Kereskedelmi és Hitelbank Zártkörűen Működő Részvénytársaság

ANNUAL REPORT

31 December 2010

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Statement of the Issuer

K&H Bank Zrt. as the Issuer (represented by: Hendrik Scheerlinck, CEO and Attila Gombás, CFO) hereby declare that the Year 2010 Annual Report and the Year 2010 Consolidated 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 Management 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.

Budapest, April 28, 2011

Hendrik Scheerlinck	**Attila Gombás**
Chief Executive Officer	Chief Financial Officer

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Cg. 01-09-267553

This is a translation of the Hungarian Report

Independent Auditors' Report

To the Shareholder of Kereskedelmi és Hitelbank Zártkörűen Működő Részvénytársaság

1.) We have audited the accompanying 2010 annual financial statements of Kereskedelmi és Hitelbank Zártkörűen Működő Részvénytársaság ("the Company"), which comprises the balance sheet as at 31 December 2010 - showing a balance sheet total of HUF 3,213,379 million and a result for the year of HUF 0 -, the related profit and loss account for the year then ended and the summary of significant accounting policies and other explanatory notes.

2.) We issued an unqualified opinion with an emphasis of matter paragraph on the Company's annual financial statements as at 31 December 2009 on 26 March, 2010. The emphasis of matter paragraph drew attention that in 2003 a significant fraud was discovered at K&H Equities Zártkörűen Működő Részvénytársaság, an investment of the Bank. The Bank recorded an impairment of HUF 19.3 billion for the expected losses. The ultimate outcome of this matter could not be determined and due to the fundamental uncertainty involved the actual loss might be significantly different from the impairment recorded by the Bank.

Management's Responsibility for the Financial Statements

3.) Management is responsible for the preparation and fair presentation of these financial statements in accordance with the Hungarian Accounting Law and generally accepted accounting principles in Hungary. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility

4.) Our responsibility is to express an opinion on these financial statements based on the audit and to assess whether the business report is consistent with the financial statements. We conducted our audit in accordance with Hungarian National Auditing Standards and with applicable laws and regulations in Hungary. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

5.) An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements. Our work regarding the business report is restricted to assessing whether the business report is consistent with the financial statements and does not include reviewing other information originated from non-audited financial records.

6.) We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

7.) We have audited the elements of and disclosures in the annual financial statements, along with underlying records and supporting documentation, of Kereskedelmi és Hitelbank Zártkörűen Működő Részvénytársaság in accordance with Hungarian National Auditing Standards and have gained sufficient and appropriate evidence that the annual financial statements have been prepared in accordance with the Hungarian Accounting Law and with generally accepted accounting principles in Hungary. In our opinion the annual financial statements give a true and fair view of the equity and financial position of Kereskedelmi és Hitelbank Zártkörűen Működő Részvénytársaság as at 31 December 2010 and of the results of its operations for the year then ended. The business report corresponds to the disclosures in the financial statements.

8.) Without qualifying our opinion, we draw attention to note IV/10 to the financial statements. In 2003 a significant fraud was discovered at K&H Equities Zártkörűen Működő Részvénytársaság, an investment of the Bank. The Bank has recorded an impairment of HUF 18.7 billion on its investment for the expected losses. The ultimate outcome of this matter cannot presently be determined and due to the fundamental uncertainty involved the actual loss might be significantly different from the impairment recorded by the Bank.

Budapest, 29 March 2011
Except for the effect of the HUF 93,305 million dividend approved by the shareholder's resolution relating to the year ended 31 December 2010, which is dated 28 April 2011.

(The original Hungarian version has been signed.)

Ernst & Young Kft.
Registration No. 001165

Szabó Gergely
Registered Auditor
Chamber membership No.: 005676

10195664-6419-114-01
statistical number

Kereskedelmi és Hitelbank Zártkörűen Működő Részvénytársaság
Balance Sheet (Credit Institutions) – Assets

HUF millions

No.	Description	Previous year 31.12.2009.	Reporting year 31.12.2010.
a	b	c	d
01.	**1. CASH AND EQUIVALENTS**	**147 102**	**115 134**
02.	**2. GOVERNMENT SECURITIES**	**1 065 539**	**1 208 300**
03.	a) held for trading	782 938	749 748
04.	b) held for investment	282 601	458 552
05.	**2/A. VALUATION DIFFERENCE OF GOVERNMENT SECURITIES**	**935**	**- 79**
06.	**3. AMOUNTS DUE FROM CREDIT INSTITUTIONS**	**46 538**	**117 595**
07.	a) on demand	9 301	41 899
08.	b) other receivables from financial services	37 237	75 696
09.	ba) short-term	31 119	72 743
10.	of which: - from affiliated undertakings		
11.	- from other associated undertakings		
12.	- from the NBH		
13.	- from the clearing house		
14.	bb) long-term	6 118	2 953
15.	of which: - from affiliated undertakings		
16.	- from other associated undertakings		
17.	- from the NBH		
18.	- from the clearing house		
19.	c) from investment services		
20.	of which: - from affiliated undertakings		
21.	- from other associated undertakings		
22.	- from the clearing house		
23.	**3/A. VALUATION DIFFERENCE OF AMOUNTS DUE FROM CREDIT INSTITUTIONS**		
24.	**4. AMOUNTS DUE FROM CLIENTS**	**1 603 766**	**1 561 656**
25.	a) from financial services	1 602 650	1 561 365
26.	aa) short-term	565 093	507 329
27.	of which: - from affiliated undertakings	6 537	83 436
28.	- from other associated undertakings		
29.	ab) long-term	1 037 557	1 054 036
30.	of which: - from affiliated undertakings	134 005	48 637
31.	- from other associated undertakings		
32.	b) from investment services	1 116	291
33.	of which: - from affiliated undertakings		
34.	- from other associated undertakings		
35.	ba) receivables from stock exchange investment services		
36.	bb) receivables from over-the-counter investment services		
37.	bc) amounts due from clients, arising from investment services	1 114	289
38.	bd) amounts due from the clearing house	2	2
39.	be) other receivables from investment services		
40.	**4/A. VALUATION DIFFERENCE OF AMOUNTS DUE FROM CLIENTS**		
41.	**5. DEBT SECURITIES, INCLUDING THOSE WITH A FIXED INTEREST RATE**	**74 405**	**115 678**
42.	a) securities issued by local municipalities and other administrative institutions (excluding government securities)	47 700	84 406
43.	aa) held for trading		
44.	ab) held for investment	47 700	84 406
45.	b) securities issued by third-party issuers	26 705	31 272
46.	ba) held for trading	22 575	31 230
47.	of which: - issued by affiliated undertakings		
48.	- issued by other associated undertakings		
49.	- Treasury stock		2 186
50.	bb) held for investment	4 130	42
51.	of which: - issued by affiliated undertakings		
52.	- issued by other associated undertakings		
53.	**5/A. VALUATION DIFFERENCE OF DEBT SECURITIES**	**- 13 822**	**- 23 050**

HUF millions

No.	Description	Previous year 31.12.2009.	Reporting year 31.12.2010.
a	b	c	d
54.	**6. SHARES AND OTHER VARIABLE YIELD SECURITIES**	**854**	**3 517**
55.	a) shares and participations held for trading		
56.	of which: - issued by affiliated undertakings		
57.	- issued by other associated undertakings		
58.	b) variable yield securities	854	3 517
59.	ba) held for trading	854	3 517
60.	bb) held for investment		
61.	**6/A. VALUATION DIFFERENCE OF SHARES AND OTHER VARIABLE YIELD SECURITIES**	**56**	**129**
62.	**7. SHARES AND PARTICIPATIONS HELD FOR INVESTMENT**	**1 673**	**910**
63.	a) shares and participations held for investment	1 673	910
64.	of which: - participations in credit institutions		
65.	b) adjustments to the value of shares and participations held for investment		
66.	of which: - participations in credit institutions		
67.	**7/A. VALUATION DIFFERENCE OF SHARES AND PARTICIPATIONS**		
68.	**8. SHARES AND PARTICIPATIONS IN AFFILIATED UNDERTAKINGS**	**8 824**	**8 276**
69.	a) shares and participations held for investment	8 824	8 276
70.	of which: - participations in credit institutions		
71.	b) adjustments to the value of shares and participations held for investment		
72.	of which: - participations in credit institutions		
73.	**9. INTANGIBLE ASSETS**	**7 898**	**8 211**
74.	a) intangible assets	7 898	8 211
75.	b) adjustments to the value of intangible assets		
76.	**10. TANGIBLE ASSETS**	**21 883**	**19 853**
77.	a) tangible assets used in financial and investment services	21 811	19 772
78.	aa) land and buildings	13 994	13 133
79.	ab) technical equipment, machinery and vehicles	6 916	5 393
80.	ac) capital expenditure	901	1 246
81.	ad) advances for capital investments		
82.	b) tangible assets not directly used in financial and investment services	72	81
83.	ba) land and buildings		
84.	bb) technical equipment, machinery and vehicles	72	81
85.	bc) capital expenditure		
86.	bd) advances for capital investments		
87.	c) adjustments to the value of tangible assets		
88.	**11. TREASURY STOCK**		
89.	**12. OTHER ASSETS**	**9 087**	**5 792**
90.	a) inventories	236	139
91.	b) other receivables	8 851	5 653
92.	of which: - amounts due from affiliated undertakings	271	2
93.	- amounts due from other associated undertakings		
94.	**12/A. VALUATION DIFFERENCE OF OTHER RECEIVABLES**		
95.	**12/b. POSITIVE VALUATION DIFFERENCE OF DERIVATIVE TRANSACTIONS**	**26 503**	**24 162**
96.	**13. PREPAYMENTS AND ACCRUED INCOME**	**47 177**	**47 295**
97.	a) accrued income	46 464	46 384
98.	b) prepayments	713	911
99.	c) deferred expense		
100.	**TOTAL ASSETS**	**3 048 418**	**3 213 379**
101.	**of which: - CURRENT ASSETS [1+2.a)+3.a)+3.ba)+3.c)+4.aa)+4.b)+5.aa)+5.ba)+6.a)+6.ba)+11+12+ the values of Lines 2/A,+3/A,4/A,5/A,6/A,12/A and 12/B related to the items above]**	1 582 857	1 528 845
102.	**- FIXED ASSETS [2.b)+3.bb)+4.ab)+5.ab)+5.bb)+6.bb)+7+8+9+10 + the values of Lines 2/A,3/A,4/A,5/A,6/A,7/A,12/A and 12/B related to the items above]**	1 418 384	1 637 239

Budapest, 29 March 2011

Hendrik Scheerlinck
Chief Executive Officer

Attila Gombás
Chief Financial Officer

10195664-6419-114-01
statistical number

Kereskedelmi és Hitelbank Zártkörűen Működő Részvénytársaság
Balance Sheet (Credit Institutions) – Liabilities & Equity

HUF millions

No.	Description	Previous year 31.12.2009.	Reporting year 31.12.2010.
a	b	c	d
103.	**1. AMOUNTS DUE TO CREDIT INSTITUTIONS**	**936 479**	**1 158 529**
104.	a) on demand	7 051	12 436
105.	b) fixed-term liabilities from financial services	929 428	1 146 093
106.	ba) short-term	783 323	1 011 756
107.	of which: - from affiliated undertakings		
108.	- from other associated undertakings		
109.	- from the NBH		
110.	- from the clearing house		
111.	bb) long-term	146 105	134 337
112.	of which: - from affiliated undertakings		
113.	- from other associated undertakings		
114.	- from the NBH		
115.	- from the clearing house		
116.	c) from investment services		
117.	of which: - from affiliated undertakings		
118.	- from other associated undertakings		
119.	- from the clearing house		
120.	**1/A. VALUATION DIFFERENCE OF AMOUNTS DUE TO CREDIT INSTITUTIONS**		
121.	**2. AMOUNTS DUE TO CLIENTS**	**1 730 044**	**1 595 496**
122.	a) savings deposits		
123.	aa) on demand		
124.	ab) short-term		
125.	ac) long-term		
126.	b) other liabilities from financial services	1 724 667	1 592 661
127.	ba) on demand	524 135	627 495
128.	of which: - from affiliated undertakings	9 442	7 581
129.	- from other associated undertakings		
130.	bb) short-term	1 025 584	809 593
131.	of which: - from affiliated undertakings	6 872	5 492
132.	- from other associated undertakings		
133.	bc) long-term	174 948	155 573
134.	of which: - from affiliated undertakings	1 475	8 770
135.	- from other associated undertakings		
136.	c) from investment services	5 377	2 835
137.	of which: - from affiliated undertakings		
138.	- from other associated undertakings		
139.	ca) liabilities from stock exchange investment services		
140.	cb) liabilities from over-the-counter investment services		
141.	cc) amounts due to clients from investment services	5 377	2 835
142.	cd) amounts due to the organization performing clearing house activities		
143.	ce) other liabilities from investment services		
144.	**2/A. VALUATION DIFFERENCE OF AMOUNTS DUE TO CLIENTS**		
145.	**3. LIABILITIES FROM SECURITIES ISSUED**	**16 149**	**17 558**
146.	a) bonds issued	15 876	17 294
147.	aa) short-term	283	402
148.	of which: - from affiliated undertakings		
149.	- from other associated undertakings		
150.	ab) long-term	15 593	16 892
151.	of which: - from affiliated undertakings		
152.	- from other associated undertakings		

