Kereskedelmi és Hitelbank Zártkörűen Működő Részvénytársaság

ANNUAL REPORT

31 December 2011

CONTENT

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 2011 Annual Report and the Year 2011 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 companies involved in the consolidation, and the Management Report and Consolidated Management Report show a true and fair picture of the position, development and performance of K&H Bank Zrt. and the companies involved in the consolidation, including the major risks and uncertainties factors.

Budapest, April 26, 2012

Hendrik Scheerlinck	Attila Gombás
Chief Executive Officer	Chief Financial Officer

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This is a translation of the Hungarian Report

Independent Auditors' Report

To the Shareholder of Kereskedelmi és Hitelbank Zártkörűen Működő Részvénytársaság

Report on financial statements

1.) We have audited the accompanying 2011 annual financial statements of Kereskedelmi és Hitelbank Zártkörűen Működő Részvénytársaság ("the Company"), which comprise the balance sheet as at 31 December 2011 - showing a balance sheet total of HUF 2,895,685 million and a profit for the year of HUF 0 -, the related profit and loss account for the year then ended and a summary of significant accounting policies and other explanatory information.

Management's responsibility for the financial statements

2.) Management is responsible for the preparation and presentation of financial statements that give a true and fair view in accordance with the Hungarian Accounting Law and generally accepted accounting principles in Hungary, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' responsibility

3.) Our responsibility is to express an opinion on these financial statements based on our audit. 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 about whether the financial statements are free from material misstatement.

4.) 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 of financial statements that give a true and fair view 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.

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

Opinion

6.) 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 2011 and of the results of its operations for the year then ended.

Emphasis of matter

7.) We draw attention to note IV/10. in the supplementary notes. 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 2.4 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. Our opinion is not modified in respect of this matter.

Other matters

8.) This independent auditor's report has been issued for consideration by the forthcoming shareholders' meeting for decision making purposes and, as such, does not reflect the impact, if any, of the resolutions to be adopted at that meeting.

Other reporting requirement - The business report

9.) We have reviewed the business report of Kereskedelmi és Hitelbank Zártkörűen Működő Részvénytársaság for 2011. Management is responsible for the preparation of the business report in accordance with the Hungarian Accounting Law and generally accepted accounting principles in Hungary. Our responsibility is to assess whether the business report is consistent with the financial statements for the same financial year. Our work regarding the business report has been restricted to assessing whether the business report is consistent with the financial statements and did not include reviewing other information originated from non-audited financial records. In our opinion, the business report of Kereskedelmi és Hitelbank Zártkörűen Működő Részvénytársaság for 2011 corresponds to the disclosures in the 2011 financial statements of Kereskedelmi és Hitelbank Zártkörűen Működő Részvénytársaság.

Budapest, 6 April 2012

(The original Hungarian language version has been signed.)

Szabó Gergely
Ernst & Young Kft.
Registration No. 001165

Sulyok Krisztina
Registered auditor
Chamber membership No.: 006660

10195664-6419-114-01
statistical number

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

HUF millions

No.	Description	Previous year 31.12.2010.	Reporting year 31.12.2011.
a	b	c	d
01.	**1. CASH AND EQUIVALENTS**	**115 134**	**161 144**
02.	**2. GOVERNMENT SECURITIES**	**1 208 300**	**939 202**
03.	a) held for trading	749 748	469 767
04.	b) held for investment	458 552	469 435
05.	**2/A. VALUATION DIFFERENCE OF GOVERNMENT SECURITIES**	**- 79**	**- 412**
06.	**3. AMOUNTS DUE FROM CREDIT INSTITUTIONS**	**117 595**	**74 743**
07.	a) on demand	41 899	27 291
08.	b) other receivables from financial services	75 696	47 452
09.	ba) short-term	72 743	32 047
10.	of which: - from affiliated undertakings		
11.	- from other associated undertakings		
12.	- from the NBH		
13.	- from the clearing house		
14.	bb) long-term	2 953	15 405
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**	**1 561 656**	**1 458 167**
25.	a) from financial services	1 561 365	1 455 774
26.	aa) short-term	507 329	453 630
27.	of which: - from affiliated undertakings	83 436	12 466
28.	- from other associated undertakings		
29.	ab) long-term	1 054 036	1 002 144
30.	of which: - from affiliated undertakings	48 637	60 814
31.	- from other associated undertakings		
32.	b) from investment services	291	2 393
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	289	2 388
38.	bd) amounts due from the clearing house	2	5
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**	**115 678**	**103 358**
42.	a) securities issued by local municipalities and other administrative institutions (excluding government securities)	84 406	69 951
43.	aa) held for trading		
44.	ab) held for investment	84 406	69 951
45.	b) securities issued by third-party issuers	31 272	33 407
46.	ba) held for trading	31 230	33 360
47.	of which: - issued by affiliated undertakings		
48.	- issued by other associated undertakings		
49.	- Treasury stock	2 186	1 659
50.	bb) held for investment	42	47
51.	of which: - issued by affiliated undertakings		
52.	- issued by other associated undertakings		
53.	**5/A. VALUATION DIFFERENCE OF DEBT SECURITIES**	**- 23 050**	**- 25 412**

HUF millions

No.	Description	Previous year 31.12.2010.	Reporting year 31.12.2011.
a	b	c	d
54.	**6. SHARES AND OTHER VARIABLE YIELD SECURITIES**	**3 517**	**5 928**
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	3 517	5 928
59.	ba) held for trading	3 517	5 928
60.	bb) held for investment		
61.	**6/A. VALUATION DIFFERENCE OF SHARES AND OTHER VARIABLE YIELD SECURITIES**	**129**	**120**
62.	**7. SHARES AND PARTICIPATIONS HELD FOR INVESTMENT**	**910**	**952**
63.	a) shares and participations held for investment	910	952
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**	**8 276**	**4 708**
69.	a) shares and participations held for investment	8 276	4 708
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**	**8 211**	**9 429**
74.	a) intangible assets	8 211	9 429
75.	b) adjustments to the value of intangible assets		
76.	**10. TANGIBLE ASSETS**	**19 853**	**45 574**
77.	a) tangible assets used in financial and investment services	19 772	45 495
78.	aa) land and buildings	13 133	37 158
79.	ab) technical equipment, machinery and vehicles	5 393	4 651
80.	ac) capital expenditure	1 246	3 686
81.	ad) advances for capital investments		
82.	b) tangible assets not directly used in financial and investment services	81	79
83.	ba) land and buildings		
84.	bb) technical equipment, machinery and vehicles	81	79
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**	**5 792**	**28 841**
90.	a) inventories	139	303
91.	b) other receivables	5 653	28 538
92.	of which: - amounts due from affiliated undertakings	2	26
93.	- amounts due from other associated undertakings		
94.	**12/A. VALUATION DIFFERENCE OF OTHER RECEIVABLES**		
95.	**12/b. POSITIVE VALUATION DIFFERENCE OF DERIVATIVE TRANSACTIONS**	**24 162**	**37 504**
96.	**13. PREPAYMENTS AND ACCRUED INCOME**	**47 295**	**51 839**
97.	a) accrued income	46 384	50 639
98.	b) prepayments	911	1 200
99.	c) deferred expense		
100.	**TOTAL ASSETS**	**3 213 379**	**2 895 685**
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]**	1 528 845	1 226 201
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]**	1 637 239	1 617 645

