891**	**42 145**
a) provisions for retirement benefits and severance pay		
b) risk provisions for contingent and future liabilities	3 377	3 238
c) general risk provisions	21 601	20 601
d) other provisions	17 913	18 306

HUF millions

Balance Sheet - Liabilities & Equity	Not audited	Not audited
Description	31.12.2008.	30.06.2009.
7. SUBORDINATED LIABILITIES	**20 601**	**21 060**
a) subordinated debt	20 601	21 060
b) other financial contributions made by members of co-operative credit institutions		
c) other subordinated liabilities		
8. SUBSCRIBED CAPITAL	**66 307**	**73 709**
9. SUBSCRIBED CAPITAL UNPAID (-)		
10. CAPITAL RESERVE	**28 070**	**28 070**
a) differences between the par value and offering price of shares and participations (premium)	14 393	14 393
b) other	13 677	13 677
11. GENERAL RESERVE	**10 704**	**10 704**
12. PROFIT RESERVE (+/-)	**56 103**	**60 813**
13. EARMARKED RESERVE		
14. VALUATION RESERVE	0	0
a) valuation reserve for value adjustments		
b) valuation reserve for fair market valuation		
15. RETAINED EARNINGS (+/-)	**4 710**	**12 954**
TOTAL LIABILITIES & EQUITY	**3 178 370**	**3 195 642**

Budapest, 27 August 2009

Marko Voljč
Chief Executive Officer

Attila Gombás
Head of the Finance and Risk Management Division

HUF millions

Profit & Loss account	Not audited	Not audited
Description	**30.06.2008. ***	**30.06.2009.**
1. Interest received and similar income	**106 853**	**168 546**
a) interest received (receivable) on fixed-interest debt securities	15 736	52 747
b) other interest received and similar income	91 117	115 799
2. Interest paid and similar expense	**74 051**	**118 435**
NET INTEREST INCOME (1-2)	**32 802**	**50 111**
3. Income from securities	**3 256**	**9 857**
a) income from shares and participations held for trading (dividend, minority interest)		
b) income from participations in affiliated undertakings (dividend, minority interest)	3 256	9 856
c) income from other participations (dividend, minority interest)		1
4. Fees and commissions received (receivable)	**20 202**	**20 026**
a) income from other financial services	17 357	17 423
b) income from investment services (excluding income from trading operations)	2 845	2 603
5. Fees and commissions paid (payable)	**7 986**	**8 748**
a) expense on other financial services	7 853	8 481
b) expense on investment services (excluding expense on trading operations)	133	267
6. Profit/loss on financial transactions [6.a)-6.b)+6.c)-6.d)]	**-3 220**	**4 695**
a) income from other financial services	10 922	9 675
b) expense on other financial services	477	13 470
c) income from investment services (income from trading operations)	36 200	42 866
d) expense on investment services (expense on trading operations)	49 865	34 376
7. Other income from business activities	**2 370**	**6 452**
a) income from non-financial and investment services	754	693
b) other income	1 616	5 759
8. General and administrative expenses	**29 976**	**29 954**
a) personnel expense	15 017	14 303
aa) salaries and wages	9 704	9 213
ab) other personnel expense	1 787	1 782
ac) contributions payable on salaries and wages	3 526	3 308
b) other administrative expenses (material-type expenses)	14 959	15 651
9. Depreciation	**3 819**	**3 566**
10. Other expenses on business activities	**13 249**	**14 578**
a) expense on non-financial and investment services	296	385
b) other expense	12 953	14 193
11. Impairment on receivables and risk provisioning for contingent and future liabilities	**5 771**	**19 472**
a) impairment on receivables	5 853	18 675
b) risk provisioning for contingent and future liabilities	-82	797
12. Writeback of impairment on receivables and risk provisions used for contingent and future liabilities	**8 493**	**7 752**
a) writeback of impairment on receivables	6 336	6 818
b) risk provisions used for contingent and future liabilities	2 157	934
12/A. Difference between general risk provisions made and used	**-430**	**1 000**

HUF millions

Profit & Loss account	Not audited	Not audited
Description	**30.06.2008. ***	**30.06.2009.**
13. Impairment on debt securities held for investment and shares and participations in affiliated and other associated undertakings	561	8 094
14. Writeback of impairment on debt securities held for investment and shares and participations in affiliated and other associated undertakings	8 749	53
15. Profit/loss on ordinary activities	10 860	15 534
16. Extraordinary income	66	122
17. Extraordinary expense	11	170
18. Extraordinary profit/loss (16-17)	55	-48
19. Pretax profit/loss (±15±18)	10 915	15 486
20. Taxation	2 543	2 532
21. Net profit/loss (±19-20)	8 372	12 954
22. General provisions made/used (±)		
23. Profit reserve used for dividend and minority interest		
24. Dividend and minority interest approved		
25. Retained earnings (±21-/+22+23-24)	8 372	12 954

*Comparable figures excluding the one-off impact of first application of "fair valuation".