HUF millions

No.	Description	Previous year 31.12.2009.	Reporting year 31.12.2010.
a	b	c	d
153.	b) other debt securities issued		-
154.	ba) short-term		
155.	of which: - from affiliated undertakings		
156.	- from other associated undertakings		
157.	bb) long-term		
158.	of which: - from affiliated undertakings		
159.	- from other associated undertakings		
160.	c) debt instruments treated as securities for accounting purposes but not deemed securities under the Securities Act	273	264
161.	ca) short-term	273	264
162.	of which: - from affiliated undertakings		
163.	- from other associated undertakings		
164.	cb) long-term		
165.	of which: - from affiliated undertakings		
166.	- from other associated undertakings		
167.	**4. OTHER LIABILITIES**	**50 209**	**215 689**
168.	a) short-term	50 209	215 689
169.	of which: - from affiliated undertakings	444	2
170.	- from other associated undertakings		
171.	- other financial contributions made by members of co-operative credit institutions		
172.	b) long-term		
173.	of which: - from affiliated undertakings		
174.	- from other associated undertakings		
175.	**4/A. NEGATIVE VALUATION DIFFERENCE OF DERIVATIVE TRANSACTIONS**	**31 852**	**26 383**
176.	**5. ACCRUALS AND DEFERRED INCOME**	**48 012**	**40 901**
177.	a) accrued income	294	
178.	b) accrued cost and expense	47 449	40 680
179.	c) deferred income	269	221
180.	**6. PROVISIONS**	**33 125**	**20 176**
181.	a) provisions for retirement benefits and severance pay	84	562
182.	b) risk provisions for contingent and future liabilities	3 613	2 938
183.	c) general risk provisions	17 132	13 143
184.	d) other provisions	12 296	3 533
185.	**7. SUBORDINATED LIABILITIES**	**20 964**	**21 439**
186.	a) subordinated debt	20 964	21 439
187.	of which: - from affiliated undertakings		
188.	- from other associated undertakings		
189.	b) other financial contributions made by members of co-operative credit institutions		
190.	c) other subordinated liabilities		
191.	of which: - from affiliated undertakings		
192.	- from other associated undertakings		
193.	**8. SUBSCRIBED CAPITAL**	**73 709**	**73 709**
194.	- repurchased ownership interest at par value		
195.	**9. SUBSCRIBED CAPITAL UNPAID (-)**		
196.	**10. CAPITAL RESERVE**	**28 070**	**28 070**
197.	a) differences between the par value and offering price of shares and participations (premium)	14 393	14 393
198.	b) other	13 677	13 677
199.	**11. GENERAL RESERVE**	**12 536**	**15 429**
200.	**12. PROFIT RESERVE (+/-)**	**60 813**	**-**
201.	**13. EARMARKED RESERVE**		
202.	**14. VALUATION RESERVE**		
203.	a) valuation reserve for value adjustments		
204.	b) valuation reserve for fair market valuation		
205.	**15. RETAINED EARNINGS (+/-)**	**6 456**	**-**
206.	**TOTAL LIABILITIES & EQUITY**	**3 048 418**	**3 213 379**
207.	**of which: - SHORT-TERM LIABILITIES [1.a)+1.ba)+1.c)+1/A+2.aa)+2.ab)+2.ba)+2.bb)+2.c)+2/A+3.aa)+3.ba)+3.ca)+4.a)+4/A]**	2 428 087	2 706 853
208.	**- LONG-TERM LIABILITIES [1.bb)+2.ac)+2.bc)+3.ab)+3.bb)+3.cb)+4.b)+7]**	357 610	328 241
209.	**- EQUITY (8-9+10+11+12+13+14+15)**	181 584	117 208

Budapest, 29 March 2011

Hendrik Scheerlinck
Chief Executive Officer

Attila Gombás
Chief Financial Officer

10195664-6419-114-01
statistical number

Kereskedelmi és Hitelbank Zártkörűen Működő Részvénytársaság
Profit & Loss Account (Credit Institutions)

HUF millions

No.	Description	Previous year 31.12.2009.	Reporting year 31.12.2010.
a	b	c	d
01.	**1. Interest received and similar income**	**305 907**	**222 438**
02.	a) interest received (receivable) on fixed-interest debt securities	97 361	73 411
03.	of which: - from affiliated undertakings		
04.	- from other associated undertakings		
05.	b) other interest received and similar income	208 546	149 027
06.	of which: - from affiliated undertakings	902	879
07.	- from other associated undertakings		
08.	**2. Interest paid and similar expense**	**209 653**	**127 907**
09.	of which: - from affiliated undertakings	383	840
10.	- from other associated undertakings		
11.	**NET INTEREST INCOME (1-2)**	**96 254**	**94 531**
12.	**3. Income from securities**	**9 859**	**2 202**
13.	a) income from shares and participations held for trading (dividend, minority interest)		
14.	b) income from participations in affiliated undertakings (dividend, minority interest)	9 859	2 202
15.	c) income from other participations (dividend, minority interest)		
16.	**4. Fees and commissions received (receivable)**	**42 484**	**42 955**
17.	a) income from other financial services	35 790	34 766
18.	of which: - from affiliated undertakings	301	160
19.	- from other associated undertakings		
20.	b) income from investment services (excluding income from trading operations)	6 694	8 189
21.	of which: - from affiliated undertakings	245	73
22.	- from other associated undertakings		
23.	**5. Fees and commissions paid (payable)**	**17 001**	**14 810**
24.	a) expense on other financial services	16 429	14 089
25.	of which: - from affiliated undertakings		
26.	- from other associated undertakings		
27.	b) expense on investment services (excluding expense on trading operations)	572	721
28.	of which: - from affiliated undertakings	141	286
29.	- from other associated undertakings		
30.	**6. Profit/loss on financial transactions [6.a)-6.b)+6.c)-6.d)]**	**- 1 471**	**12 656**
31.	a) income from other financial services	16 346	16 922
32.	of which: - from affiliated undertakings		
33.	- from other associated undertakings		
34.	- valuation difference		
35.	b) expense on other financial services	11 652	515
36.	of which: - from affiliated undertakings		
37.	- from other associated undertakings		
38.	- valuation difference		
39.	c) income from investment services (income from trading operations)	69 677	30 833
40.	of which: - from affiliated undertakings	1 340	191
41.	- from other associated undertakings		
42.	- reversal of impairment on securities held for trading		
43.	- valuation difference		
44.	d) expense on investment services (expense on trading operations)	75 842	34 584
45.	of which: - to affiliated undertakings	1 300	129
46.	- to other associated undertakings		
47.	- impairment on securities held for trading		
48.	- valuation difference		

HUF millions

No.	Description	Previous year 31.12.2009.	Reporting year 31.12.2010.
a	b	c	d
49.	**7. Other income from business activities**	**15 760**	**19 842**
50.	a) income from non-financial and investment services	1 460	1 833
51.	of which: - from affiliated undertakings	469	1 745
52.	- from other associated undertakings		
53.	b) other income	14 300	18 009
54.	of which: - from affiliated undertakings	86	2 328
55.	- from other associated undertakings		
56.	- reversal of impairment on inventories		
57.	**8. General and administrative expenses**	**59 992**	**58 761**
58.	a) personnel expense	29 452	29 672
59.	aa) salaries and wages	19 492	20 325
60.	ab) other personnel expense	3 302	3 093
61.	of which: - social security expense	484	422
62.	- retirement expense	289	224
63.	ac) contributions payable on salaries and wages	6 658	6 254
64.	of which: - social security expense	921	714
65.	- retirement expense	4 978	5 063
66.	b) other administrative expenses (material-type expenses)	30 540	29 089
67.	**9. Depreciation**	**7 295**	**6 609**
68.	**10. Other expenses on business activities**	**30 818**	**33 509**
69.	a) expense on non-financial and investment services	780	348
70.	of which: - to affiliated undertakings		
71.	- to other associated undertakings		
72.	b) other expense	30 038	33 161
73.	of which: - to affiliated undertakings	4	99
74.	- to other associated undertakings		
75.	- impairment on inventories		
76.	**11. Impairment on receivables and risk provisioning for contingent and future liabilities**	**37 224**	**50 401**
77.	a) impairment on receivables	35 367	48 442
78.	b) risk provisioning for contingent and future liabilities	1 857	1 959
79.	**12. Reversal of impairment on receivables and risk provisions used for contingent and future liabilities**	**16 324**	**26 987**
80.	a) reversal of impairment on receivables	14 709	24 347
81.	b) risk provisions used for contingent and future liabilities	1 615	2 640
82.	**12/A. Difference between general risk provisions made and used**	**4 469**	**3 989**
83.	**13. Impairment on debt securities held for investment and shares and participations in affiliated and other associated undertakings**	**7 942**	**4 692**
84.	**14. Reversal of impairment on debt securities held for investment and shares and participations in affiliated and other associated undertakings**	**53**	**655**
85.	**15. Profit/loss on ordinary activities**	**23 460**	**35 035**
86.	**of which: - profit/loss on financial and investment services [1-2+3+4-5±6+7.b)-8-9-10.b)-11+12-13+14]**	22 780	33 550
87.	**- profit/loss on non-financial and investment services [7.a)-10.a)]**	680	1 485
88.	**16. Extraordinary income**	**148**	**69**
89.	**17. Extraordinary expense**	**205**	**97**
90.	**18. Extraordinary profit/loss (16-17)**	**- 57**	**- 28**
91.	**19. Pretax profit/loss (±15±18)**	**23 403**	**35 007**
92.	**20. Taxation**	**5 080**	**6 078**
93.	**21. Net profit/loss (±19-20)**	**18 323**	**28 929**
94.	**22. General provisions made/used (±)**	**- 1 832**	**- 2 893**
95.	**23. Profit reserve used for dividend and minority interest**		67 269
96.	**24. Dividend and minority interest approved**	**10 035**	**93 305**
97.	of which: - to affiliated undertakings		
98.	- to other associated undertakings		
99.	**25. Retained earnings (±21-/+22+23-24)**	**6 456**	**-**

Budapest, 29 March 2011

Hendrik Scheerlinck
Chief Executive Officer

Attila Gombás
Chief Financial Officer

Kereskedelmi és Hitelbank Zártkörűen Működő Részvénytársaság

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31 December 2010

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I. OVERVIEW

I/1. Kereskedelmi és Hitelbank Zártkörűen Működő Részvénytársaság – key facts

type of company: company limited by shares

method of operation: private

date of establishment: 20 February 1987

shareholders:

Shareholder	31 December 2009		31 December 2010	
	Subscribed capital (HUF m)	Stake (%)	Subscribed capital (HUF m)	Stake (%)
KBC Bank N.V. Havenlaan 2, 1080 Brussels, Belgium	**73 709**	**100**	**73 709**	**100**
Other	**0**	**0**	**0**	**0**
Total subscribed capital	**73 709**	**100**	**73 709**	**100**

Activities:

Financial leasing

Other monetary intermediation — Principal activity

Insurance agent and broker activities

Financial mediation n.e.c.

Stock and commodities market agent activities

Other auxiliary financial activities

I/2. Kereskedelmi és Hitelbank Zártkörűen Működő Részvénytársaság – Accounting Policy

The Bank has compiled its Accounting Policy in accordance with the provisions of Act C of 2000 on Accounting, Act CXII of 1996 on Credit Institutions and Financial Enterprises and Government Decree No. 250/2000 (XII.24.) on the special bookkeeping and annual reporting obligations of credit institutions and financial enterprises (hereinafter: "accounting legislation").

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 accounting principles in its Accounting Policy in order to ensure that its books and annual reports give a fair and reliable view of its state of affairs.

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 chart of accounts is a listing of all general ledger accounts to be used for accounting and record-keeping purposes as well as the numbers of such accounts, broken down by account class.

The detailed system of accounts defines the content, nature and function of each general ledger account. The chart of accounts and the system of accounts are set out in the closing directive. The account movements related to the various economic events are described on the so-called posting sheets attached to the Bank's product regulations.

Pursuant to applicable law and its own business decision, the Bank maintains contingent accounts in account class "0" linked to specific asset, liability and profit & loss items.

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.

All economic events and transactions that change the balance of the Bank's assets and liabilities or the balance or composition of its off-balance sheet items are posted on the basis of accounting vouchers; the Bank's accounting records contain the data of all accounting vouchers that reflect the process of economic events.

An accounting voucher is an external or internal document having predefined features of form and content that truthfully registers all the data of the given economic event required for entry in the books.

The Bank uses the Hungarian language in its accounting vouchers.

The Bank registers the vouchers as soon as the economic event occurs, at the time of the funds movement in case of cash transactions.

The Bank employs a closed system to provide the possibility for reconciliation and checks of general ledger accounts, sub-ledger records and vouchers.

The Bank's (annual consolidated) report – supported by accounting 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.

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 date of preparing the balance sheet is the third workday of the year following the reporting year.

The annual report consists of the following parts:

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

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 Bank's annual report shows figures in million forints (HUF).

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

If an audit or self-audit finds significant error(s) in the reports for prior business year(s), then the Bank reports the adjustments arising from such findings, known as of the date of preparing the balance sheet, alongside the prior-year figures under every item in the balance sheet and the profit & loss account; these figures shall not be understood as relating to the reporting year in the profit & loss account. In such cases the balance sheet and the profit & loss account contain separate columns for prior-year data, adjustments to closed year(s) and reporting-year data. Significant error impacts are reviewed once a year in their absolute sums, cumulatively.

An error is defined as being of significant sum if the cumulative total (absolute value) of errors or error consequences increasing/reducing profits or equity in the relevant business year (for each year separately) and identified by any kind of checks or audits during the year exceed HUF 500 million.

It follows from the above that if the findings are not significant, i.e. the errors remain below the above stated threshold of HUF 500 million, then the Bank includes these in its figures for the reporting year.