Budapest, 6 April 2012

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 31.12.2010.	Reporting year 31.12.2011.
a	b	c	d
103.	**1. AMOUNTS DUE TO CREDIT INSTITUTIONS**	**1 158 529**	**702 709**
104.	a) on demand	12 436	50 588
105.	b) fixed-term liabilities from financial services	1 146 093	652 121
106.	ba) short-term	1 011 756	509 227
107.	of which: - from affiliated undertakings		
108.	- from other associated undertakings		
109.	- from the NBH		
110.	- from the clearing house		
111.	bb) long-term	134 337	142 894
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**	**1 595 496**	**1 727 902**
122.	a) savings deposits		
123.	aa) on demand		
124.	ab) short-term		
125.	ac) long-term		
126.	b) other liabilities from financial services	1 592 661	1 722 684
127.	ba) on demand	627 495	665 394
128.	of which: - from affiliated undertakings	7 581	10 939
129.	- from other associated undertakings		
130.	bb) short-term	809 593	841 999
131.	of which: - from affiliated undertakings	5 492	450
132.	- from other associated undertakings		
133.	bc) long-term	155 573	215 291
134.	of which: - from affiliated undertakings	8 770	31 717
135.	- from other associated undertakings		
136.	c) from investment services	2 835	5 218
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	2 835	5 218
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**	**17 558**	**20 962**
146.	a) bonds issued	17 294	20 700
147.	aa) short-term	402	8 630
148.	of which: - from affiliated undertakings		
149.	- from other associated undertakings		
150.	ab) long-term	16 892	12 070
151.	of which: - from affiliated undertakings		
152.	- from other associated undertakings		

HUF millions

No.	Description	Previous year 31.12.2010.	Reporting year 31.12.2011.
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	264	262
161.	ca) short-term	264	262
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**	**215 689**	**150 709**
168.	a) short-term	215 689	150 709
169.	of which: - from affiliated undertakings	2	453
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**	**26 383**	**30 167**
176.	**5. ACCRUALS AND DEFERRED INCOME**	**40 901**	**39 931**
177.	a) accrued income		2
178.	b) accrued cost and expense	40 680	39 695
179.	c) deferred income	221	234
180.	**6. PROVISIONS**	**20 176**	**19 153**
181.	a) provisions for retirement benefits and severance pay	562	
182.	b) risk provisions for contingent and future liabilities	2 938	2 987
183.	c) general risk provisions	13 143	11 922
184.	d) other provisions	3 533	4 244
185.	**7. SUBORDINATED LIABILITIES**	**21 439**	**23 382**
186.	a) subordinated debt	21 439	23 382
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**	**140 978**
194.	- repurchased ownership interest at par value		
195.	**9. SUBSCRIBED CAPITAL UNPAID (-)**		
196.	**10. CAPITAL RESERVE**	**28 070**	**23 919**
197.	a) differences between the par value and offering price of shares and participations (premium)	14 393	14 393
198.	b) other	13 677	9 526
199.	**11. GENERAL RESERVE**	**15 429**	**15 873**
200.	**12. PROFIT RESERVE (+/-)**	**-**	**-**
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 (+/-)**	**-**	**-**
206.	**TOTAL LIABILITIES & EQUITY**	**3 213 379**	**2 895 685**
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]**	2 706 853	2 262 194
208.	**- LONG-TERM LIABILITIES [1.bb)+2.ac)+2.bc)+3.ab)+3.bb)+3.cb)+4.b)+7]**	328 241	393 637
209.	**- EQUITY (8-9+10+11+12+13+14+15)**	117 208	180 770

Budapest, 6 April 2012

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 31.12.2010.	Reporting year 31.12.2011.
a	b	c	d
01.	**1. Interest received and similar income**	**222 438**	**180 082**
02.	a) interest received (receivable) on fixed-interest debt securities	73 411	74 095
03.	of which: - from affiliated undertakings		
04.	- from other associated undertakings		
05.	b) other interest received and similar income	149 027	105 987
06.	of which: - from affiliated undertakings	879	643
07.	- from other associated undertakings		
08.	**2. Interest paid and similar expense**	**127 907**	**92 799**
09.	of which: - from affiliated undertakings	840	944
10.	- from other associated undertakings		
11.	**NET INTEREST INCOME (1-2)**	**94 531**	**87 283**
12.	**3. Income from securities**	**2 202**	**2 300**
13.	a) income from shares and participations held for trading (dividend, minority interest)		
14.	b) income from participations in affiliated undertakings (dividend, minority interest)	2 202	2 300
15.	c) income from other participations (dividend, minority interest)		
16.	**4. Fees and commissions received (receivable)**	**42 955**	**41 054**
17.	a) income from other financial services	34 766	34 211
18.	of which: - from affiliated undertakings	160	128
19.	- from other associated undertakings		
20.	b) income from investment services (excluding income from trading operations)	8 189	6 843
21.	of which: - from affiliated undertakings	73	56
22.	- from other associated undertakings		
23.	**5. Fees and commissions paid (payable)**	**14 810**	**14 319**
24.	a) expense on other financial services	14 089	13 714
25.	of which: - from affiliated undertakings		
26.	- from other associated undertakings		
27.	b) expense on investment services (excluding expense on trading operations)	721	605
28.	of which: - from affiliated undertakings	286	201
29.	- from other associated undertakings		
30.	**6. Profit/loss on financial transactions [6.a)-6.b)+6.c)-6.d)]**	**12 656**	**27 534**
31.	a) income from other financial services	16 922	13 749
32.	of which: - from affiliated undertakings		
33.	- from other associated undertakings		
34.	- valuation difference		
35.	b) expense on other financial services	515	1 775
36.	of which: - from affiliated undertakings		
37.	- from other associated undertakings		
38.	- valuation difference		
39.	c) income from investment services (income from trading operations)	30 833	76 717
40.	of which: - from affiliated undertakings	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)	34 584	61 157
45.	of which: - to affiliated undertakings	129	
46.	- to other associated undertakings		
47.	- impairment on securities held for trading		
48.	- valuation difference		