Budapest, 27 August 2009

Marko Voljč
Chief Executive Officer

Attila Gombás
Head of the Finance and Risk Management Division

Business Report

The Bank's business activity, operating conditions and performance in the first half of 2009 are summarised below.

1. Economic environment

Based on the preliminary half-year figures analysts expect an even larger decline in the Hungarian economy than anticipated previously: in connection with the shrinkage of export markets industrial output further declined in the first half-year, while consumption and investment activity also remained at a low level. Although in some of the dominant countries of the world economy a slight recovery can already be felt in the second half of 2009, substantial increase in the Hungarian economy can be expected only in 2011, the earliest.
At the same time some good news are that the improvement of the economy's external and internal balance has continued: the government – established to order to implement crisis management government measures – adopted measures stabilising the general government balance as expected by the international organisations, while the already mentioned lower consumption/investment activity and the increasing internal savings are likely to result in a significant decrease of the external financing needs.

	2008 actual	2000 forecast
GDP growth	0.6%	-6.5%
CPI (average)	6.1%	5.0%
Increase in investments	-2.6%	-8.0%
Increase in household consumption	-0.1%	-6.7%
General government deficit	3.4%	3.8%
Current account deficit (as a % of GDP)	8.4%	4.1%

Source: NBH, CSO and GKI Economic Research

2. Monetary trends

The risk assessment of the Central- and Eastern-European region – and within that, that of Hungary, after having implemented significant fiscal consolidation measures – has considerably improved in recent months; the domestic financial markets showed signs of consolidation (as a result of this the Hungarian legal tender has significantly strengthened in the second quarter and there has been a substantial fall in yields in the Hungarian bond market as well).
Since during this period inflation (cleared of the one-off impact of tax increase) and future inflationary expectations evolved favourably, in line with the Central Bank's medium term objectives, all circumstances supported the further monetary loosening: the Monetary Council – after the 50 bps decrease of the central bank base rate in January – adopted a further 100 bps cut in July (and with this the base rate was set back to 8.5%, i.e. the value before the 300 bps increase in October).
There was a significant change in the monetary measures employed in the second half of 2008 in order to manage the impacts of the crisis on the domestic financial intermediary system (as part of this the mandatory reserve ratio was reduced, the range of assets accepted by the Central Bank as collateral was expanded, FX swap tenders were announced, etc.). Based on the experience of the last half-year one may state that the adopted central bank measures were successful and contributed to the improvement of the banking system's liquidity situation.

3. The Bank's market position

	31 Dec 2008	30 June 2009 *
Total assets	10.9%	11.4%
Corporate loans	10.1%	9.5%
Retail loans	9.3%	9.3%
Corporate deposits	10.3%	10.5%
Retail deposits and investment funds	10.9%	11.7%

*preliminary figures
Source: NBH

In accordance with the preliminary expectations the banking system is over a difficult half-year: the deteriorating portfolio quality attributable to the unfavourable economic environment, the spectacular fall of the lending activity and the high funding costs all pointed at the decrease of the banking sector's profitability. As far as the portfolio increase is concerned the real growth was smaller than previously both in the area of loans and deposits (while, of course, in certain cases, the positions among the market players also shifted more significantly).
The bank's market share evolved favourable during the first half-year: in terms of total assets K&H Bank strengthened its 2nd rank and was able to further increase its market share both in the retail and corporate savings market.

4. Balance Sheet and Profit & Loss

4.1. Balance sheet

HUF billion	31 Dec 2008	30 June 2009	Change
Total assets	3,178	3,196	0.5%
Amounts due from clients	1,765	1,714	-2.9%

Compared to the end of last year the total assets of K&H Bank Zrt increased by 0.5% (HUF 18 billion), primarily in connection with the *government securities held for trading.* Compared to December both the client loan and client deposit portfolios show a 3% decrease.
The more moderate than previously credit demands – attributable to the unfavourable macroeconomic environment – and the more prudent lending policy of the bank resulted in decreasing lending activity at the level of the banking sector as well. During the first half year within the Bank's **receivables from clients** the retail loan portfolio further expanded (+2%, still due to the retail foreign currency loans), while the corporate credit portfolio decreased by 4% compared to December.

HUF billion	31 Dec 2008	30 June 2009	Change
Amounts due to clients	1,948	1,894	-2,8%
Equity	166	186	12,0%

Within liabilities the amounts due to clients decreased by about HUF 54 billion in the first half-year.
The first half-year of 2009 was characterised by the fight for retail savings. K&H Bank, similarly to the previous year, was successful in increasing its deposit portfolio and strengthening its market position both in the corporate and the retail savings segments. In the period under review retail deposits went up by 12% (HUF 62 billion), while corporate deposits by 4% (HUF 24 billion).
Despite the favourable trends in the customer portfolios, the deposit portfolio decreased in connection with the deposits placed by the investment funds managed by KBC Asset Management, an affiliate of the owner KBC Bank (expiring deposits).
The growth of **equity** is the result of posting the first half-year's profit (HUF 13 billion) and the capital increase (HUF 7.4 billion).