Errors are defined as significantly distorting fair and reliable reporting if the cumulative total of such significant errors and error consequences modify the equity figure to a significant extent and thereby cause the published asset, financial and/or revenue figures to be misleading. The Bank shall consider an error as significantly distorting fair and reliable reporting if the error findings result in an adjustment (increase or decrease) of at least 20 percent to the equity reported in the balance sheet for the business year preceding the year when the error is found.

In the event of errors significantly distorting fair and reliable reporting, the published annual report / simplified annual report of the business year preceding the given business year have to be republished.

VALUATION PROCEDURES EMPLOYED IN THE REPORT

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 key principles of valuation procedures:

I. Fair market valuation

In its accounting operations the Bank uses fair market valuation in respect of financial instruments. It made a transition to this method as of 1 January 2008.

In accordance with the provisions of the Accounting Act and Government Decree No. 250/2000 the financial instruments subject to fair market valuation are shown in the report at their fair market value or at their original cost in line with the general rules.

The Bank classifies financial instruments in the following categories.

- Financial assets
    - Financial assets held for trading: financial assets obtained in order to profit from short-term price and rate fluctuations. They are shown at fair market value in the report.
    - Available-for-sale financial assets: financial assets not classified under financial assets held for trading, financial assets held until maturity or loans and other receivables originating from the business entity. Pursuant to the Bank's decision, they are reported at original cost in accordance with general valuation requirements (original contract cost less repayments and impairment).
    - Financial assets held until maturity: financial assets that the Bank intends and is able to keep until they mature. They are reported at original cost in accordance with general valuation requirements.
    - Loans granted by and other receivables of the business entity: financial assets created or stated by, or involving definable payments arising from, the Bank's provision of financial assets, goods or services – delivered directly to the debtor –, except if created by the Bank for short-term sales purposes. They are reported at original cost in accordance with general valuation requirements.

- Financial obligations
    - Trading liabilities: liabilities due to borrowing of securities. They are reported at fair market value.
    - Other financial obligations: all financial obligations that fall outside the scope of trading liabilities. They are reported at original cost in accordance with general valuation requirements.

- Derivative transactions: commodities- or financial assets-based transactions for trading or hedging purposes, options or swaps, or their derivatives.
    - Derivative transactions for trading: derivative transactions not for hedging purposes.
    - Market value (fair value) hedging transactions: transactions serving the purpose of covering the risk of changes to the market value of the whole or certain part of an asset or liability in the balance sheet arising from a hedged transaction or transactions, or changes to the expected future profit or loss from (market value of) a derivative transaction. The hedged risk is a specific risk impacting the profit or loss reported.
    - Cash-flow hedging transaction: transaction to hedge the risk connected to potential changes in future cash-flows related to assets or liabilities in the balance sheet originating from a hedged transaction (including the related interest payments as well), or related to swaps, options or (delivery) forward transactions executed upon the delivery of goods or financial assets. The hedged risk is a risk in a specific cash-flow, impacting the profit or loss reported.

    - Net hedging transaction of net investment in foreign business entity: a transaction concluded to hedge the risks arising from changes in exchange rate related to investments representing ownership and held not for trading purposes (shares, participations, other interest) in foreign currency and in a foreign business entity classifying as an associated enterprise, and the long-term receivables from and liabilities to such a business entity.
- Regardless of their above categorization, all derivative transactions are reported at fair market value.

In the case of the financial assets and obligations reported at fair market value, the fair market value is the amount for which the asset can be exchanged or an obligation can be settled between properly informed partners expressing their intention to transact and to do so in the form of a transaction complying with standard market conditions.

The Bank relies on calculations in its Treasury system to determine the fair market value of its transactions reported at fair market value. This is essentially equivalent to the available market prices or the present value of the future cash-flows on the transactions.
Defining the yield curves used in present value calculation:
- The yield curve for government securities is defined on the basis of the yields on benchmark government securities published by the Government Debt Management Agency (ÁKK).
- The valuation of the derivatives is based on the yield curves including the market liquidity spread

Fair market value is determined for the individual product groups as follows
- Trading debt securities
    - Government securities: determined on the basis of the average of the best buy and sell rate published by the ÁKK for the given date and the benchmark yields published by the ÁKK.
    - Debt securities: present value calculated on the basis of benchmark yields adjusted with risk premium.
    - Closed-end investment units: the net asset value per investment unit, as published officially by the fund manager.
- Investments representing an ownership interest held for trading
    - Shares: stock market price
    - Open-end investment units: the net asset value per investment unit, as published officially by the fund manager
- Derivative transactions
    - Forward transactions: the difference between the spot market price of the transaction and the discounted value of the deal price (trading price) from the date of maturity to the date of valuation.
    - Swap transactions: the Bank values the forward part in accordance with the requirements governing forward transactions and the spot part is accounted for in accordance with the general rules.
    - In valuing swap transactions concluded for interest arbitrage purposes, and composite transactions created by combining spot and forward FX transactions (equivalent in nature to swaps), the Bank employs, in addition to fair market valuation, the provisions in Article 22 (4), (7), (8) and (11) of Government Decree No. 250/2000. Accordingly,
        - the Bank reports the pro-rata difference between the spot and the forward prices of the transaction as an interest profit or loss against accruals
        - until closing the transaction, the Bank tracks under accruals the price difference of the spot part of swaps and composite transactions.
    - Options: the valuation model matching the type of option is used (e.g. Black Scholes model for simple European and European barrier options, Cox Rubinstein for simple American options)
    - Interest rate swaps: the difference between the present values, discounted to the valuation date, of interest cash-flows estimated based on market information for the remainder of the transaction term.
    - Other derivative transactions: the present value of the future cash-flows estimated on the basis of available market information.

The Bank books the valuation differences from fair market valuation in accordance with the following:

- Financial assets
    - The Bank books the valuation difference on investments representing an ownership interest and debt securities classified under financial assets held for trading to revenues/expenditures from trading activities, under revenues/expenditures from investment services, against the valuation difference allocated to the given asset group.

- Financial obligations
    - The Bank books the valuation difference on obligations due to securities loans classified under trading liabilities to revenues/expenditures of other financial services, against the valuation difference on obligations to credit institutions or clients.

- Derivative transactions
    - On forward transactions for trading, the Bank books the valuation difference to revenues from investment services if it is profit or to expenditures on investment services if it is a loss, against the positive or negative valuation difference on derivative transactions.
    - When valuing interest arbitrage swaps or composite transactions created by combining spot and forward FX transactions (equivalent in nature to swaps):
        - the Bank reports the interest part of the fair market value of the transaction as interest revenue or expenditure under accruals
        - it treats the price difference between the swap and the spot part of the composite transaction as an accrual until the transaction is closed
        - the Bank reports the rest of the valuation difference under revenues/expenditures of investment services, against the valuation difference of derivative transactions.
    - The Bank books the valuation difference on options held for trading under revenues from investment services if a profit or under expenditures on investment services if a loss, against the positive or negative valuation difference on derivative transactions. The option fees paid constitute part of the original cost of the transaction for the buyer of the option, which are booked as a positive valuation difference on the derivative transaction and, when the transaction is closed, are accounted for as an item reducing the revenues from investment services if the transaction was for trading, and do not constitute part of the original cost of the financial asset procured under an option delivery transaction. Option fees received are booked by issuers as negative valuation differences on derivative transactions, under liabilities, parallel with the increase in liquid assets, which must be reversed, when the transaction is closed, against revenues on investment services.
    - In case of interest swaps for trading purposes, the Bank books the difference between the variable interest rate and the fixed interest rate projected on the nominal principal applicable to the settlement period and calculated pro-rata up to the valuation date as, depending on its nature, either a revenue or an expenditure on investment services, against accrued assets or accrued liabilities. At the same time, it books to investment service revenues/expenditures the valuation difference taking into account the outstanding interest differences.
    - The Bank books the valuation difference on other derivative transactions held for trading to investment service revenues if it is a profit or investment service expenditures if a loss, against the positive or negative valuation difference of derivative transactions.

The Bank tracks the valuation differences arising from fair market valuation linked to the given financial instrument in its sub-ledger and general ledger accounts.

As regards the sale or reclassification of financial assets held until maturity, the Bank classifies as significant any sums exceeding 5 percent of the book value of the given asset.

It is with a monthly frequency that the Bank carries out a valuation to fair market value of all the financial assets and derivative transactions subject to fair market valuation.

II. Valuation of assets

Valuation of foreign currency and foreign exchange inventories, and receivables and liabilities denominated in a foreign currency

The Bank's foreign currency and foreign exchange inventories and its receivables and debts denominated in a foreign currency are stated at the daily foreign exchange rate of the National Bank of Hungary (NBH). Foreign exchange and foreign currency inventories and receivables and liabilities denominated in currencies not quoted by the NBH are stated at the middle rate published for the last day of the month or the last day of the year, respectively, in the exchange rates section of a national newspaper, or, in the absence thereof, at the average middle rate used by the credit institution in the last month preceding the valuation.

Valuation of debt securities held for investment or trading

Interest-bearing securities held for investment (debt securities with a maturity of over one year) are posted to the Bank's books at original cost less purchased interest; the Bank uses the FIFO (first in, first out) method in respect of such securities. In the case of interest-bearing securities held for investment, the difference between par value and purchase price is recognized *pro rata temporis* during the term of the securities.

Securities held for negotiation that are not classified under financial assets held for trading for the purposes of fair market valuation are posted to the Bank's books at original cost; the Bank uses the FIFO method in respect of such securities.

The Bank rates the securities not classified under financial assets held for trading for purposes of fair market valuation and, if necessary, it recognizes impairment or reversal of impairment on them.

The Bank does not recognize impairment on government securities.

Valuation of participations

As far as impairment is concerned, the Bank will regard a difference as permanent and significant if it is identified as such during the investment rating procedure conducted pursuant to the Long Term Capital Investment Policy.

Under the Accounting Act, if the market value of an asset that is held for investment and represents an ownership interest significantly exceeds the book value (original cost) of such asset following a reversal of impairment, the difference may be stated as a value adjustment and added to the valuation reserve. The Bank, however, does not use this possibility.

Valuation of amounts due from credit institutions and clients

The original cost of receivables arising from contracts concluded by the Bank equals the amount of principal not yet repaid; in the case of receivables purchased, the original cost equals the part of the purchase price not yet paid.

The Bank regularly rates its receivables.

It classifies its receivables into <u>asset rating categories</u> for individual rating or <u>valuation groups</u> for group rating.

The Bank established the asset rating categories in such a way that allows for classifying all items ranging from those not affected by impairment or provisioning to those 100% covered by impairment and provisions.

It assigns a weight band to each asset rating category by breaking down the total of 100% and it establishes the impairment to be charged in each weight band .

Any impairment on foreign currency receivables, and any reversal thereof, will be recognized and stated in foreign currency.

Valuation of intangible and tangible assets

The original (purchase and production) cost of assets is taken into consideration pursuant to Section 47 of the Accounting Act.

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.

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

For the purposes of extraordinary depreciation, the Bank treats as permanent any difference between book value and market value that exists for more than one year.

A significant difference between book value and market value is any amount that exceeds 15 percent of the original cost of the given asset.

With the exception of specific asset groups, tangible assets, rights, trademarks and patents purchased individually at an original cost of less than HUF 100,000 are depreciated in one sum at the time they are put into use.

Under the Accounting Act, if the market value of a right, trademark, patent or tangible asset – except for capital investments and advances for capital investments – significantly exceeds its book value (original cost) following a reversal of impairment, the difference may be stated as a value adjustment and added to the valuation reserve. The Bank, however, does not make such adjustments to value.

III. Valuation of liabilities & equity

The Bank states **equity**, **provisions** and **liabilities** in the Balance Sheet at book value.

“General risk provisions” refer to provisions made by the Bank pursuant to the Credit Institutions Act for possible exposure-related losses that cannot be seen or determined in advance. General risk provisions cannot exceed 1.25 percent of the adjusted balance sheet without retail segment.