HUF millions

No.	Description	Previous year 31.12.2010.	Reporting year 31.12.2011.
a	b	c	d
49.	**7. Other income from business activities**	**19 842**	**6 901**
50.	a) income from non-financial and investment services	1 833	2 500
51.	of which: - from affiliated undertakings	1 745	678
52.	- from other associated undertakings		
53.	b) other income	18 009	4 401
54.	of which: - from affiliated undertakings	2 328	15
55.	- from other associated undertakings		
56.	- reversal of impairment on inventories		
57.	**8. General and administrative expenses**	**58 761**	**55 153**
58.	a) personnel expense	29 672	27 207
59.	aa) salaries and wages	20 325	18 738
60.	ab) other personnel expense	3 093	2 741
61.	of which: - social security expense	422	432
62.	- retirement expense	224	239
63.	ac) contributions payable on salaries and wages	6 254	5 728
64.	of which: - social security expense	714	710
65.	- retirement expense	5 063	4 578
66.	b) other administrative expenses (material-type expenses)	29 089	27 946
67.	**9. Depreciation**	**6 609**	**5 939**
68.	**10. Other expenses on business activities**	**33 509**	**46 074**
69.	a) expense on non-financial and investment services	348	580
70.	of which: - to affiliated undertakings		
71.	- to other associated undertakings		
72.	b) other expense	33 161	45 494
73.	of which: - to affiliated undertakings	99	6
74.	- to other associated undertakings		
75.	- impairment on inventories		
76.	**11. Impairment on receivables and risk provisioning for contingent and future liabilities**	**50 401**	**77 507**
77.	a) impairment on receivables	48 442	76 346
78.	b) risk provisioning for contingent and future liabilities	1 959	1 161
79.	**12. Reversal of impairment on receivables and risk provisions used for contingent and future liabilities**	**26 987**	**39 621**
80.	a) reversal of impairment on receivables	24 347	37 893
81.	b) risk provisions used for contingent and future liabilities	2 640	1 728
82.	**12/A. Difference between general risk provisions made and used**	**3 989**	**1 221**
83.	**13. Impairment on debt securities held for investment and shares and participations in affiliated and other associated undertakings**	**4 692**	**2 860**
84.	**14. Reversal of impairment on debt securities held for investment and shares and participations in affiliated and other associated undertakings**	**655**	**1 196**
85.	**15. Profit/loss on ordinary activities**	**35 035**	**5 258**
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]**	33 550	3 338
87.	**- profit/loss on non-financial and investment services [7.a)-10.a)]**	1 485	1 920
88.	**16. Extraordinary income**	**69**	**4 631**
89.	**17. Extraordinary expense**	**97**	**5 459**
90.	**18. Extraordinary profit/loss (16-17)**	**- 28**	**- 828**
91.	**19. Pretax profit/loss (±15±18)**	**35 007**	**4 430**
92.	**20. Taxation**	**6 078**	**- 9**
93.	**21. Net profit/loss (±19-20)**	**28 929**	**4 439**
94.	**22. General provisions made/used (±)**	**- 2 893**	**- 444**
95.	**23. Profit reserve used for dividend and minority interest**	67 269	
96.	**24. Dividend and minority interest approved**	**93 305**	**3 995**
97.	of which: - to affiliated undertakings		
98.	- to other associated undertakings		
99.	**25. Retained earnings (±21-/+22+23-24)**	**-**	**-**

Budapest, 6 April 2012

Hendrik Scheerlinck
Chief Executive Officer

Attila Gombás
Chief Financial Officer

Kereskedelmi és Hitelbank Zártkörűen Működő Részvénytársaság

Notes to the Financial Statements

31 December 2011

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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 2010		31 December 2011	
	Subscribed capital (HUF m)	Stake (%)	Subscribed capital (HUF m)	Stake (%)
KBC Bank N.V. Havenlaan 2, 1080 Brussels, Belgium	73 709	100	140 978	100
Total subscribed capital	73 709	100	140 978	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.
    - the Bank reports the rest of the valuation difference under revenues/expenditures of investment services, against the valuation difference of derivative 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 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 asset rating categories for individual rating or valuation groups 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 and leasing business.

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 2010			31 December 2011		
		HUF	Foreign currency	Total	HUF	Foreign currency	Total
Cash and equivalents	Line 1	113 113	2 021	115 134	157 752	3 392	161 144
Government securities	Line 2	1 195 221	13 079	1 208 300	933 655	5 547	939 202
Valuation difference of government securities	Line 5	-89	10	-79	-465	53	-412
Amounts due from credit institutions	Line 6	59 847	57 748	117 595	24 392	50 351	74 743
Valuation difference of amounts due from credit institutions	Line 23	0	0	0	0	0	0
Amounts due from clients	Line 24	439 849	1 121 807	1 561 656	406 895	1 051 272	1 458 167
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	23 504	92 174	115 678	19 166	84 192	103 358
Valuation difference of debt securities	Line 53	-10 664	-12 386	-23 050	-11 327	-14 085	-25 412
Shares and other variable yield securities	Line 54	3 001	516	3 517	3 992	1 936	5 928
Valuation difference of shares and other variable yield securities	Line 61	120	9	129	108	12	120
Shares and participations held for investment	Line 62	640	270	910	640	312	952
Valuation difference of shares and participations	Line 67	0	0	0	0	0	0
Shares and participations in affiliated undertakings	Line 68	8 276	0	8 276	4 708	0	4 708
Intangible assets	Line 73	8 211	0	8 211	9 429	0	9 429
Tangible assets	Line 76	19 853	0	19 853	45 574	0	45 574
Treasury stock	Line 88	0	0	0	0	0	0
Other assets	Line 89	4 851	941	5 792	27 799	1 042	28 841
Valuation difference on other assets	Line 94	0	0	0	0	0	0
Positive valuation difference of derivative transactions	Line 95	24 162	0	24 162	37 504	0	37 504
Prepayments and accrued income	Line 96	43 223	4 072	47 295	46 965	4 874	51 839
Total assets		**1 933 118**	**1 280 261**	**3 213 379**	**1 706 787**	**1 188 898**	**2 895 685**

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

HUF millions

Description	Balance Sheet	31 December 2010			31 December 2011		
		HUF	Foreign currency	Total	HUF	Foreign currency	Total
Amounts due to credit institutions	Line 103	170 718	987 811	1 158 529	161 137	541 572	702 709
Valuation difference of amounts due to credit institutions	Line 120	0	0	0	0	0	0
Amounts due to clients	Line 121	1 271 855	323 641	1 595 496	1 382 659	345 243	1 727 902
Valuation difference of amounts due to clients	Line 144	0	0	0	0	0	0
Liabilities from securities issued	Line 145	14 969	2 589	17 558	18 045	2 917	20 962
Other liabilities	Line 167	208 895	6 794	215 689	143 247	7 462	150 709
Negative valuation difference of derivative transactions	Line 175	26 383	0	26 383	30 167	0	30 167
Accruals and deferred income	Line 176	38 173	2 728	40 901	36 438	3 493	39 931
Provisions	Line 180	18 923	1 253	20 176	17 850	1 303	19 153
Subordinated liabilities	Line 185	4 714	16 725	21 439	4 714	18 668	23 382
Subscribed capital	Line 193	73 709	0	73 709	140 978	0	140 978
Subscribed capital unpaid (-)	Line 195	0	0	0	0	0	0
Capital reserve	Line 196	28 070	0	28 070	23 919	0	23 919
General reserve	Line 199	15 429	0	15 429	15 873	0	15 873
Profit reserve (+/-)	Line 200	0	0	0	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	0	0	0	0	0	0
Total liabilities & equity		**1 871 838**	**1 341 541**	**3 213 379**	**1 975 027**	**920 658**	**2 895 685**

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

31 December 2011

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**

HUF millions

Description	31 December 2011				
	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)	28 542	3 505	10 223	5 182	47 452
Amounts due from clients, arising from financial services (Balance Sheet line 25)	209 312	244 318	440 397	561 747	1 455 774
Total	**237 854**	**247 823**	**450 620**	**566 929**	**1 503 226**