	31 Dec 2008	30 June 2009	Change
Regulatory capital (billion HUF)	188.0	198.5	5.6%
Capital adequacy ratio	9.87%	10.72%	0.85%

Capital adequacy ratio: as of 1 January 2008 the Bank has been employing the Basel II standard method for calculating the capital adequacy ratio (which also includes the capital requirements for lending, market risk and operating risk).

4.2. Profit & Loss

In the first half of 2009 the Bank realised after-tax profits of HUF 13 billion. The significant improvement – compared to the same period of previous year – is primarily attributable to the increased income (favourable interest and securities trading result[1]), while the impairment related to the lending activity has also considerably gone up compared to the previous period.

HUF billion	30 June 2008	30 June 2009	Change
Profit/loss on ordinary activities	10.9	15.5	42.2%
Profit after tax	8.4	13.0	54.8%

The following factors played a key role in the growth of income:

- The *net interest and interest-type profit* rose by 53% compared to the reference period. Most important factors of the considerable growth:
  - Changed financing structure as a result of the crisis: the Bank acquires a significant part of the funds required for the foreign currency lending from EUR interbank deposits and EUR/CHF FX swaps instead of the previously typical HUF/CHF FX swaps. As a result of this the interest-type income related to swaps (in terms of accounting posted under a different heading as exchange rate gain) fell, which however was offset by the interest income related to securities portfolio, which became higher due to the surplus liquidity.
  - In addition to the portfolio increase, the margin income related to client loans also developed favourably as a result of the higher interest margin.
- The *decrease of the commission income compared to the previous period* is partially attributable to a technical item[2] (2008: HUF 12.2 billion, 2009: HUF 11.3 billion). Compared to previous year there is a business nature fall in connection with the *credit and guarantee fees and securities services fee income.*

  The Bank's *operating costs* fell by HUF 0.3 billion (0.8%) compared to the same period of previous year (1st half of 2008: HUF 33.8 billion, 1st half of 2009: HUF 33.5 billion). The outsourcing of the IT organisation to a new company (KBC GSH) as of 1 May 2008 induced a change in the cost structure, as a result of personnel and operating cost having been reclassified as IT costs due to the fee charged by the new company for IT services.
  - *personnel costs* decreased by HUF 0.7 billion (4.8 %)
  - *other expenses* increased by HUF 0.7 billion (4.6 %). Main components: premises, real property leasing fees as a result of the branch network expansion (+ HUF 0.6 billion), IT cost (+0.7 billion), marketing costs (- HUF 0.3 billion), costs related to credit transactions (- HUF 0.3 billion).
  - *depreciation:* HUF -0.3 billion (-6.6%).

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[1] Following the amendments in the accounting law as of October 2008, delivery repo transactions are to be accounted for similarly to normal lending / borrowing transactions (instead of the previous accounting treatment of buy / sale transactions) and financial assets classfied as held for trading can be reclassified into another category if certain criteria are met. As a result of the less favourable evolution of market yields the bank incurred significant losses on the above type of deals according to Hungarian accounting standards during the first half of 2008.

[2] During 2008 the bank reclassified certain turnover-dependent expenses as commission paid against other expenses; if these items are presented in a comparative manner in both periods, then the commission income recognised in the first half-year would be essentially identical with the commission income realised in the same period of the previous year.

5. RISK MANAGEMENT

Banking operations are exposed to several risks. K&H Bank has a system in place to measure these risks accurately, manage them properly and to limit them as best as possible. The system fits into to the risk management system of KBC Group, the majority shareholder, both in terms of methodology and organisation.