II. NOTES TO THE BALANCE SHEET

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

HUF millions

Description	Balance Sheet	31 December 2009			31 December 2010		
		HUF	Foreign currency	Total	HUF	Foreign currency	Total
Cash and equivalents	Line 1	145 245	1 857	147 102	113 113	2 021	115 134
Government securities	Line 2	1 059 391	6 148	1 065 539	1 195 221	13 079	1 208 300
Valuation difference of government securities	Line 5	935	0	935	-89	10	-79
Amounts due from credit institutions	Line 6	4 203	42 335	46 538	59 847	57 748	117 595
Valuation difference of amounts due from credit institutions	Line 23	0	0	0	0	0	0
Amounts due from clients	Line 24	473 263	1 130 503	1 603 766	439 849	1 121 807	1 561 656
Valuation difference of amounts due from clients	Line 40	0	0	0	0	0	0
Debt securities, including those with a fixed interest rate	Line 41	**13 806**	**60 599**	74 405	23 504	92 174	115 678
Valuation difference of debt securities	Line 53	-6 269	-7 553	-13 822	-10 664	-12 386	-23 050
Shares and other variable yield securities	Line 54	774	80	854	3 001	516	3 517
Valuation difference of shares and other variable yield securities	Line 61	56	0	56	120	9	129
Shares and participations held for investment	Line 62	1 429	244	1 673	640	270	910
Valuation difference of shares and participations	Line 67	0	0	0	0	0	0
Shares and participations in affiliated undertakings	Line 68	8 824	0	8 824	8 276	0	8 276
Intangible assets	Line 73	7 898	0	7 898	8 211	0	8 211
Tangible assets	Line 76	21 883	0	21 883	19 853	0	19 853
Treasury stock	Line 88	0	0	0	0	0	0
Other assets	Line 89	8 731	356	9 087	4 851	941	5 792
Valuation difference on other assets	Line 94	0	0	0	0	0	0
Positive valuation difference of derivative transactions	Line 95	26 019	484	26 503	24 162	0	24 162
Prepayments and accrued income	Line 96	43 423	3 754	47 177	43 223	4 072	47 295
Total assets		**1 809 611**	**1 238 807**	**3 048 418**	**1 933 118**	**1 280 261**	**3 213 379**

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

HUF millions

Description	Balance Sheet	31 December 2009			31 December 2010		
		HUF	Foreign currency	Total	HUF	Foreign currency	Total
Amounts due to credit institutions	Line 103	182 378	754 101	936 479	170 718	987 811	1 158 529
Valuation difference of amounts due to credit institutions	Line 120	0	0	0	0	0	0
Amounts due to clients	Line 121	1 330 847	399 197	1 730 044	1 271 855	323 641	1 595 496
Valuation difference of amounts due to clients	Line 144	0	0	0	0	0	0
Liabilities from securities issued	Line 145	14 376	1 773	16 149	14 969	2 589	17 558
Other liabilities	Line 167	45 379	4 830	50 209	208 895	6 794	215 689
Negative valuation difference of derivative transactions	Line 175	31 365	487	31 852	26 383	0	26 383
Accruals and deferred income	Line 176	44 063	3 949	48 012	38 173	2 728	40 901
Provisions	Line 180	29 747	3 378	33 125	18 923	1 253	20 176
Subordinated liabilities	Line 185	4 714	16 250	20 964	4 714	16 725	21 439
Subscribed capital	Line 193	73 709	0	73 709	73 709	0	73 709
Subscribed capital unpaid (-)	Line 195	0	0	0	0	0	0
Capital reserve	Line 196	28 070	0	28 070	28 070	0	28 070
General reserve	Line 199	12 536	0	12 536	15 429	0	15 429
Profit reserve (+/-)	Line 200	60 813	0	60 813	0	0	0
Earmarked reserve	Line 201	0	0	0	0	0	0
Valuation reserve	Line 202	0	0	0	0	0	0
Retained earnings	Line 205	6 456	0	6 456	0	0	0
Total liabilities & equity		**1 864 453**	**1 183 965**	**3 048 418**	**1 871 838**	**1 341 541**	**3 213 379**

II/3. Amounts due from credit institutions and clients, by maturity

31 December 2010

HUF millions

Description	31 December 2009				
	0-3 months	**3 months – 1year**	**1-5 years**	**5+ years**	**Total**
Amounts due from credit institutions, arising from financial services (Balance Sheet line 08)	8 942	22 177	5 323	795	37 237
Amounts due from clients, arising from financial services (Balance Sheet line 25)	246 572	318 521	418 413	619 144	1 602 650
Total	**255 514**	**340 698**	**423 736**	**619 939**	**1 639 887**

HUF millions

Description	31 December 2010				
	0-3 months	**3 months – 1year**	**1-5 years**	**5+ years**	**Total**
Amounts due from credit institutions, arising from financial services (Balance Sheet line 08)	67 753	4 990	2 953	0	75 696
Amounts due from clients, arising from financial services (Balance Sheet line 25)	223 231	284 098	438 949	615 087	1 561 365
Total	**290 984**	**289 088**	**441 902**	**615 087**	**1 637 061**

II/4. Amounts due to credit institutions and clients, by maturity

31 December 2010

HUF millions

Description	31 December 2009				
	0-3 months	3 months – 1year	1-5 years	5+ years	Total
Amounts due to credit institutions – fixed-term liabilities from financial services (Balance Sheet line 105)	757 709	25 614	93 721	52 384	929 428
Amounts due to clients – other short-term liabilities from financial services (Balance Sheet line 130)	881 900	143 038	571	75	1 025 584
Amounts due to clients – other long-term liabilities from financial services (Balance Sheet line 133)	0	0	152 313	22 635	174 948
Subordinated liabilities (Balance Sheet line 185)	0	0	4 714	16 250	20 964
Total	**1 639 609**	**168 652**	**251 319**	**91 344**	**2 150 924**

HUF millions

Description	31 December 2010				
	0-3 months	3 months – 1year	1-5 years	5+ years	Total
Amounts due to credit institutions – fixed-term liabilities from financial services (Balance Sheet line 105)	979 515	32 241	92 957	41 380	1 146 093
Amounts due to clients – other short-term liabilities from financial services (Balance Sheet line 130)	695 127	114 466	0	0	809 593
Amounts due to clients – other long-term liabilities from financial services (Balance Sheet line 133)	0	0	137 185	18 388	155 573
Subordinated liabilities (Balance Sheet line 185)	0	0	4 714	16 725	21 439
Total	**1 674 642**	**146 707**	**234 856**	**76 493**	**2 132 698**

II/5. Gross value of intangible and tangible assets

2010

HUF millions

Description	Balance Sheet	Change in gross value					
		Opening value	**Reclassification (+/-)**	**Merger (+)**	**Increase (+)**	**Decrease (-)**	**Closing value**
Intangible assets	Line 73	**39 206**	**0**	**0**	**2 864**	**-9 796**	**32 274**
- rights		4 343			2 220	-181	**6 382**
- trademarks and patents		34 863			644	-9 615	**25 892**
Tangible assets used in financial services	Line 77	**46 661**	**0**	**0**	**2 294**	**-1 026**	**47 929**
- land and buildings	Line 78	22 108	7		439	-384	**22 170**
- technical equipment, machinery	Line 79	23 652	-7		1 510	-642	24 513
- capital expenditure	Line 80	901			345		1 246
- advances for capital investments	Line 81	0					0
Tangible assets not directly used in financial services	Line 82	**86**	**0**	**0**	**14**	**-1**	**99**
- land and buildings	Line 83	0	0				**0**
- technical equipment, machinery and vehicles	Line 84	86			14	-1	**99**
- capital expenditure	Line 85	0					**0**
- advances for capital investments	Line 86	0					**0**

The amount stated for technical equipment, machinery and vehicles includes the value of so-called small-value assets.

II/6. Accumulated depreciation of intangible and tangible assets

2010

HUF millions

Description	Balance Sheet	Accumulated depreciation				
		Opening value	Reclassification (+/-)	Increase (+)	Decrease (-)	Closing value
Intangible assets	Line 73	**31 308**	**0**	**2 467**	**-9 712**	**24 063**
- rights		1 814		833	-169	2 478
- trademarks and patents		29 494		1 634	-9 543	21 585
Tangible assets used in financial services	Line 77	**24 850**	**0**	**4 251**	**-944**	**28 157**
- land and buildings	Line 78	8 114	1	1 246	-324	9 037
- technical equipment, machinery and vehicles	Line 79	16 736	-1	3 005	-620	19 120
Tangible assets not directly used in financial services	Line 82	**14**	**0**	**4**	**0**	**18**
- land and buildings	Line 83	0				0
- technical equipment, machinery and vehicles	Line 84	14		4		18

The amount stated for technical equipment, machinery and vehicles includes the depreciation of so-called small-value assets.

II/7. Net value of intangible and tangible assets

2010

HUF millions

Description	Balance sheet	31.12.2009.	31.12.2010.
		Closing value	**Closing value**
Intangible assets	Line 73	**7 898**	**8 211**
- rights		2 529	3 904
- trademarks and patents		5 369	4 307
Tangible assets used in financial services	Line 77	**21 811**	**19 772**
- land and buildings	Line 78	13 994	13 133
- technical equipment, machinery and vehicles	Line 79	6 916	5 393
- capital expenditure	Line 80	901	1 246
- advances for capital investments	Line 81	0	0
Tangible assets not directly used in financial services	Line 82	**72**	**81**
- land and buildings	Line 83		
- technical equipment, machinery and vehicles	Line 84	0	0
- capital expenditure	Line 85	72	81
- advances for capital investments	Line 86		

II/8. Annual depreciation of intangible and tangible assets

2010

HUF millions

Description	Ordinary	Extraordinary	Total
Intangible assets	2 424	0	2 424
Tangible assets used in financial services	4 068	113	4 181
- land and buildings	1 246	110	1 356
- technical equipment, machinery and vehicles	2 822	3	2 825
Tangible assets not directly used in financial services	4	0	4
- land and buildings			
- technical equipment, machinery and vehicles	0		0
	4	0	4
Depreciation of tangible assets with a value of less than HUF 100,000	51		51
Adjustment due to self-audit	62	0	62
Total	6 609	113	6 722

II/9. Profit impact of the change in the depreciation method used with intangible and tangible assets

In 2010 the Bank did not change the depreciation method used with intangible and tangible assets.

II/10. Contingent and future liabilities by type

HUF millions

Description	31.12.2009.	31.12.2010.
Guarantees issued	118 270	114 442
Loans, guarantees and letters of credit	410 130	430 039
Export letters of credit	462	88
Import letters of credit	3 858	10 516
Liabilities from lawsuits	15 805	13 926
Liabilities from options	629 376	313 569
Other contingent liabilities	494	1 144
Total contingent liabilities	**1 178 395**	**883 724**

HUF millions

Description	31.12.2009.	31.12.2010.
Foreign currency swaps	1 093 964	1 017 554
Foreign currency forwards	170 668	93 599
Liabilities from the sale/purchase of securities	26 839	8 116
Future liabilities on payments	958	756
Other future liabilities	393	5 888
Interbank deposits	40 019	18 519
Total future liabilities	**1 332 841**	**1 144 432**

II/11. Impairment and risk provisioning
2010

HUF millions

Description	Opening balance	Impairment recognized and provisions made in the reporting year (+)	Reversal 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)	53 434	48 442	24 347	5 310	82 839
Impairment recognized on financial fixed assets	20 107	4 692	655		24 144
Impairment recognized on administrative risks	336	2			338
Impairment recognized on other receivables (operating)	293	4	37		260
Total impairment recognized on assets	**74 170**	**53 140**	**25 039**	**5 310**	**107 581**
Risk provisions for contingent and future liabilities	3 613	1 959	2 640	6	2 938
General risk provisions	17 132	0	3 989		13 143
Provisions for future expenses	0				0
Provisions for anticipated liabilities	11 546	263	8 795	128	3 142
Provisions for administrative risks	750	391	750		391
Provisions for payment obligations due to early retirement and severance pay	84	562	84		562
Total provisions	**33 125**	**3 175**	**16 258**	**134**	**20 176**

The “Other changes” column shows the change resulting from revaluation in 2010.

II/12. Other notes to the Balance Sheet

a., Listed securities held by the Bank

- Under financial fixed assets:

HUF millions

Description	31 December 2009		31 December 2010	
	Par value	Book value	Par value	Book value
Government bonds	225 270	199 918	390 033	369 243
Mortgage notes	500	510	**0**	**0**
Total:	**225 770**	**200 428**	**390 033**	**369 243**

- Under current assets:

HUF millions

Description	31 December 2009		31 December 2010	
	Par value	Book value	Par value	Book value
Government bonds	33 314	32 950	9 143	8 856
Discounted Treasury bills	215 442	204 866	87 244	84 076
Investment units	5 822	5 729	3 817	3 787
Total:	**254 577**	**243 544**	**100 204**	**96 719**

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 539 740 million as at the balance sheet date.

c., As at 31 December 2010 the Bank’s liabilities included subordinated debt of HUF 21 439 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 60 million, maturity date 30.06.2016., interest rate: 3-month EURIBOR + 0.55%, that is, 1.564%), stated under subordinated liabilities.

d., The Bank’s own real estate properties are free of mortgages; in the case of partially owned properties, the Bank’s ownership interests are also free of mortgages.

e., Method of calculation of general risk provisions have been changed by the Bank in 2010, which has been increased the result by HUF 3 345 million at the time of changing. The Bank made general risk provisions of HUF 13 143 million by 31 December 2010.

f., The amount of accrued interest (including transaction interest and late interest), interest-type commission and fees receivable totaled HUF 5,072 million on 31 December 2010, versus HUF 2 633 million on 31 December 2009.

g., The HUF equivalent of receivables and liabilities arising from spot foreign exchange trades totaled HUF 11 056 million and HUF 11 055 million, respectively, at the balance sheet date, 31 December 2010.

h., On 31 December 2010, the balances of currency swap buy and sell trades made in the interbank market stood at HUF 947 439 million and HUF 837 693 million, respectively, while the balances of currency swap buy and sell trades made with clients were HUF 70 036 million and HUF 68 721 million, respectively. The balances of forward sell and buy trades made in the interbank market stood at HUF 27 592 million and HUF 30 397 million, respectively, while the balances of FX forward sell and buy trades made with clients were HUF 50 895 million and HUF 51 747 million, respectively. The transactions served (exchange rate) hedging as well as trading purposes.

i., Profit impact of derivative transactions as of the end of 2010

HUF millions

Product	**Profit impact**
Forward	-1 487
Currency swap	-5 041
IRS, CCIRS, Asset swap	-97 808
Futures	-1
Total	**-104 337**

j., Actual sale and repurchase transactions and the underlying assets

HUF millions

Start date	**Maturity date**	**Security**	**Par value**	**Transaction value**
28DEC2010	04JAN2011	2014/C_X	7 100	7 029
30DEC2010	06JAN2011	2014/C_X	1 500	1 506
30DEC2010	06JAN2011	2014/C_X	2 000	1 973
29DEC2010	05JAN2011	2015/A_X	1 600	1 727
28DEC2010	04JAN2011	2016/C	6 500	6 207
30DEC2010	06JAN2011	2016/C	150	143
29DEC2010	05JAN2011	2017/B	2 000	2 012
28DEC2010	04JAN2011	2020/A_X	7 100	6 991
28DEC2010	05JAN2011	D110406	18 000	17 733
30DEC2010	06JAN2011	2014/C_X	1 500	1 506
30DEC2010	06JAN2011	2016/C	1 500	1 454
27DEC2010	03JAN2011	2017/A_X	210	206
31DEC2010	07JAN2011	D110406	200	197
Total active special delivery repos			**49 360**	**48 684**