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

31 December 2011

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**

HUF millions

Description	31 December 2011				
	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)	484 568	24 660	97 114	45 779	652 121
Amounts due to clients – other short-term liabilities from financial services (Balance Sheet line 130)	729 099	112 900	0	0	841 999
Amounts due to clients – other long-term liabilities from financial services (Balance Sheet line 133)	0	0	154 269	61 022	215 291
Subordinated liabilities (Balance Sheet line 185)	0	0	23 382	0	23 382
Total	**1 213 667**	**137 560**	**274 765**	**106 801**	**1 732 793**

II/5. Gross value of intangible and tangible assets

2011

HUF millions

Description	Balance Sheet	Change in gross value				
		Opening value	Reclassification (+/-)	Increase (+)	Decrease (-)	Closing value
Intangible assets	Line 73	**32 274**	**-1**	**3 604**	**-65**	**35 812**
- rights		6 382		1 107	-6	**7 483**
- trademarks and patents		25 892	-1	2 497	-59	**28 329**
Tangible assets used in financial services	Line 77	**47 929**	**1**	**29 926**	**-2 144**	**75 712**
- land and buildings	Line 78	22 170	-94	25 562	-755	**46 883**
- technical equipment, machinery	Line 79	24 513	95	1 883	-1 348	**25 143**
- capital expenditure	Line 80	1 246		2 481	-41	**3 686**
- advances for capital investments	Line 81	0				**0**
Tangible assets not directly used in financial services	Line 82	**99**		**5**	**-2**	**102**
- land and buildings	Line 83	0				**0**
- technical equipment, machinery and vehicles	Line 84	99		5	-2	**102**
- capital expenditure	Line 85	0				**0**
- advances for capital investments	Line 86	0				**0**

A significant increased in the value of land and buildings comes from activation of new office building.
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

2011

HUF millions

Description	Balance Sheet	Accumulated depreciation				
		Opening value	Reclassification (+/-)	Increase (+)	Decrease (-)	Closing value
Intangible assets	Line 73	**24 063**		**2 363**	**-43**	**26 383**
- rights		2 478		1 026	-6	3 498
- trademarks and patents		21 585		1 337	-37	22 885
Tangible assets used in financial services	Line 77	**28 157**	**0**	**3 571**	**-1 511**	**30 217**
- land and buildings	Line 78	9 037	-3	1 192	-501	9 725
- technical equipment, machinery and vehicles	Line 79	19 120	3	2 379	-1 010	20 492
Tangible assets not directly used in financial services	Line 82	**18**		**5**		**23**
- land and buildings	Line 83	0				0
- technical equipment, machinery and vehicles	Line 84	18		5		23

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

2011

HUF millions

Description	Balance sheet	31.12.2010.	31.12.2011.
		Closing value	**Closing value**
Intangible assets	Line 73	**8 211**	**9 429**
- rights		3 904	3 985
- trademarks and patents		4 307	5 444
Tangible assets used in financial services	Line 77	**19 772**	**45 495**
- land and buildings	Line 78	13 133	37 158
- technical equipment, machinery and vehicles	Line 79	5 393	4 651
- capital expenditure	Line 80	1 246	3 686
- advances for capital investments	Line 81	0	0
Tangible assets not directly used in financial services	Line 82	**81**	**79**
- land and buildings	Line 83	0	0
- technical equipment, machinery and vehicles	Line 84	81	79
- capital expenditure	Line 85	0	0
- advances for capital investments	Line 86	0	0

II/8. Annual depreciation of intangible and tangible assets

2011

HUF millions

Description	Ordinary	Extraordinary	Total
Intangible assets	2 359		2 359
Tangible assets used in financial services	3 495		3 495
- land and buildings	1 190		1 190
- technical equipment, machinery and vehicles	2 305		2 305
Tangible assets not directly used in financial services	5		5
- land and buildings	0		0
- technical equipment, machinery and vehicles	5		5
	0		0
Depreciation of tangible assets with a value of less than HUF 100,000	27		27
Adjustment due to self-audit	53		53
Total	**5 939**	**0**	**5 939**

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

In 2011 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	31.12.2010.	31.12.2011.
Guarantees and warranties issued	114 442	112 575
Loans, guarantees and letters of credit	430 039	411 144
Export letters of credit	88	968
Import letters of credit	10 516	3 959
Liabilities from lawsuits	13 926	12 277
Liabilities from options	313 569	301 002
Other contingent liabilities	1 144	1 867
Total contingent liabilities	**883 724**	**843 792**

HUF millions

Description	31.12.2010.	31.12.2011.
Swaps (foreign currency and other)	1 017 554	1 304 890
Foreign currency forwards	93 599	111 296
Liabilities from the sale/purchase of securities	8 116	1 044
Future liabilities on payments	756	932
Other future liabilities	5 888	5 185
Interbank deposits	18 519	0
Total future liabilities	**1 144 432**	**1 423 347**

II/11. Impairment and risk provisioning
2011

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	Change due to merge of K&H Pannonlízing ZRT.	Closing balance
Impairment recognized on receivables (amounts due from credit institutions, clients)	82 839	76 379	39 868	8 337	9 266	136 953
Impairment recognized on financial fixed assets	24 144	2 860	16 590	120	-4 314	6 220
Impairment recognized on administrative risks	338		2			336
Impairment recognized on other receivables (operating)	260	2		2		264
Total impairment recognized on assets	**107 581**	**79 241**	**56 460**	**8 459**	**4 952**	**143 773**
Risk provisions for contingent and future liabilities	2 938	1 161	1 728	79	537	2 987
General risk provisions	13 143	565	1 786			11 922
Provisions for future expenses	0					0
Provisions for anticipated liabilities	3 142	1 400	1 034	51	281	3 840
Provisions for administrative risks	391	208	195			404
Provisions for payment obligations due to early retirement and severance pay	562		562			0
Total provisions	**20 176**	**3 334**	**5 305**	**130**	**818**	**19 153**

The “Other changes” column shows the change resulting from revaluation in 2011.

II/12. Other notes to the Balance Sheet

a., Listed securities held by the Bank

- Under financial fixed assets:

HUF millions

Description	31 December 2010		31 December 2011	
	Par value	Book value	Par value	Book value
Government bonds	390 033	369 243	415 665	396 340
Total:	**390 033**	**369 243**	**415 665**	**396 340**

- Under current assets:

HUF millions

Description	31 December 2010		31 December 2011	
	Par value	Book value	Par value	Book value
Government bonds	9 143	8 856	25 585	24 731
Discounted Treasury bills	87 244	84 076	26 833	25 472
Investment units	3 817	3 787	3 688	3 713
Total:	**100 204**	**96 719**	**56 106**	**53 916**

b., The total amount of loans, securities, participations and liabilities classified as legal lending limits pursuant to Section 79(1) of the Credit Institutions Act was HUF 1 048 136 million as at the balance sheet date.

c., As at 31 December 2011 the Bank's liabilities included subordinated debt of HUF 23 382 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, 1.954 %), 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., The Bank made general risk provisions of HUF 11 922 million by 31 December 2011.

f., The amount of accrued interest (including transaction interest and late interest), interest-type commission and fees receivable totaled HUF 9 471 million on 31 December 2011, versus HUF 5 072 million on 31 December 2010.

g., The HUF equivalent of receivables and liabilities arising from spot foreign exchange trades totaled HUF 21 039 million and HUF 21 034 million, respectively, at the balance sheet date, 31 December 2011.

h., On 31 December 2011, the balances of currency swap buy and sell trades made in the interbank market stood at HUF 1 183 921 million and HUF 1 082 498 million, respectively, while the balances of currency swap buy and sell trades made with clients were HUF 120 527 million and HUF 119 955 million, respectively. The balances of forward sell and buy trades made in the interbank market stood at

HUF 26 285 million and HUF 26 942 million, respectively, while the balances of FX forward sell and buy trades made with clients were HUF 63 481 million and HUF 61 715 million, respectively. The transactions served (exchange rate) hedging as well as trading purposes.