- **Credit risk** refers to the possibility of a loss that the Bank sustains if its client becomes insolvent or is unable to meet its payment obligation on time. Credit risks are managed using risk mitigation techniques approved by the Bank's Board of Directors. The applicable regulations cover the entire lending process. The Bank is continuously monitoring its loan portfolio; this monitoring activity serves as basis for the reports prepared for the Bank's senior management.
  The Forint exchange rate and the increasing unemployment ratio during the period under review significantly increased the portfolio of delinquent loans in the case of retail loans. At the beginning of July K&H Bank suspended the admission of foreign currency loan applications for indefinite period.
  In the framework of the Basel II system the Bank has set the objective to implement the Internal Rating Based model (IRB Foundation). As part of the Basel II program the Bank revised all client rating models and enhanced them in line with the new principles. In 2008 the implementation of the second-generation models was completed, which are expected to support the Bank's risk management process even more efficiently. The model maintenance and regular back-measuring process was adjusted to Group standards and we commenced the review of the various models based on this methodology. In 2009 the next round of the models' review has started.
  In 2008 the implementation of the capital calculation software (Fermat), selected at group level – built on the foundation of the data warehouse and the credit risk database realised within the first – was completed; this system is able to handle the Hungarian national discretions, thereby facilitating the calculation of capital requirements in accordance with the domestic legal regulations.
- **Market risk** is the possibility of loss arising from the unexpected change in the value of the Bank's currency and interest rate positions. Interest rate and exchange rate risks, as well as the financial instruments are supervised by the Asset-Liability Committee (ALCO). The members of ALCO are the Bank's senior executives and the representatives of Treasury and Risk Management.
  The Bank's asset-liability management is based on the methodology applied by its majority shareholder, KBC Group. Accordingly, ALCO is continuously monitoring the risk exposure of the banking and trading books and controls it by setting up limits (in line with KBC's limit policy). Interest rate risk is measured and controlled using a combination of various methods and limits (gap analysis, interest sensitivity, duration, BPV).
- **Liquidity risk** refers to the risk that a financial institution is unable to meet its net financing requirements. Liquidity risk may result from market disturbances or credit downgrading, which can cause certain financing resources to dry up immediately. In order to prevent this risk the management has diversified the financing sources and manages assets with a focus on liquidity, maintaining a sound balance of cash, liquid assets and marketable securities. A new indicator to measure and manage short-term liquidity risk was introduced in 2008 for the entire KBC Group. The operating liquidity limit measures whether the 30-day accumulated liquidity gap cover is sufficient. The Risk Management Directorate submits regular reports to K&H Bank's executive bodies and competent committees on the various liquidity ratios and limits.
- **Operating risk** refers to the possibility that the Bank sustains a loss as a result of inadequate system or procedures, human errors or external events. Improving the management of operating risks is a key element in the preparation of the KBC Group for the Basel II Capital Accord. In order to measure operating risks accurately and in detail, a data collection system – covering the entire K&H Bank Group – has been put in place, which allows the Bank to monitor, categorise and analyse the operating loss events. In December 2007 the Bank received the permission from HFSA to use the standard method of capital requirement calculated for operating risks as of 1 January 2008.

6. THE BANKS' OPERATING CONDITIONS

Capital investments in branches:

In the first half of 2009 the opening, alteration or reconstruction of 30 branches was completed or is in progress, as follows:

- 6 new branches/sub-branches were completed and opened, and further 4 were under construction or completed and awaiting opening.
- 3 branches moved to new locations and the technical preparation of moving 3 branches to new locations was completed or is in progress.
- 7 branches underwent comprehensive or partial reconstruction, and at the end of the half-year the reconstruction/expansion of 7 branches was in progress.

In connection with the construction of branches and also as part of the ATM project 10 teller machines were installed at the new locations (branches) and 35 equipments were installed at external, branch-independent locations.

Accessibility works in the network are ongoing, performed parallel with the construction/reconstruction works; at present 220 out of 242 branches are accessible for those living with disabilities.

We have started the environmental compliance works (Freon removal) to comply with legislative requirements, both as part of certain building engineering reconstruction projects, and also as an independent program. At present 185 branches have been fully decontaminated of Freon or were built originally using Freon-free technology.

We continue the establishment of the so-called "green branches" – a project launched in 2008 with two pilot branches. This year – as part of the above list – the development of two additional "green branches" is planned (Fehérgyarmat, Bp-Róna u.). These units do not use any directly fossil fuels.

The most significant IT developments in the first half of 2009 were as follows:

- With the objective to comply with BASEL II and to implement more efficient risk management, a separate data market is being developed for the retail and corporate segments, which will provide efficient support for the modelling and monitoring of lending risks.
- The enhancement of the borrower rating application (AM2), the development of special rating models, and the integration of automatic segmentation was completed, and the management of borrower groups and covenants during the rating process was also implemented. The AM2-data warehouse connection was re-parameterised.
- The Card Mailing and PIN Change project is nearing its end.
- The disaster recovery plan of seven – out of nine – applications has been developed in accordance with the group standards.
- The pilot operation of the new Retail Loan Front-End system has been launched.
- We replaced the Remedy IT error reporting system with HP Service Centre.
- The automation of HFSA and NBH reports continues.
- A new fleet management support application was implemented for Leasing.

The number of the Bank's employees decreased by 48 compared to year-end 2008; at the end of the half-year the headcount was 3,392. The cut took place primarily in the network (40 persons), mainly as a result of the more considered and controlled substitution of the natural fluctuation.

Budapest, 27 August 2009

Marko Voljč
Chief Executive Officer

Attila Gombás
Head of the Finance and Risk Management Division