HUF millions

Start date	Maturity date	Security	Par value	Transaction value
28DEC2010	05JAN2011	D110406	18 000	17 733
29DEC2010	05JAN2011	2015/A_X	1 600	1 727
28DEC2010	04JAN2011	2016/C	6 500	6 207
29DEC2010	05JAN2011	2017/B	2 000	2 011
28DEC2010	04JAN2011	2020/A_X	7 100	6 991
31DEC2010	31JAN2011	2011/A_XX	800	825
29DEC2010	05JAN2011	2011/B	2 400	2 426
28DEC2010	04JAN2011	2014/C_X	7 100	7 029
28DEC2010	04JAN2011	2019/A	2 300	2 193
30DEC2010	06JAN2011	2014/C_X	2 000	1 973
29DEC2010	05JAN2011	2011/A_XX	67	69
30DEC2010	06JAN2011	2013/D_X	920	964
30DEC2010	06JAN2011	2014/C_X	5 000	4 948
30DEC2010	06JAN2011	2016/C	2 700	2 577
30DEC2010	06JAN2011	2017/A_X	210	199
30DEC2010	06JAN2011	2017/B	430	432
30DEC2010	06JAN2011	2020/A_X	2 700	2 656
30DEC2010	06JAN2011	2023/A	230	199
27DEC2010	04JAN2011	2011/B	550	556
23DEC2010	07JAN2011	2013/E	50	51
29DEC2010	05JAN2011	2016/C	3 800	3 622
22DEC2010	05JAN2011	2019/A	500	475
29DEC2010	05JAN2011	2019/A	1 900	1 800
27DEC2010	04JAN2011	2020/A_X	1 350	1 333
Total passive special delivery repos			**70 207**	**68 996**

k., K&H Bank Zrt. participates, for a commission, in the distribution of investment units issued by various open-end investment funds. The Bank had no debts to these funds on 31 December 2010.
The par value of investment units posted as off-balance sheet items (held on securities accounts) – expressed in Hungarian forints – totaled HUF 460 736 million at the end of the year.

l., The Bank did not have any earmarked reserves on 31 December 2010.

m., On 31 December 2010 the adjusted balance sheet total was HUF 1 362 951 million.

n., The Bank did not have any retirement benefit payment obligations to its former Board of Directors or Supervisory Board members.

o., The Bank manages securities with a total par value of HUF 828 798 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 2 447 million as at 31 December 2010. Clients had receivables of HUF 2 736 million and payables of HUF 289 million on their client accounts at the end of the year.

p., The Bank did not provide any asset management services for pension or health funds in 2010.

q., On 31 December 2010 the Bank had a total amount of HUF 3 798 million due from its parent company; at the same time, the Bank had short-term liabilities of HUF 976 057 million to its parent.

On 31 December 2010, amounts due from subsidiaries totaled HUF 132 076 million, while short-term liabilities amounted to HUF 13 076 million, and long-term liabilities to HUF 8 770 million. The Bank had no subordinated liabilities to its subsidiaries.

r., K&H Bank Zrt. did not have any significant transactions with associated parties executed under conditions deviating from standard market practice.

II/13. Third-party securities

- Third-party securities (in safekeeping with KELER Rt.)

HUF millions

Description	Par value		Comments
	31.12.2009.	31.12.2010.	Physical / Dematerialized
Investment units	344 356	417 413	Dematerialized
Discounted Treasury bills	22 628	29 465	Dematerialized
Other bonds	31 631	9 060	Dematerialized
Mortgage notes	3 891	1 398	Dematerialized
Compensation coupons	0	0	Physical
Interest-bearing Treasury bills	4 440	2 689	Dematerialized
Government bonds for loan consolidation	10 246	10 246	Dematerialized
Hungarian government bonds	181 174	142 029	Dematerialized
Shares	108 616	111 518	Physical / Dematerialized
Foreign government bonds	0	0	Dematerialized
NBH discounted bonds	193	694	Dematerialized
Municipal bonds	0	0	Dematerialized
Bonds issued by K&H Bank	13 483	14 321	Dematerialized
Total	**720 658**	**738 833**	

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

HUF millions

Description	Par value		Comments
	31.12.2009.	31.12.2010.	Physical / Dematerialized
Investment units	0	0	Physical
Other bonds	4 802	4 802	Physical
Compensation coupons	0	0	Physical
Warehouse receipts	25 018	9 624	Physical
Hungarian government bonds	0	0	Physical
Shares	28 689	27 665	Physical
Total	**58 509**	**42 091**	

- Third-party securities in safekeeping with third parties

HUF millions**

Description	Par value		Comments
	31.12.2009.	31.12.2010.	Safekeeping agent
Investment units	44 092	43 323	KBC Brussels, Clearstream Luxembourg, KBC Securities N.V., Brussels, Kredietbank S.A. Luxembourgeoise, Luxembourg
Other bonds	4 716	4 110	Clearstream Luxembourg
Shares	1 086	441	KBC Securities N.V., Brussels, Clearstream Luxembourg
Foreign government bonds	0	0	
Total	**49 894**	**47 874**	

** converted into HUF at the NBH exchange rate for 31.12.2010.

II/14. Securities portfolio held by the Bank

- Securities held by the Bank (in safekeeping with KELER Rt.)

HUF millions

Description	Par value		Book value	
	31.12.2009.	**31.12.2010.**	**31.12.2009.**	**31.12.2010.**
Investment units	6 626	8 240	6 583	8 758
Discounted Treasury bills	215 442	214 100	204 866	209 243
Other bonds	23 339	30 087	18 714	23 845
Mortgage notes	500	0	510	0
Interest-bearing Treasury bills	34	9	33	9
Government bonds for loan consolidation	110 676	110 676	110 371	110 371
Hungarian government bonds	260 836	416 826	235 204	395 758
Shares	250	1 100	250	893
NBH discounted bonds	510 000	480 750	508 763	479 678
Municipal bonds	43 108	84 406	47 700	84 406
Bonds issued by K&H Bank	2 393	2 949	1 752	2 186
Total:	**1 173 204**	**1 349 143**	**1 134 746**	**1 315 147**

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

HUF millions

Description	Par value		Book value	
	31.12.2009.	**31.12.2010.**	**31.12.2009.**	**31.12.2010.**
Shares	2 891	**2 387**	9 093	7 963
Total:	**2 891**	**2 387**	**9 093**	**7 963**

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

HUF millions ***

Description	Par value		Book value		Comments
	31.12.2009.	**31.12.2010.**	**31.12.2009.**	**31.12.2010.**	
Hungarian government bonds	162	7 930	154	7 922	KBC Securities Hungarian Branch Office, Euroclear Bank S.A.
NBH foreign currency bonds	5 663	4 681	6 147	5 319	European Investment Bank
Total:	**5 825**	**12 611**	**6 301**	**13 241**	

*** converted into HUF at the NBH exchange rate for 31.12.2010.

II/15. Accruals

HUF millions

Prepayments and accrued income	**31.12.2009.**	**31.12.2010.**
Accrued income	**46 464**	**46 383**
Accrued interest and interest-type commissions	31 908	34 966
IR swaps fair market value interest accrual	12 370	10 382
IR arbitrage transactions interest accrual	1 634	164
Other accrued income	552	871
Prepaid costs and expenses	**713**	**912**
Deferred expense	**0**	**0**
Total (Balance Sheet line 96)	**47 177**	**47 295**

HUF millions

Accruals and deferred income	**31.12.2009.**	**31.12.2010.**
Accrued income	**294**	**0**
Accrued costs and expenses	**47 449**	**40 681**
Accrued interest	28 924	21 560
IR swaps fair market value interest accrual	7 876	5 527
IR arbitrage transactions interest accrual	2 542	4 036
Other accrued expenses	0	0
Accrued costs	8 107	9 558
Deferred income	**269**	**220**
Total (Balance Sheet line 176)	**48 012**	**40 901**

II/16. Changes in equity

HUF millions

	Subscribed capital	**Capital reserve**	**Profit reserve**	**General reserve**	**Retained earnings for the year**	**Total**
Balance 31.12.2009.	73 709	28 070	60 813	12 536	6 456	**181 584**
Distribution of 2009 profits			6 456		-6 456	**0**
Retained earnings for the year						**0**
General reserve				2 893		**2 893**
Profit reserve available for disbursement of dividend			-67 269			**-67 269**
Balance 31.12.2010.	**73 709**	**28 070**	**0**	**15 429**	**0**	**117 208**

II/17. Intangible assets by type

HUF millions

Description	31.12.2009.	31.12.2010.
Telephone network access fee	38	3
Internet access fee	0	0
Data transmission network access fee	31	20
Image manual	4	3
User rights to commercial	29	0
Network development contribution	3	0
Licenses	2 424	3 878
Rights	**2 529**	**3 904**
Basic software	206	166
User software	5 160	4 138
Trademarks	3	3
Patents	**5 369**	**4 307**
Total:	**7 898**	**8 211**

II/18. Inventories purchased or received in debt settlement and intended for resale

HUF millions

Description	31.12.2009.	31.12.2010.
Inventories purchased	**236**	**139**
Materials	134	136
Goods	102	3
Total (Balance Sheet line 90)	**236**	**139**

II/19. Risk-free securities at par value

HUF millions

Issue currency	Description	2009	2010
HUF	Government bonds for loan consolidation	110 676	110 676
HUF	Bonds issued by the NBH	510 000	480 750
HUF	Securities issued by the State of Hungary	474 060	613 286
HUF Total		**1 094 736**	**1 204 712**
JPY	Bonds issued by the NBH	5 663	4 682
JPY Total		**5 663**	**4 682**
EUR	Securities issued by the State of Hungary		7 759
EUR Total		**0**	**7 759**

II/20. The impacts of fair market valuation

a., Derivative transactions

HUF millions

Derivative transaction	Positive fair market value		Negative fair market value		Future cash-flow	
	2009	2010	2009	2010	2009	2010
Asset swap	0	0	-695	-763	-2 578	-2 148
CCIRS	597	4 598	-2 246	-927	12 487	-103 610
Forward	1 062	414	-3 415	-1 902	-6 506	-4 057
FRA	458	61	-540	-386	-81	-325
IRS	12 290	11 167	-12 129	-13 750	-7 658	4 504
Option	11 634	7 503	-12 605	-8 509	0	0
Currency swap	451	408	-211	-135	-1 040	-7 723
Futures	11	11	-11	-11	-15	-6
Total	**26 503**	**24 162**	**-31 852**	**-26 383**	**-5 391**	**-113 365**

Accruals related to the fair market valuation of derivative transactions amounted to HUF 10 546 million in interest income and HUF 9 563 million in interest expense.
The HUF 104 705 million price difference of interest arbitrage-like swap transactions is stated under other liabilities.

b., Securities

HUF millions

Securities held for trading	Book value		Fair market value		Valuation difference	
	31.12.2009	31.12.2010	31.12.2009	31.12.2010	31.12.2009	31.12.2010
Government bonds	578 023	540 480	578 277	540 456	254	-24
of which: reclassified from securities held for investment and maturing in 2009	33 820	26 365	33 820	26 365	0	0
Government bonds for loan consolidation	16	16	22	22	6	6
Treasury bills	204 899	209 252	205 574	209 191	675	-61
Total government securities:	**782 938**	**749 748**	**783 873**	**749 669**	**935**	**-79**
Closed-end investment units	5 729	5 241	6 491	5 994	762	753
Bonds	16 336	25 989	1 752	2 186	-14 584	-23 803
Mortgage notes	510	0	510	0	0	0
of which: reclassified from securities held for investment and maturing in 2009	510	0	510		0	0
Total debt securities:	**22 575**	**31 230**	**8 753**	**8 180**	**-13 822**	**-23 050**
Open-end investment units	854	3 517	910	3646	56	129
Total shares and other variable-yield securities	**854**	**3 517**	**910**	**3 646**	**56**	**129**

c., Fair market value of financial instruments stated at original cost

The fair market value of securities held until maturity and classified as available for sale (balance prior to reclassification of securities maturing in the year 2011) amounted to HUF 563 942 million on 31 December 2010.
The fair market value of loans granted by, and other amounts due to, the Bank and that of other financial obligations was approximately equal to their book value. Exceptions to this rule are certain liabilities whose fair market value exceeds their book value by a total of HUF 1 868 million.

II/21. Reclassification of financial instruments

The Bank did not reclassify any financial instruments into another category in 2010.