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

HUF millions

Start date	Maturity date	Security	Par value	Transaction value
27DEC2011	03JAN2012	2016/C	1 900	1 793
27DEC2011	04JAN2012	2016/C	3 600	3 398
27DEC2011	04JAN2012	2013/E	1 700	1 708
21DEC2011	04JAN2012	2013/E	2 500	2 512
21DEC2011	04JAN2012	2014/D	1 000	984
21DEC2011	04JAN2012	2016/C	6 000	5 682
21DEC2011	04JAN2012	2022/A	4 000	3 642
21DEC2011	04JAN2012	2019/A	1 000	909
27DEC2011	03JAN2012	2017/A_X	1 500	1 376
28DEC2011	04JAN2012	2019/A	2 000	1 777
29DEC2011	06JAN2012	2023/A	50	40
27DEC2011	03JAN2012	2017/A_X	1 100	1 009
29DEC2011	06JAN2012	2020/A_X	500	463
29DEC2011	06JAN2012	2023/A	500	401
Total active special delivery repos			**27 350**	**25 694**

HUF millions

Start date	Maturity date	Security	Par value	Transaction value
21DEC2011	05JAN2012	2019/A	3 100	2 823
23DEC2011	03JAN2012	2013/D_X	310	324
27DEC2011	03JAN2012	2016/C	1 900	1 793
27DEC2011	04JAN2012	2016/C	3 600	3 398
27DEC2011	04JAN2012	2013/E	1 700	1 708
28DEC2011	05JAN2012	2016/C	1 230	1 154
28DEC2011	05JAN2012	2023/A	301	235
28DEC2011	31JAN2012	2012/B	700	726
21DEC2011	04JAN2012	2013/E	2 500	2 512
21DEC2011	04JAN2012	2014/D	1 000	984
21DEC2011	04JAN2012	2016/C	6 000	5 682
21DEC2011	05JAN2012	2013/D_X	1 365	1 431
21DEC2011	04JAN2012	2019/A	1 000	909
21DEC2011	04JAN2012	2022/A	4 000	3 642
27DEC2011	03JAN2012	2020/A_X	600	548
28DEC2011	04JAN2012	2019/A	2 000	1 777
29DEC2011	06JAN2012	2020/A_X	1 200	1 065
Total passive special delivery repos			**32 506**	**30 711**

j., 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 2011.
The par value of investment units posted as off-balance sheet items (held on securities accounts) – expressed in Hungarian forints – totaled HUF 461 263 million at the end of the year.

k., The Bank did not have any earmarked reserves on 31 December 2011.

l., On 31 December 2011 the adjusted balance sheet total was HUF 1 755 575 million.

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

n., The Bank manages securities with a total par value of HUF 802 245 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 2 830 million as at 31 December 2011. Clients had receivables of HUF 5 218 million and payables of HUF 2 388 million on their client accounts at the end of the year.

o., The Bank did not provide any asset management services for pension or health funds in 2011.

p., On 31 December 2011 the Bank had a total amount of HUF 557 million due from its parent company; at the same time, the Bank had liabilities of HUF 463 558 million to its parent of which short-term liabilities of HUF 441 045 million.
On 31 December 2011, amounts due from subsidiaries totaled HUF 73 605 million, while short-term liabilities amounted to HUF 11 843 million, and long-term liabilities to HUF 31 717 million. One part of long-term liabilities in amount of HUF 23 939 million comes from open-end financial leasing.
The Bank had no subordinated liabilities to its subsidiaries.

q., 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
	31.12.2010.	31.12.2011.	Physical / Dematerialized
Investment units	417 413	404 148	Dematerialized
Discounted Treasury bills	29 465	28 132	Dematerialized
Other bonds	9 060	7 433	Dematerialized
Mortgage notes	1 398	1 241	Dematerialized
Compensation coupons	0	0	Physical
Interest-bearing Treasury bills	2 689	2 841	Dematerialized
Government bonds for loan consolidation	10 246	10 246	Dematerialized
Hungarian government bonds	142 029	97 123	Dematerialized
Shares	111 518	127 243	Physical / Dematerialized
Foreign government bonds	0	0	Dematerialized
NBH discounted bonds	694	855	Dematerialized
Municipal bonds	0	0	Dematerialized
Bonds issued by K&H Bank	14 321	18 649	Dematerialized
Total	**738 833**	**697 911**	

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

HUF millions

Description	Par value		Comments
	31.12.2010.	31.12.2011.	Physical / Dematerialized
Investment units	0	0	Physical
Other bonds	4 802	4 800	Physical
Compensation coupons	0	0	Physical
Warehouse receipts	9 624	8 451	Physical
Hungarian government bonds	0	0	Physical
Shares	27 665	27 368	Physical
Total	**42 091**	**40 619**	

- Third-party securities in safekeeping with third parties

HUF millions**

Description	Par value		Comments
	31.12.2010.	31.12.2011.	Safekeeping agent
Investment units	43 323	57 115	Clearstream, KBC Bank NV, KBC Sec NV, KBC Sec HU, Kredietbank, Raifferisen Zentralbank Vienna
Other bonds	4 110	5 864	Clearstream
Shares	441	736	Clearstream, KBC Sec NV, Concorde Értékpapír
Foreign government bonds	0	0	
Total	**47 874**	**63 715**	

** converted into HUF at the NBH exchange rate for 30.12.2011.

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	
	31.12.2010.	31.12.2011.	31.12.2010.	31.12.2011.
Investment units	8 240	10 835	8 758	11 776
Discounted Treasury bills	214 100	43 800	209 243	42 149
Other bonds	30 087	32 418	23 845	25 900
Mortgage notes	0	0	0	0
Interest-bearing Treasury bills	9	45	9	44
Government bonds for loan consolidation	110 676	55 876	110 371	55 736
Hungarian government bonds	416 826	441 029	395 758	420 856
Shares	1 100	951	893	1 049
NBH discounted bonds	480 750	361 000	479 678	360 020
Municipal bonds	84 406	70 763	84 406	69 951
Bonds issued by K&H Bank	2 949	2 050	2 186	1 659
Total:	**1 349 143**	**1 018 767**	**1 315 147**	**989 140**