II/22. Data of restructure loan

HUF millions

Description	Amount
Conditional equity claim	179 645
Impairment	22 464
Book value of receivables	157 181

II. 23. Items managed in frame of special rating procedure

a., Net value of receivables

HUF millions

Description	Corporate loans	Retail loans	Credit institutions	Total
Performing	748 928	612 951	116 979	**1 478 858**
Monitor	48 755	75 431		**124 186**
Substandard	16 463	10 757		**27 220**
Doubtful	9 435	16 369	616	**26 420**
Bad	1 322	21 245		**22 567**
Total	**824 903**	**736 753**	**117 595**	**1 679 251**

b., Net value of securities

HUF millions

Description	Investments	Debt securities	Total
Performing	2 609	84 406	**87 015**
Monitor			
Substandard			
Doubtful			
Bad	6 576		**6 576**
Total	**9 185**	**84 406**	**93 591**

c., Net value of off balance sheet liabilities

HUF millions

Description	Corporate	Retail	Total
Performing	519 429	11 613	**531 042**
Monitor	22 364	0	**22 364**
Substandard	165	0	**165**
Doubtful	1 129	0	**1 129**
Bad	39	0	**39**
Total	**543 126**	**11 613**	**554 739**

III. NOTES TO THE PROFIT & LOSS ACCOUNT

III/1. Expenses on non-financial and investment services

HUF millions

No.	Description	31.12.2009.	31.12.2010.
1.	Re-invoiced value of third-party services	776	347
2.	Book value of inventories sold	4	1
Total (Profit & Loss Account line 69)		**780**	**348**

III/2. Income from and expense on investment services

HUF millions

Income from investment services	31.12.2009.	31.12.2010.
1. Income from custody services	597	606
2. Income from trading operations	69 677	30 833
3. Income from brokerage activities	5 358	6 936
4. Other income	739	647
Total (Profit & Loss Account lines 20 + 39)	**76 371**	**39 022**

HUF millions

Expense on investment services	31.12.2009.	31.12.2010.
1. Expense on custody services	78	136
2. Expense on trading operations	75 842	34 584
3. Expense on brokerage activities	494	585
Total (Profit & Loss Account lines 27 + 44)	**76 414**	**35 305**

III/3. Provisions required but not made (in the breakdown set forth in Section II/11)

The Bank made all the provisions prescribed by applicable regulations to cover credit, interest, investment and other risks related to its activities in 2010.

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

a) Contributions to deposit insurance and institutional protection funds

HUF millions

Description	Amount		Purpose
	2009	2010	
National Deposit Insurance Fund	212	219	Cost of other services
Investor Protection Fund	182	177	Contribution

b) Financial assistance received

The Bank did not receive any financial assistance in 2010.

c) Geographic breakdown of income in 2010

HUF millions

Profit & Loss Account lines	**Geographical breakdown**			**Breakdown of non-EU countries**			
	Domestic	**EU member states**	**Non-EU countries**	**United States of America**	**Jersey, Channel Islands**	**Switzerland**	**Other**
1. Interest received and similar income	181 757	39 588	1 093	619	174	298	2
3. Income from securities	2 198		4	4			
4. Fees and commissions received (receivable)	42 815	118	22	17		1	4
6. Profit/loss from financial transactions							
a) income from other financial services	15 632		1 290				1 290
c) income from investment services	16 001	14 805	27			27	
7. Other income from business activities	13 003	6 839					

d) Financial institutions' special tax

Other expenditures in amount of HUF 14 221 million was recorded by the Bank in 2010 due to financial institutions' special tax.

III/5. Extraordinary expense and extraordinary income recognized in 2010

HUF millions

Extraordinary expense	Amount		Extraordinary income	Amount	
	31.12.2009.	31.12.2010.		31.12.2009.	31.12.2010.
Extraordinary expense related to the dissolution of a business association with an ownership interest	151		Extraordinary income related to the dissolution of a business association with an ownership interest	98	
Amounts due from private individuals not deemed uncollectible but nevertheless cancelled	2	4	Financial assistance received definitively for development purposes	49	49
Amounts due from enterprises not deemed uncollectible but nevertheless cancelled	52	93	Lapsed liabilities	10	10
			Other extraordinary income	1	10
Total (Profit & Loss Account line 89)	**205**	**97**	**Total (Profit & Loss Account line 88)**	**148**	**69**

III/6. Profit/loss from closed forwards/futures, options and swaps

HUF millions

Megnevezés			2009.12.31	2010.12.31
Futures / forwards	Forward	Hedging	-48	-4
		Trading	3 144	-1 725
	FRAs	Trading	-499	-14
	FX futures	Trading	-71	-125
Options	Options		735	0
Swaps	Asset swaps	Hedging	-198	91
	Currency swaps	Hedging	2 369	-7 554
	Index swaps	Hedging	6	59
		Trading	-3	-59
	Interest rate swaps	Hedging	-193	-117
		Trading	14 353	4 380
Total			**19 593**	**-5 068**

III/7. Net profit/loss against parent company and affiliates

HUF millions

Profit/loss	Parent	Affiliate
Interest difference	-7 203	39
Fees and commissions	-265	-53
Profit/loss from financial transactions	N/A	62
Other	-305	3 974
Extraordinary	49	0

IV. ADDITIONAL INFORMATION

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

I.	Name:	Hendrik Scheerlinck
	Address:	1121. Budapest, Irhás árok u. 21/C
II.	Name:	Attila Gombás
	Address:	5008 Szolnok, Molnár F. u. 65.

IV/2. Auditing

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

a., Auditor

Auditor's name: Ernst & Young Kft.

Auditor's address: 1132 Budapest, Váci út 20.

Authorized signatory: Gergely Szabó

b., Fees charged by the auditors in 2010

HUF millions

Description	**Amount**
Auditing	121
Other certification services	
Tax consulting services	
Other, non-auditor services	1
Total	**122**

IV/3. Person in charge of accounting tasks

Name: Tamás Kovalovszki

Registration number: 141812

Address: 2011 Budakalász, Szentendrei út 13.

IV/4. Registered office and website

Registered office: 1051 Budapest, Vigadó tér 1.
Website: www.kh.hu

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

Details of the K&H Bank Zrt. share (HU0000075304):

type: registered, dematerialized ordinary share

basic denomination: HUF 1

amount issued: 73,709,164,412 shares

par value: HUF 73,709,164,412.00

IV/6. Entities that have an ownership interest in the Bank

Company name	Registered office	Voting rights (%)
Controlling interest: Qualified controlling interest: KBC Bank N.V.	B-1080 Brussels, Havenlaan 2.	100

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

Consolidating unit	Company name	Registered office	Public	Available for inspection
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 equity participations

a, Participations in subsidiaries

No.	Company name	Registered office	Stake (%)	Equity (HUF m)* 31.12.2010.	Subscribed capital (HUF m) 31.12.2010.	Reserves (HUF m) 31.12.2010.	Retained earnings for the last financial year (HUF m)* 31.12.2010.
1	K&H Befektetési Alapkezelő Zrt.	1051 Budapest, Vigadó tér 1.	100	2 700	850	151	**1 748**
2	K&H Eszközfinanszírozó Zrt.	1068 Budapest, Dózsa György út 84/A.	100	159	50	151	**-42**
3	Kvantum KK Rt. "v.a." [in dissolution]	1074 Budapest, Dohány u. 98.	100	81	350	-269	**0**
4	K&H Pannonlízing Zrt.	1068 Budapest, Dózsa György út 84/A.	100	-202	51	3 428	**-3 882**
5	K&H Autófinanszírozó Zrt.	1068 Budapest, Dózsa György út 84/A.	100	-891	50	605	**-1 584**
6	K&H Autópark Kft.	1068 Budapest, Dózsa György út 84/A.	100	-1 040	10	-838	**-211**
7	K&H Alkusz Kft.	1068 Budapest, Dózsa György út 84/A.	100	52	5	2	**44**
8	K&H Lízingház Zrt.	1068 Budapest, Dózsa György út 84/A.	100	-66	20	-79	**-7**
9	K&H Lízing Zrt.	1068 Budapest, Dózsa György út 84/A.	100	144	50	96	**-4**
10	K&H Csoportszolgáltató Kft.	1095 Budapest, Lechner Ödön fasor 7	100	449	60	192	**181**
11	K&H Equities Zrt.	1051 Budapest, Vigadó tér 1.	100	6 453	201	5 354	**898**
12	K&H Eszközlízing Kft.	1068 Budapest, Dózsa György út 84/A.	100	-34	5	-50	**11**
13	Risk Kft. f.a. [in liquidation]	1087 Budapest, Könyves Kálmán krt. 76.	100	-2	444	N/A	**N/A**
14	K&H Ingatlanlízing Zrt.	1068 Budapest, Dózsa György út 84/A.	100	103	50	35	**19**
15	K&H Faktor Pénzügyi Szolgáltató Zrt.	1051 Budapest, Vigadó tér 1.	100	42	250	10	**-195**

* Unaudited

b, Participations in jointly managed undertakings

The Bank holds no ownership interest in any jointly managed undertaking.

c, Participations in affiliated undertakings

No.	Company name	Registered office	Stake (%)	Equity (HUF m)* 31.12.2010.	Subscribed capital (HUF m) 31.12.2010.	Reserves (HUF m) 31.12.2010.	Retained earnings for the last financial year (HUF m)* 31.12.2010.
1	HAGE Zrt.	4181 Nádudvar, Kossuth u. 2.	25,00	N/A	2 689	N/A	N/A
2	GIRO Elszámolásforgalmi Zrt.	1054 Budapest, Vadász u. 31.	20,99	7 440	2 496	3 600	1 344
3	Garantiqua Hitelgarancia Zrt.	1053 Budapest, Szép u. 2.	13,30	20 548	4 812	19 871	-4 135

* Unaudited

d, Indirect participations in affiliated undertakings

No.	Company name	Registered office	Stake (%)	Equity (HUF m) 31.12.2010.	Subscribed capital (HUF m) 31.12.2010.	Reserves (HUF m) 31.12.2010.	Retained earnings for the last financial year (HUF m)* 31.12.2010.
1	HAGE-INVEST Kft.	4181 Nádudvar, Kossuth u. 2.	24,17	N/A	450	N/A	N/A
2	Terményfeltáró Kft.	4152 Püspökladány, I. dűlő	25,00	N/A	74	N/A	N/A
3	Garantiqa Pont Zrt.	1053 Budapest Szép u. 2.	13,30	N/A	5	N/A	N/A
4	Gyulai Húskombinát Zrt.	5700 Gyula, Kétegyházi út 3.	16,96	N/A	2 278	N/A	N/A
5	Kisvállalkozás-fejlesztő Pénzügyi Zrt.	1053 Budapest Szép u. 2.	0,20	N/A	50	N/A	N/A
6	BIG-PIG Kft.	4181 Nádudvar, Fő u. 119.	10,07	N/A	59	N/A	N/A
7	Nádudvari Élelmiszer Kft.	4181 Nádudvar, Gutenberg u. 1.	15,23	N/A	1 458	N/A	N/A
8	NAGISZ Zrt.	4181 Nádudvar, Fő u. 119.	6,21	N/A	5 835	N/A	N/A
9	Pannon Lúd Kft.	5800 Mezőkovácsháza Battonyai út 4/1.	0,96	N/A	650	N/A	N/A
10	KA-VOSZ - Garantiqa Zrt	1053 Budapest Szép u. 2.	6,51	N/A	49	N/A	N/A
11	BISz. Zrt.	1054 Budapest, Vadász u. 31.	20,99	N/A	116	N/A	N/A

e, Participations in other associated undertakings

No.	Company name	Registered office	Stake (%)	Equity (HUF m) 31.12.2010.	Subscribed capital (HUF m) 31.12.2010.	Reserves (HUF m) 31.12.2010.	Retained earnings for the last financial year (HUF m) 31.12.2010.
1	Árpád Üzletház Egyesülés	1045 Budapest, Árpád út 112.	7,52	N/A	3	N/A	N/A
2	Swift SC	Belgium, B-1310 La Hulpe, Avenue Adele 1.	0,00	N/A	3 775	N/A	N/A
3	VISA Europe Limited	London, W2 6TT, Sheldon square 1	0,00	N/A	N/A	N/A	N/A
4	VISA Inc.	USA	0,00	N/A	N/A	N/A	N/A

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

Company name	Registered office	Subscribed capital (HUF m)	Voting rights
Controlling interest:			
-	-	-	-
Qualified controlling interest:			
K&H Befektetési Alapkezelő Zrt.	1051 Budapest, Vigadó tér 1.	850	100,00%
K&H Pannonlízing Zrt.	1068 Budapest, Dózsa György út 84/A.	51	100,00%
Risk Kft. f.a.	1087 Budapest, Könyves Kálmán krt. 76.	444	100,00%
Kvantum KK Rt. "v.a." (in dissolution)	1074 Budapest, Dohány u. 98.	350	100,00%
K&H Equities Zrt.	1051 Budapest, Vigadó tér 1.	201	100,00%
K&H Eszközfinanszírozó Zrt.	1068 Budapest, Dózsa György út 84/A.	50	100,00%
K&H Csoportszolgáltató Kft.	1051 Budapest, Vigadó tér 1.	60	100,00%
K&H Autófinanszírozó Zrt.	1068 Budapest, Dózsa György út 84/A.	50	100,00%
K&H Ingatlanlízing Zrt.	1068 Budapest, Dózsa György út 84/A.	50	100,00%
K&H Lízing Zrt.	1068 Budapest, Dózsa György út 84/A.	50	100,00%
K&H Eszközlízing Kft.	1068 Budapest, Dózsa György út 84/A.	5	100,00%
K&H Lízingház Zrt.	1068 Budapest, Dózsa György út 84/A.	20	100,00%
K&H Autópark Kft.	1068 Budapest, Dózsa György út 84/A.	10	100,00%
K&H Alkusz Kft.	1068 Budapest, Dózsa György út 84/A.	5	100,00%
K&H Faktor Pénzügyi Szolgáltató Zrt.	1051 Budapest, Vigadó tér 1.	250	100,00%

IV/10. Other events with a significant impact on the company's financial position

a., Impairment recognized on the investment in K&H Equities Zrt.

The Bank recognizes impairment on the investment in its subsidiary, K&H Equities Zrt., due to the loss of capital resulting from the fraudulent practices that had occurred before 2003.

The Bank did not implement any capital increase in the investment company in 2010.