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

HUF millions

Description	Par value		Book value	
	31.12.2010.	31.12.2011.	31.12.2010.	31.12.2011.
Shares	**2 387**	**2 047**	7 963	4 215
Total:	**2 387**	**2 047**	**7 963**	**4 215**

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

HUF millions ***

Description	Par value		Book value		Comments
	31.12.2010.	31.12.2011.	31.12.2010.	31.12.2011.	
Hungarian government bonds	7 930	1 549	7 922	1 491	KBC Securities Hungarian Branch Office, Euroclear Bank S.A.
Government bonds for loan consolidation	0	54 800	0	54 635	European Investment Bank
NBH foreign currency bonds	4 681	3 499	5 319	4 271	European Investment Bank
Total:	**12 611**	**59 848**	**13 241**	**60 397**	

*** converted into HUF at the NBH exchange rate for 30.12.2011.

II/15. Accruals

HUF millions

Prepayments and accrued income	31.12.2010.	31.12.2011.
Accrued interest and interest-type commissions	34 966	41 107
IR swaps fair market value interest accrual	10 382	7 006
IR arbitrage transactions interest accrual	164	1 403
Other accrued income	871	1 123
Accrued income	**46 383**	**50 639**
Prepaid costs and expenses	**912**	**1 200**
Deferred expense	**0**	**0**
Total (Balance Sheet line 96)	**47 295**	**51 839**

HUF millions

Accruals and deferred income	31.12.2010.	31.12.2011.
Accrued income	**0**	**2**
Accrued interest	21 560	27 132
IR swaps fair market value interest accrual	5 527	3 330
IR arbitrage transactions interest accrual	4 036	848
Other accrued expenses	0	0
Accrued costs	9 558	8 385
Accrued costs and expenses	**40 681**	**39 695**
Deferred income	**220**	**234**
Total (Balance Sheet line 176)	**40 901**	**39 931**

II/16. Changes in equity

HUF millions

	Subscribed capital	Capital reserve	Profit reserve	General reserve	Retained earnings for the year	Total
Balance 31.12.2010.	73 709	28 070	0	15 429	0	**117 208**
Capital increase	67 269					**67 269**
General reserve				444		**444**
Settlement capital due to merge of K&H Pannonlízing ZRT. dated 30th of November 2011		-678	-3 473			**-4 151**
Transfer of capital reserve to eliminate the negative profit reserve		-3 473	3 473		0	**0**
Balance 31.12.2011.	**140 978**	**23 919**	**0**	**15 873**	**0**	**180 770**

II/17. Intangible assets by type

HUF millions

Description	**31.12.2010.**	**31.12.2011.**
Licenses	3 878	3 939
Other	26	46
Rights	**3 904**	**3 985**
Basic software	166	115
User software	4 138	5 327
Trademarks	3	2
Patents	**4 307**	**5 444**
Total:	**8 211**	**9 429**

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

HUF millions

Description	**31.12.2010.**	**31.12.2011.**
Materials	136	72
Goods	3	175
Inventories purchased	**139**	**247**
Received in debt settlement		**56**
Total (Balance Sheet line 90)	**139**	**303**

II/19. Risk-free securities at par value

HUF millions

Issue currency	**Description**	**2010**	**2011**
HUF	Government bonds for loan consolidation	110 676	110 676
HUF	Bonds issued by the NBH	480 750	361 000
HUF	Securities issued by the State of Hungary	613 286	485 095
HUF Total		**1 204 712**	**956 771**
JPY	Bonds issued by the NBH	4 682	3 499
JPY Total		**4 682**	**3 499**
EUR	Securities issued by the State of Hungary	7 759	1 329
EUR Total		**7 759**	**1 329**

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	
	2010	**2011**	**2010**	**2011**	**2010**	**2011**
Asset swap	0	0	-763	-769	-2 148	-2 160
CCIRS	4 598	8 979	-927	-2 341	-103 610	-77 846
Forward	414	5 076	-1 902	-958	-4 057	1 110
FRA	61	749	-386	-1 285	-325	-536
IRS	11 167	11 666	-13 750	-13 229	4 504	9 480
Option	7 503	10 731	-8 509	-11 468	0	0
Currency swap	408	297	-135	-111	-7 723	3 778
Futures	11	6	-11	-6	-6	36
Total	**24 162**	**37 504**	**-26 383**	**-30 167**	**-113 365**	**-66 138**

Accruals related to the fair market valuation of derivative transactions amounted to HUF 8 409 million in interest income and HUF 4 178 million in interest expense.
The HUF 113 281 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	
	31.12.2010	**31.12.2011**	**31.12.2010**	**31.12.2011**	**31.12.2010**	**31.12.2011**
Government bonds	540 480	427 558	540 456	427 344	-24	-214
of which: reclassified from securities held for investment and maturing in 2012	26 365	41 532	26 365	41 532	0	0
Government bonds for loan consolidation	16	16	22	22	6	6
Treasury bills	209 252	42 193	209 191	41 989	-61	-204
Total government securities:	**749 748**	**469 767**	**749 669**	**469 355**	**-79**	**-412**
Closed-end investment units	5 241	5 848	5 994	6 289	753	441
Bonds	25 989	27 512	2 186	1 659	-23 803	-25 853
Total debt securities:	**31 230**	**33 360**	**8 180**	**7 948**	**-23 050**	**-25 412**
Open-end investment units	3 517	5 928	3 646	6 048	129	120
Total shares and other variable-yield securities	**3 517**	**5 928**	**3 646**	**6 048**	**129**	**120**

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 2012) amounted to HUF 543 240 million on 31 December 2011.
The fair market value of loans granted by, and other amounts due to, the Bank and that of other financial obligations is less than their book value with HUF 10 190 million. Fair market value of other financial liabilities is less than their book value with HUF 13 033 million.

II/21. Reclassification of financial instruments

The Bank did not reclassify any financial instruments into another category in 2011.

II/22. Data of restructure loan

HUF millions

Description	2010	2011
Conditional equity claim	179 645	233 185
Impairment	22 464	45 248
Book value of receivables	157 181	187 937

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

a., Net value of receivables

HUF millions

Description	2 010				2011			
	Corporate loans	Retail loans	Credit institutions	Total	Corporate loans	Retail loans	Credit institutions	Total
Performing	748 928	612 951	116 979	**1 478 858**	705 222	480 226	74 650	**1 260 098**
Monitor	48 755	75 431		**124 186**	47 899	94 524		**142 423**
Substandard	16 463	10 757		**27 220**	8 833	21 360		**30 193**
Doubtful	9 435	16 369	616	**26 420**	9 562	48 382		**57 944**
Bad	1 322	21 245		**22 567**	2 554	34 456	93	**37 103**
Total	**824 903**	**736 753**	**117 595**	**1 679 251**	**774 070**	**678 948**	**74 743**	**1 527 761**

Provisioning method change in the course of 2011 caused a one-off impact of 2 106 million HUF loss in the P&L.

b., Net value of securities

HUF millions

Description	2 010			2 011		
	Investments	Debt securities	Total	Investments	Debt securities	Total
Performing	2 609	84 406	**87 015**	2 725	65 535	**68 260**
Monitor			**0**	95		**95**
Substandard			**0**	2 581	4 416	**6 997**
Doubtful			**0**	260		**260**
Bad	6 576		**6 576**			**0**
Total	**9 185**	**84 406**	**93 591**	**5 661**	**69 951**	**75 612**

c., Received in debt settlement

HUF millions

Description	2 010	2 011
	Land and buildings	
Performing		56
Monitor		
Substandard		
Doubtful		
Bad		
Total	**0**	**56**

d., Net value of off balance sheet liabilities

HUF millions

Description	**2 010**			**2 011**		
	Corporate	**Retail**	**Total**	**Corporate**	**Retail**	**Total**
Performing	519 429	11 613	**531 042**	494 782	12 197	**506 979**
Monitor	22 364		**22 364**	15 248		**15 248**
Substandard	165		**165**	3 295		**3 295**
Doubtful	1 129		**1 129**	853		**853**
Bad	39		**39**	56		**56**
Total	**543 126**	**11 613**	**554 739**	**514 234**	**12 197**	**526 431**

II. 24 Financial leasing receivables

On 31 December 2011 the financial leasing receivables amounts was HUF 1 346 million.

III. NOTES TO THE PROFIT & LOSS ACCOUNT

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

HUF millions

No.	Description	31.12.2010.	31.12.2011.
1.	Re-invoiced value of third-party services	347	452
2.	Book value of inventories sold	1	128
Total (Profit & Loss Account line 69)		**348**	**580**

III/2. Income from and expense on investment services

HUF millions

Income from investment services	31.12.2010.	31.12.2011.
1. Income from custody services	606	570
2. Income from trading operations	30 833	76 717
3. Income from brokerage activities	6 936	5 587
4. Other income	647	686
Total (Profit & Loss Account lines 20 + 39)	**39 022**	**83 560**

HUF millions

Expense on investment services	31.12.2010.	31.12.2011.
1. Expense on custody services	136	101
2. Expense on trading operations	34 584	61 157
3. Expense on brokerage activities	585	504
Total (Profit & Loss Account lines 27 + 44)	**35 305**	**61 762**

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 2011.

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

a) Contributions to deposit insurance and institutional protection funds

HUF millions

Description	Amount		Purpose
	2010	2011	
National Deposit Insurance Fund	219	595	Cost of other services
Investor Protection Fund	177	195	Contribution

b) Financial assistance received

The amount of non-repayable grant was given for enlargement of tools of cashless payment transactions in 2011 was HUF 61 million.

c) Geographic breakdown of income in 2011

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	175 384	4 460	238	69	20	145	4
3. Income from securities	2 295		5	5			
4. Fees and commissions received (receivable)	40 956	85	13	7		1	5
6. Profit/loss from financial transactions							
a) income from other financial services	12 792		957			957	
c) income from investment services	26 735	49 596	386	364		22	
7. Other income from business activities	6 399	502					

d) Financial institutions' special tax

Other expenditures arisen due to financial institutions' special tax were not recorded by the Bank in 2011.

III/5. Extraordinary expense and extraordinary income recognized in 2011

HUF millions

Extraordinary expense	Amount		Extraordinary income	Amount	
	31.12.2010.	31.12.2011.		31.12.2010.	31.12.2011.
Extraordinary expense related to the final settlement of dissolution of a business association with an ownership interest		5 308	Extraordinary income related to the final settlement of dissolution of a business association with an ownership interest		4 581
Amounts not deemed uncollectible but nevertheless cancelled	97	151	Financial assistance received definitively for development purposes	49	49
			Lapsed liabilities	10	1
			Other extraordinary income	10	0
Total (Profit & Loss Account line 89)	**97**	**5 459**	**Total (Profit & Loss Account line 88)**	**69**	**4 631**

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

HUF millions

Description		2010.12.31	2011.12.31
Futures / forwards	Forward	-1 729	-1 229
	FRAs	-14	-252
	FX futures	-125	-172
Options	Options	0	413
Swaps	Asset swaps	91	-190
	Currency swaps	-7 554	-1 338
	Index swaps	0	3
	Interest rate swaps	4 263	7 232
Total		**-5 068**	**4 467**

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

HUF millions

Profit/loss	Parent	Affiliate
Interest difference	-8 477	-301
Fees and commissions	-594	-17
Profit/loss from financial transactions	N/A	0
Other	-399	687
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.
MKVK registration number: 001165
Authorized signatory: Krisztina Sulyok (1214 Budapest, Technikus utca 5. (006660)

b., Fees charged by the auditors in 2011

HUF millions

Description	**Amount**	
	Ernst & Young	**N és N könyvvizsgáló**
Auditing	147	4
Other certification services		
Tax consulting services		
Other, non-auditor services	2	
Total	**149**	**4**

IV/3. Person in charge of accounting tasks

Name: Paula Ecsedi

Registration number: 140573

IV/4. Registered office and website

Registered office:
on the accounting date:1051 Budapest, Vigadó tér 1.,
from 1th of January 2012: 1095 Budapest, Lechner Ödön fasor 9.
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: 140 978 164 412 shares

par value: HUF 140 978 164 412

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."	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.	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 Zártkörűen Működő Részvénytársaság	1051 Budapest, Vigadó tér 1.	100	42	250	10	-195

* Corresponding to the annual report for previous year

No.	Company name	Registered office	Stake (%)	Equity (HUF m)* 31.12.2011.	Subscribed capital (HUF m) 31.12.2011.	Reserves (HUF m) 31.12.2011.	Retained earnings for the last financial year (HUF m)* 31.12.2011.
1	K&H Befektetési Alapkezelő Zrt.	1095 Budapest, Lechner Ödön fasor 9.	100	3 016	850	151	2 016
2	K&H Eszközfinanszírozó Zrt.	1095 Budapest, Lechner Ödön fasor 9.	100	102	51	250	-199
3	K&H Autófinanszírozó Zrt.	1095 Budapest, Lechner Ödön fasor 9.	100	181	51	1 421	-1 291
4	K&H Autópark Kft.	1095 Budapest, Lechner Ödön fasor 9.	100	27	10	-45	61
5	K&H Alkusz Kft.	1095 Budapest, Lechner Ödön fasor 9.	100	44	5	2	37
6	K&H Lízingház Zrt. "v.a."	1095 Budapest, Lechner Ödön fasor 9.	100	17	20	-89	86
7	K&H Lízing Zrt.	1095 Budapest, Lechner Ödön fasor 9.	100	137	50	92	-5
8	K&H Csoportszolgáltató Kft.	1095 Budapest, Lechner Ödön fasor 9.	100	496	60	193	244
9	K&H Equities Zrt.	1095 Budapest, Lechner Ödön fasor 9.	100	2 383	38	1 927	417
10	K&H Eszközlízing Kft.	1095 Budapest, Lechner Ödön fasor 9.	100	6	5	60	-59
11	Risk Kft. f.a.	1087 Budapest, Könyves Kálmán krt. 76.	100	N/A	444	N/A	N/A
12	K&H Ingatlanlízing Zrt.	1095 Budapest, Lechner Ödön fasor 9.	100	37	50	65	-78
13	K&H Faktor Pénzügyi Szolgáltató Zártkörűen Működő Részvénytársaság	1095 Budapest, Lechner Ödön fasor 9.	100	199	51	194	-46

* Unaudited

It was decided by the Bank on 20th of December 2011 that the K&H Eszközfinanszírozó Zrt. and the K&H Autófinanszírozó Zrt. are going to merge to the Bank by general succession. The date of draft balance sheet and draft inventory of merged company is 31st of December 2011. The planning date of merge is 30th of September 2012.

b, Participations in jointly managed undertakings

The Bank holds no ownership interest in any jointly managed undertaking either in this year nor in the previous year.