As at 31.12.2010. the impairment recognized by the Bank on its investment totaled HUF 18 669 million, after an decrease of HUF 652 million in 2010.

The claims awarded in court proceedings are being settled continuously by K&H Equities Zrt. 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 Management believes that the amount of impairment recognized reflects the best possible estimate and is at present sufficient to cover the possible exposure.

In 2003 the Bank agreed to guarantee that the equity of K&H Equities Zrt. would comply with applicable regulations. At the same time the Bank's owner agreed to guarantee the Bank's equity in compliance with applicable regulations.
In 2006 the Bank entered into a compensation agreement with ABN AMRO Bank N.V. – its former co-owner – whereby ABN AMRO will pay compensation, to an extent approximating its former stake (40%), to reimburse the Bank for claims awarded in court proceedings as a result of the fraudulent practices that had occurred at K&H Equities Zrt. in 2003 and the years before.

An insurance agreement was signed in 2008, whereby the insurer will pay partial compensation for payments by K&H Equities Zrt. to clients.

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

b., Miscellaneous

The main part of the provision of HUF 3 533 million has been created on contingent liabilities relating to commercial litigations as a consequence of the sale of investment products to clients in the past.
In 2009 commercial compensation was offered to clients and in the majority of the cases a settlement has been reached for which the cost was recorded. The Bank has signed further contract with costumers in 2010.
Management believes that the provision raised for the still pending cases adequate to cover any remaining potential losses.

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

Employees by category	Average statistical number of employees		Salaries and wages (HUF m)	
	2009	2010	2009	2010
Full-time	3 267	3 226	19 158	20 000
Part-time	58	73	205	235
Retired	15	7	127	88
Not on payroll	0*	0*	2	2
Total Profit & Loss Account line 59	**3 340**	**3 306**	**19 492**	**20 325**

* rounded figure

IV/12. Other personnel expenses

HUF millions

Description	Amount	
	31.12.2009.	**31.12.2010.**
Housing allowance	12	15
Per diem allowance – in Hungary	3	3
Per diem allowance – abroad	2	5
Scholarships	0	0
Cost of benefits paid to temporarily disabled employees	210	179
Daily travel allowance (for travelling to work)	79	95
Life insurance contribution	46	41
Vacation allowance	253	189
Food allowance	270	268
Fringe benefits	454	636
Personal income tax (54%)	449	532
Pension fund contribution	289	224
Health fund contribution	274	243
Severance pay	9	6
Other personnel expense	952	657
Total (Profit & Loss Account line 60):	**3 302**	**3 093**

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	
	31.12.2009.	**31.12.2010.**	**31.12.2009.**	**31.12.2010.**
Board of Directors	3	5	259	358
Executive Management	33	36	1 200	1 319
Supervisory Board	1	1	6	6
Total:	**37**	**42**	**1 465**	**1 683**

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

31 December 2010

Members of the Board of Directors, the Executive Management and the Supervisory Board have a total debt of HUF 389,8 million to the Bank in loans and interest/charges.

IV/15. Adjustments to the Bank's taxable income 31 December 2010

HUF millions

Items decreasing taxable income	Amount	Items increasing taxable income	Amount
Income from the use of provisions	9 651	Expense arising from provisioning	1 226
Depreciation according to the Corporation Tax Act	6 396	Depreciation according to the Accounting Act	6 547
Book value of tangible assets removed from the books	145	Book value of tangible assets removed from the books	131
Dividends received	2 202	Extraordinary depreciation	113
Donations		Fines	23
Reversal of impairment	33	Receivables not deemed uncollectible but nevertheless cancelled in the fiscal year	
Income related to previous years	204	Impairment	6
		Cash and equivalents transferred definitively	0
		Other items increasing taxable income	6 498
		Expenses related to previous years	165
		Taxes paid abroad	43
		Expenses not incurred in the interest of the company	3 983
Total:	**18 631**	**Total:**	**18 735**

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

HUF millions

No.	Description	Previous year	Reporting year
A.			
01.	+ Interest income	305 954	222 053
02.	+ Income from other financial services (excluding reversal of impairment on securities)	52 136	51 688
03.	+ Other income (excluding use of provisions, reversal of surplus provisions, reversal of impairment on inventories and reversal of extraordinary depreciation)	-2 494	4 354
04.	+ Income from investment services (excluding reversal of impairment on securities)	30 462	18 209
05.	+ Income from non-financial and investment services	1 460	1 833
06.	+ Dividend income	9 859	2 202
07.	+ Extraordinary income	148	69
08.	- Interest expense	209 653	127 907
09.	- Expense on other financial services (excluding impairment on securities)	28 081	14 604
10.	- Other expense (excluding provisioning, impairment on inventories and extraordinary depreciation)	17 423	27 670
11.	- Expense on investment services (excluding impairment on securities)	17 762	8 741
12.	- Expense on non-financial and investment services	780	348
13.	- General and administrative expense	59 992	58 761
14.	- Extraordinary expense (excluding corporation tax liability for the year)	205	97
15.	- Corporation tax liability for the year	5 080	6 078
16.	- Dividend paid	10 035	93 305
17.	**CASH FLOW FROM OPERATIONS (lines 01-16)**	**48 514**	**-37 103**
18.	Change in liabilities (+ if increase, - if decrease)	-78 206	255 000
19.	Change in receivables (- if increase, + if decrease)	196 059	-49 813
20.	Change in inventories (- if increase, + if decrease)	-58	97
21.	Change in securities stated under current assets (- if increase, + if decrease)	-102 374	22 271
22.	Change in securities stated under fixed assets (- if increase, + if decrease)	-26 905	-211 295
23.	Change in capital expenditure (including advances) (- if increase, + if decrease)	1 434	-345
24.	Change in intangible assets (- if increase, + if decrease)	-3 073	-2 821
25.	Change in tangible assets (excluding capital expenditure and advances for capital investments) (- if increase, + if decrease)	-4 349	-2 006
26.	Change in prepayments and accrued income (- if increase, + if decrease)	-4 837	-1 191
27.	Change in accruals and deferred income (+ if increase, - if decrease)	-10 503	-4 762
28.	Share offering at sale price	7 402	0
29.	Cash and equivalents received definitively under applicable law	0	0
30.	Cash and equivalents transferred definitively under applicable law	-299	0
31.	Par value of Treasury stock and equity bonds retired	0	0
32.	**NET CASH FLOW (lines 17-34)**	**22 805**	**-31 968**
33.	of which: - change in cash (HUF and foreign currency cash and checks)	-4 053	979
34.	- 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)	26 858	-32 947

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

1. Balance sheet and profit & loss account

1.1. Balance sheet

bln HUF	**Dec. 31, 2009**	**Dec. 31, 2010**	**Change**
Total assets	3 048	3 213	+5,4%
Receivables from clients	1 604	1 562	-2,6%

The total assets of K&H Bank Zrt. grew by 5,4% (165 bln HUF) in 2010. In assets, growth was primarily in government securities, whereas in liabilities it related mostly to liabilities to credit institutions. Lending to, and deposits from, clients have both fallen.
As in the banking sector overall, household and corporate demand for loans remained subdued throughout 2010. Within *receivables from clients*, the stock of retail lending grew by 10% (as a result of the HUF weakening against the CHF), while the corporate loan portfolio shrank by 13% in 2010. The ratio of retail loans to all loans therefore increased to 50% from 44% in the previous year.

bln HUF	**Dec. 31, 2009**	**Dec. 31, 2010**	**Change**
Liabilities to clients	1 730	1 595	-7,8%
Equity	182	117	-35,7%

Total *liabilities to clients* fell by 135 bln HUF (7,8%) during the year. While the overall total of retail savings did not change compared to the end of the previous year, its internal structure did experience a shift as 19% contraction in deposits was offset by the same rate of increase in mutual funds managed by K&H. Beyond retail deposits the decrease in deposits was due to deposits placed by investment funds managed by the shareholder KBC's affiliate, KBC Asset Management (deposits maturing).
Based on the shareholder's decision the Bank pays 93,3 bln HUF dividend in 2011 (26,0 bln from the 2010 profit, and 67,3 bln from retained earnings). The 64,4 bln HUF decrease in *equity* is the net balance of change in retained earnings paid out as dividend (-67,3 bln HUF) and the retained part of actual year's profit (+2,9 bln HUF) accounted for among reserves. The dividend payment will be preceeded by a capital increase by the sole shareholder equivalent to the dividend payment from retained earnings (67,3 bln).

	Dec. 31, 2009	**Dec. 31, 2010**	**Change**
Solvency capital (bln HUF)	203,2	135,5	-33,3%
Capital adequacy ratio	12,82%	8,38%	-4,4%

Capital adequacy ratio: since January 1, 2008, the Bank has followed the Basel II standardised method to calculate its capital adequacy ratio (which includes lending, market risk and operating risk capital requirements).). As from 1st January 2011 the Bank will move to Basel II IRB Foundation approach in capital calculation. The decline of capital adequacy level from year-end 2009 to year-end 2010 is related to the above mentioned dividend payment from retained earnings. This will be compensated by the decided increase in share capital in the same amount.

1.2. Profit & loss account

In 2010 the Bank achieved after-tax profits of 28,9 bln HUF, representing considerable growth over the profits of 18,3 bln HUF reported in the previous year; this was due to higher revenues, lower operating expenses and lower credit and other provisions compensating the impact of newly introduced bank tax (14,2 bln) appearing under the heading of *'other expenses on business activities'* .

bln HUF	2009	2010	Change
P&L from regular (business) operations	23,5	35,0	49,3%
After-tax P&L	18,3	28,9	57,9%

The following factors contributed significantly to the growth of revenues:

- A dominant item in revenues, *net interest and interest-type income* fell by nearly 2% compared to the previous year (2009: 96,3 bln HUF; 2010: 94,5 bln HUF) [1],
- *Net commission and fee income* grew by 10% (2010: 28,1 bln HUF; 2009: 25,5 bln HUF); this was attributable primarily due to *fee income from securities services (mostly related to excellent sales result of mutual funds)* and turnover commission income from *bank cards*.
- *Other income* contains 6.8 bln compensation income for covering the losses resulting from operational risks.
- The Bank's *operating expenses* decreased by 2,8 % compared to a year before (2010: 65,4 bln HUF; 2009: 67,3 bln HUF) due to the strict cost management:
  - *personnel expenses* grew by 0,2 bln HUF (0,7 %) headcount of the bank, increased by 10 during the year, amounted to 3,272 at the end of the 2010. In light of the adverse external market conditions in November 2010 the management announced to reduce the group's headcount (by appr. 5.8%) in 2011.
  - *general and administrative expenses* decreased by 1,5 bln HUF (4,8 %). Key components were: IT expenses (-0,5 bln HUF), accommodation expenses as a result of real estate restructuring (-0,2 bln HUF), administrative expenses (-0,2 bln HUF), marketing expenses (-0,2 bln HUF), printing, office supplies and postal expenses (-0,2 bln HUF);
  - *depreciation* was -0,7 bln HUF less than a year before (-9,4 %).

2. Risk management

Banking as an activity is exposed to a number of risks. K&H Bank operates a system of accurately measuring and properly handling and limiting these risks. In terms of both methodology and organisation, the system is aligned with the risk management system of the main shareholder KBC Group.

- **Lending risk** is defined as the potential for loss by the Bank in the event that a client becomes insolvent or is unable to honour his payment obligations on time. We manage lending risks using risk mitigation techniques approved by the Board of. Directors. The relevant rules cover the entire lending process. The Bank continuously monitors its loan portfolio and prepares reports to its top management relying on this monitoring.
  The changes in the HUF exchange rate and the level of unemployment had the impact of a slightly lower rate of increase in overdue debts in retail loans in the reporting period compared to previous year. The future evolution of these ratios may have a significant influence on the quality of the loan portfolio.

[1] The decrease is of technical nature and primarily related to the accounting treatment of financial derivatives according to HAS (realised interest on FX swaps / Forwards is booked as interest result, the unrealised /accrued/ interest is to be accounted for as revaluation result). Under IFRS (where both realised and non-realised interest remained under the same heading of 'net gains from financial instruments at fair value') the Bank's interest income increased by 22% compared to 2009 driven by the favourable evolution of deposit margins and the risk based adjustment in pricing of corporate loan portfolio.

Within the framework of the Basel II programme, the Bank successfully earned the right in late 2010 to use the IRB Foundation model from the authority; accordingly, the Bank will calculate its regulatory capital requirement for lending risks on this basis as from January 1, 2011. This programme involved the review of all its debtor rating models and their enhancement in line with the new, standardised Group-wide methodology.

All throughout 2010, the Bank laid special emphasis on enhancing its risk management methodology, chiefly on testing the sensitivity of the credit portfolio to different stress scenarios (macroeconomic indicators, exchange rate fluctuations and property price changes).

A further key part of enhancing risk management methodologies has been the reformulation of management reports, giving much greater space to a variety of quantitative risk measurements in regularly monitoring the loan portfolio.

The Bank supports its retail clients in preserving their solvency via offering various solutions for restructuring their credit obligations. At year-end 2010 the balance of restructured loans amounted to 73 bln related to retail mortgages (9,3% of the portfolio).

- **Market risk** is the Bank's risk of loss arising from unexpected changes in the Bank's currency and interest rate positions. The Asset/Liability Committee (ALCO) was responsible for overseeing interest and currency risks as well as financial instruments until November 2010, at which point its role was taken over by the Capital and Risk Management Oversight Committee (CROC). CROC members are executives of the Bank and representatives of its Treasury and Risk Management functions.

  The Bank's asset/liability management is grounded in the methodology of its primary shareholder the KBC Group. Accordingly, CROC regularly monitors and constrains the risk exposure in the banking and trading books by setting limits (consistent with KBC's limit policy). We measure and control interest risk using a combination of methods and limits (gap analysis, interest rate sensitivity, duration, BPV).
- **Liquidity risk** is the risk that an institution fails to meet its net financing needs. Liquidity risk may arise from market disruption or credit downgrading, which can cause sources of financing to dry up overnight. To guard against this risk the management has diversified sources of financing and manages assets with due attention to liquidity, sustaining a healthy balance among cash, cash equivalents and instantly marketable securities. The operating liquidity limit is used to measure short-term liquidity risk and it reveals whether there are sufficient funds to cover the 30-day accumulated liquidity gap. Structural liquidity is measured with the coverage ratio, in addition to which the Bank uses liquidity stress testing to measure liquidity risk along KBC guidelines. The Risk Management Directorate regularly reports to the K&H Bank CROC regarding the changes in liquidity ratios and limits. As a trial, the Bank started in 2010 to measure the planned new Basel III liquidity ratios as well, which helps it prepare for measurement that will be mandatory in the future.
- **Operating (non-financial) risk** is the possibility of a loss incurred by the Bank due to inadequately functioning systems or processes, human error or external events. An important strand within the KBC Group's Basel II Capital Accord preparations is the enhancement of operating risk management. We have built a data collection system covering the entire K&H Bank Group allowing the accurate and detailed measurement of operating risks, and we use it to monitor, categorise and analyse operating loss events. In December 2007 the HFSA granted the Bank authorisation to employ the operating risk capital requirement standard method from January 1, 2008.

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Key IT development in 2010:

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Budapest, 29 March 2011

Hendrik Scheerlinck	Attila Gombás
Chief Executive Officer	Chief Financial Officer

K&H Bank Zrt.

Management Report

December 31, 2010

The following is a summary of the business activities and results of K&H Bank in 2010, along with an overview of the conditions wherein it operated.

1. Economic environment

The global economy has continued to experience a slow recovery from recession in 2010. Benefiting from an upward trend in Western Europe (primarily Germany), the Hungarian economy achieved 1.2% growth in 2010: driven by export sales, industrial output continued to increase and approximated pre-crisis levels. Capital investments declined across the board (-5.5%), mostly due to additional contraction on the housing market and continued reduction in publicly financed capital investments. Consumption and loans taken by households decreased, which improved further the financing ability of this sector compared to the preceding period.
The external and internal balance of the economy continued to improve, but while measures adopted by the new government (primarily sectoral taxes, the transformation of the pension system) pointed in the direction to stabilise public finances on short term, the 2010 deficit was still somewhat higher than planned. The current account surplus is attributable mainly to the favourable changes in balance of trade.

	2009 actual	2010 forecast
GDP growth	-6.7%	1.2%
CPI (average)	4.2%	4.9%
Capital investment growth	-6.5%	-0.9%
Household consumption growth	-7.6%	-3.0%
Public finance deficit	4.4%	4.2%
Current account balance (as % of GDP)	-0.5%	1.3%

Sources: MNB, KSH and GKI

2. Monetary trends

With certain issues still outstanding when it came to fiscal consolidation in the Eurozone, global investor sentiment remained volatile throughout the year, which also had impacted money market trends in Hungary. In spite of the continued improvement in Hungary's balance position in 2010, the country's risk rating has remained worse than other countries in the region (primarily due to the uncertainties surrounding the long term consolidation of public finances and the talks with the IMF) and several major international ratings agencies downgraded Hungary in the second half of the year.
The central bank base rate continued its downward course early on in 2010 (and stood at the historic low of 5.25% at the end of April), but above-target inflation (and the worsening inflationary outlook) and adverse investor sentiment caused the Monetary Council to raise the rate by 25 bps each on two occasions towards the end of the year.
In order to boost HUF-denominated mortgage financing, the Central Bank announced in 2010 that it would buy mortgage bonds in the course of the year to help cut HUF liquidity premiums (as market demand remained below expectations the Central Bank decided not to carry on with its mortgage bond programme in 2011). In September 2010 the Bank introduced the optional reserve ratio to support Hungarian credit institutions in their efforts to manage liquidity and to mitigate the divergence of short-term inter-bank interest rates from the base rate. The Central Bank also decided to put out a new reference yield and started in September 2010 to publish HUFONIA (Hungarian Forint Overnight Index Average), an average interest rate of overnight inter-bank unsecured transactions, weighted for turnover and calculated from the daily reports from financial institutions.

3. The Bank's market position

	Dec. 31, 2009	Dec 31, 2010*
Total assets	10.5%	11.0%
Corporate lending	9.5%	8.7%
Retail lending	9.1%	9.2%
Corporate deposits	11.4%	10.7%
Retail deposits and investment funds	10.7%	10.4%

** preliminary figures*

Source: MNB, K&H

The Bank's position in corporate shrank to a degree in 2010 (due mostly to a selectivity in lending and the expiry of some major individual deposits). In terms of consumer savings, the Bank retained its stable second position in the banking sector (although, unlike in previous periods, the Bank was somewhat less aggressive in pricing retail deposit campaigns).

4. Strategic objectives

K&H Bank Group is a universal bancassurer, providing banking, leasing, asset management and insurance services for individuals and corporate (focusing on SME and Mid-cap) customers.
In order to fulfil our mandate by our shareholder and our clients:

- we combine the best international practice with sound local knowledge;
- we provide our clients with a distinctively modern banking and insurance service which begins with their needs and concludes with the delivery of excellent solutions at competitive prices.

<u>Customer strategy:</u>
Retail: customers are served based on the different segments' special needs.
Corporate clients: focus on cross-sales, intensify new client acquisition in selected areas.

<u>Product strategy:</u>
Retail:

- Innovative saving products and add-on services to keep up our market leader status.
- Growth in lending, based on a good understanding of credit risk.
- Strong focus on transactional banking.

SME:

- More standard products fitting client needs with easy processes.
- Re-design of credit process.

Corporate:

- K&H Corporate is a full service provider, emphasis is on the distribution channel to provide tailored solutions to clients.

<u>Strategy on distribution channels:</u>
Branch-centric multi-channel distribution approach: although the diversity of channels and the role of tied agent, 3rd party and remote channels are significant, the most important channel will remain our extensive branch network.
Key differentiators of the Bank Group:

- Being close to our clients: easy access both physically (see our large branch network) and virtually (see remote channels).
- Speaking our clients' language (investment to 'client-conform' communication).
- Clients' individual needs and profiles are permanently in focus (offered services always fit their real needs)
- K&H Group acts as 'one-stop-shop' for our clients (universal financial institution)

5. The Bank's financials: balance sheet and P&L position

5.1. Balance sheet

bln HUF	**Dec. 31, 2009**	**Dec. 31, 2010**	**Change**
Total assets	3,048	3,213	+5.4%
Receivables from clients	1,604	1,562	-2.6%

The total assets of K&H Bank Zrt. grew by 5.4% (165 bln HUF) in 2010. In assets, growth was primarily in government securities, whereas in liabilities it related mostly to liabilities to credit institutions. Lending to, and deposits from, clients have both fallen.
As in the banking sector overall, household and corporate demand for loans remained subdued throughout 2010. Within *receivables from clients*, the stock of retail lending grew by 10% (as a result of the HUF weakening against the CHF), while the corporate loan portfolio shrank by 13% in 2010. The ratio of retail loans to all loans therefore increased to 50% from 44% in the previous year.

bln HUF	**Dec. 31, 2009**	**Dec. 31, 2010**	**Change**
Liabilities to clients	1,730	1,595	-7.8%
Equity	182	117	-35,7%

Total *liabilities to clients* fell by 135 bln HUF (7.8%) during the year. While the overall total of retail savings did not change compared to the end of the previous year, its internal structure did experience a shift as 19% contraction in deposits was offset by the same rate of increase in mutual funds managed by K&H. Beyond retail deposits the decrease in deposits was due to deposits placed by investment funds managed by the shareholder KBC's affiliate, KBC Asset Management (deposits maturing).
Based on the shareholder's decision the Bank pays 93.3 bln HUF dividend in 2011 (26.0 bln from the 2010 profit, and 67.3 bln from retained earnings). The 64.4 bln HUF decrease in *equity* is the net balance of change in retained earnings paid out as dividend (-67.3 bln HUF) and the retained part of actual year's profit (+2,9 bln HUF) accounted for among reserves. The dividend payment will be preceeded by a capital increase by the sole shareholder equivalent to the dividend payment from retained earnings (67.3 bln).

	Dec. 31, 2009	**Dec. 31, 2010**	**Change**
Solvency capital (bln HUF)	203.2	135.5	-33.3%
Capital adequacy ratio	12.82%	8.38%	-4.4%

Capital adequacy ratio: since January 1, 2008, the Bank has followed the Basel II standardised method to calculate its capital adequacy ratio (which includes lending, market risk and operating risk capital requirements). As from 1st January 2011 the Bank will move to Basel II IRB Foundation approach in capital calculation. The decline of capital adequacy level from year-end 2009 to year-end 2010 is related to the above mentioned dividend payment from retained earnings. This will be compensated by the decided increase in share capital in the same amount.

5.2. P&L

In 2010 the Bank achieved after-tax profits of 28.9 bln HUF, representing considerable growth over the profits of 18.3 bln HUF reported in the previous year; this was due to higher revenues, lower operating expenses and lower credit and other provisions compensating the impact of newly introduced bank tax (14.2 bln) appearing under the heading of *'other expenses on business activities'*.

bln HUF	**2009**	**2010**	**Change**
P&L from regular (business) operations	23.5	35.0	49.3%
After-tax P&L	18.3	28.9	57.9%

The following factors contributed significantly to the growth of revenues:

- A dominant item in revenues, *net interest and interest-type income* fell by nearly 2% compared to the previous year (2009: 96.3 bln HUF; 2010: 94.5 bln HUF)[1],
- *Net commission and fee income* grew by 10% (2010: 28.1 bln HUF; 2009: 25.5 bln HUF); this was attributable primarily due to *fee income from securities services (mostly related to excellent sales result of mutual funds)* and turnover commission income from *bankcards*.
- *Other income* contains 6.8 bln compensation income for covering the losses resulting from operational risks.
- The Bank's *operating expenses* decreased by 2.8 % compared to a year before (2010: 65.4 bln HUF; 2009: 67.3 bln HUF) due to the strict cost management:
  - *personnel expenses* grew by 0.2 bln HUF (0.7 %): headcount of the bank, increased by 10 during the year, amounted to 3,272 at the end of the 2010. In light of the adverse external market conditions in November 2010 the management announced to reduce the group's headcount (by appr. 5.8%) in 2011.
  - *general and administrative expenses* decreased by 1.5 bln HUF (4.8 %). Key components were: IT expenses (-0.5 bln HUF), accommodation expenses as a result of real estate restructuring (-0.2 bln HUF), administrative expenses (-0.2 bln HUF), marketing expenses (-0.2 bln HUF), printing, office supplies and postal expenses (-0.2 bln HUF);
  - *depreciation* was -0.7 bln HUF less than a year before (-9.4 %).

6. Risk management

Banking as an activity is exposed to a number of risks. K&H Bank operates a system of accurately measuring and properly handling and limiting these risks. In terms of both methodology and organisation, the system is aligned with the risk management system of the main shareholder KBC Group.

- **Lending risk** is defined as the potential for loss by the Bank in the event that a client becomes insolvent or is unable to honour his payment obligations on time. We manage lending risks using risk mitigation techniques approved by the Board of Directors. The relevant rules cover the entire lending process. The Bank continuously monitors its loan portfolio and prepares reports to its top management relying on this monitoring.
  The changes in the HUF exchange rate and the level of unemployment had the impact of a slightly lower rate of increase in overdue debts in retail loans in the reporting period compared to previous year. The future evolution of these ratios may have a significant influence on the quality of the loan portfolio.
  Within the framework of the Basel II programme, the Bank successfully earned the right in late 2010 to use the IRB Foundation model from the authority; accordingly, the Bank will calculate its regulatory capital requirement for lending risks on this basis as from January 1, 2011. This programme involved the review of all its debtor rating models and their enhancement in line with the new, standardised Group-wide methodology.

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[1] The decrease is of technical nature and primarily related to the accounting treatment of financial derivatives according to HAS (realised interest on FX swaps / Forwards is booked as interest result, the unrealised /accrued/ interest is to be accounted for as revaluation result). Under IFRS (where both realised and non-realised interest remained under the same heading of 'net gains from financial instruments at fair value') the Bank's interest income increased by 22% compared to 2009 driven by the favourable evolution of deposit margins and the risk based adjustment in pricing of corporate loan portfolio.

All throughout 2010, the Bank laid special emphasis on enhancing its risk management methodology, chiefly on testing the sensitivity of the credit portfolio to different stress scenarios (macroeconomic indicators, exchange rate fluctuations and property price changes). A further key part of enhancing risk management methodologies has been the reformulation of management reports, giving much greater space to a variety of quantitative risk measurements in regularly monitoring the loan portfolio.
The Bank supports its retail clients in preserving their solvency via offering various solutions for restructuring their credit obligations. At year-end 2010 the balance of restructured loans amounted to 73 bln related to retail mortgages (9.3% of the portfolio).

- **Market risk** is the Bank's risk of loss arising from unexpected changes in the Bank's currency and interest rate positions. The Asset/Liability Committee (ALCO) was responsible for overseeing interest and currency risks as well as financial instruments until November 2010, at which point its role was taken over by the Capital and Risk Management Oversight Committee (CROC). CROC members are executives of the Bank and representatives of its Treasury and Risk Management functions.
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