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	Garantiqa Hitelgarancia Zrt.	1053 Budapest, Szép u. 2.	13,30	20 548	4 812	19 871	-4 135

* Corresponding to the annual report for previous year

No.	Company name	Registered office	Stake (%)	Equity (HUF m)* 31.12.2011.	Subscribed capital (HUF m) 31.12.2011.	Reserves (HUF m) 31.12.2011.	Retained earnings for the last financial year (HUF m)* 31.12.2011.
1	HAGE Zrt.	4181 Nádudvar, Kossuth u. 2.	25,00	7 418	2 689	4 539	190
2	GIRO Elszámolásforgalmi Zrt.	1054 Budapest, Vadász u. 31.	20,99	7 373	2 496	3 615	1 262
3	Garantiqa Hitelgarancia Zrt.	1053 Budapest, Szép u. 2.	13,30	14 702	4 812	13 082	-3 191

* 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, Gutenber 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

* Corresponding to the annual report for previous year

No.	Company name	Registered office	Stake (%)	Equity (HUF m) 31.12.2011.	Subscribed capital (HUF m) 31.12.2011.	Reserves (HUF m) 31.12.2011.	Retained earnings for the last financial year (HUF m) 31.12.2011.
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.	15,58	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, Gutenber 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.	0,74	N/A	650	N/A	N/A
10	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

* Corresponding to the annual report for previous year

No.	Company name	Registered office	Stake (%)	Equity (HUF m) 31.12.2011.	Subscribed capital (HUF m) 31.12.2011.	Reserves (HUF m) 31.12.2011.	Retained earnings for the last financial year (HUF m) 31.12.2011.
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	N/A	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.	1095 Budapest, Lechner Ödön fasor 9.	850	100,00%
Risk Kft. f.a.	1087 Budapest, Könyves Kálmán krt. 76.	444	100,00%
K&H Equities Zrt.	1095 Budapest, Lechner Ödön fasor 9.	38	100,00%
K&H Eszközfinanszírozó Zrt.	1095 Budapest, Lechner Ödön fasor 9.	51	100,00%
K&H Csoportszolgáltató Kft.	1095 Budapest, Lechner Ödön fasor 9.	60	100,00%
K&H Autófinanszírozó Zrt.	1095 Budapest, Lechner Ödön fasor 9.	51	100,00%
K&H Ingatlanlízing Zrt.	1095 Budapest, Lechner Ödön fasor 9.	50	100,00%
K&H Lízing Zrt.	1095 Budapest, Lechner Ödön fasor 9.	50	100,00%
K&H Eszközlízing Kft.	1095 Budapest, Lechner Ödön fasor 9.	5	100,00%
K&H Lízingház Zrt. "v.a."	1095 Budapest, Lechner Ödön fasor 9.	20	100,00%
K&H Autópark Kft.	1095 Budapest, Lechner Ödön fasor 9.	10	100,00%
K&H Alkusz Kft.	1095 Budapest, Lechner Ödön fasor 9.	5	100,00%
K&H Faktor Pénzügyi Szolgáltató Zrt.	1095 Budapest, Lechner Ödön fasor 9.	51	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 implemented withdrawal of capital in the investment company in 2011 in amount of HUF 163 million.
As at 31.12.2011. the impairment recognized by the Bank on its investment totaled HUF 2 390 million, after an decrease of HUF 16 279 million in 2011.

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., Debtor relief programs

In the course of 2011 the following debtor relief programs were initiated by the government:

1. Implementation of a special ('buffer') account, as described in Act LXXV. of 2011 to provide temporary foreign exchange protection until year-end 2014 for voluntarily participating qualifying debtors: foreign exchange rate used for monthly installments are fixed at preferential foreign exchange rates (CHF/HUF: 180, EUR/HUF: 250, JPY/HUF: 2). The difference between the actual spot rate and the preferential fixed rate will be accrued on a special ('buffer') account denominated in HUF and bear three months BUBOR interest rate until 2014. Repayment of the buffer account is due from 1 January 2015. The participation rate in this program was low.
2. Debt repayment at preferential foreign exchange rates for foreign currency mortgage debtors. The scheme was enacted and introduced in the third quarter of 2011. (See further details on the program below.)
3. Following the above measures (as described under point 1. and point 2 above.), based on the results of negotiations between the Hungarian Banking Association and the Hungarian Government an agreement was formulated and put into a written document ("Minutes of Understanding") over foreign exchange debtor relief programs on 15 December, 2011. The agreement has three main sections, dealing separately with the treatment of "performing", "non-performing" debtors and with the recoverability of 2011 banking tax already declared and paid (see note 11 for further details on this last point). The judicial procedure concerning performing and non-performing debtors, as agreed according to 'Minutes of Understanding', is in progress and the related laws were enacted or are expected to be enacted in 2012.

The following paragraphs include an overview of the measures as described above under point 2 and 3.

Debt repayment possibility at preferential foreign exchange rates for foreign currency mortgage debtors (point 2 above):

The foreign exchange repayment scheme at preferential rates for foreign exchange mortgage debtors was introduced by the government in the third quarter of 2011 providing a possibility for a full repayment of foreign exchange mortgage loans at a fixed (preferential) exchange rate for qualifying customers. Preferential rates were: 180 HUF/CHF, 250 HUF/EUR and 2 HUF/JPY. The possibility was open until year-end 2011 for customers to announce their intention to repay with an ultimate repayment date set at 29 February 2012, but by 30 January 2012 the borrowers had to either provide for coverage on an account or present a promissory note of a financial institution for the repayment amount.

As at 31 December 2011 the Group recognised a HUF 48,886 million impairment loss for realised (until 31 December 2011) and for expected (realized between31 December 2011 and 29 February 2012) losses in relation to this legislation. Out of the total HUF 48,886 million losses HUF 22,135 million impairment loss was provided as a portfolio based impairment at December 31, 2011 for the expected losses to be realized by the Group between31 December 2011 and 29 February 2012.

As detailed under note 11 and above under point 3., the Group became entitled to claim 30% of the losses suffered in connection with the above mortgage repayment program at preferential rate for foreign exchange mortgage debtors. The total amount of the claim recognised is HUF 15,340 million in 2011 (see Note 11). This amount is recoverable as a reduction in 2011 bank tax in accordance with legislation passed in December 2011.

The total pre-tax effect of the repayment scheme amounted to HUF 33,546 million in 2011, including the above mentioned 2011 bank tax reclaim**.**

Debtor relief program based on the “Minutes of Understanding” (point 3. above)

Measures to assist performing retail foreign exchange mortgage debtors

The already existing scheme (as presented under point 1. above) under which loan instalments are paid based on a fixed foreign exchange rates was modified and is accessible on a voluntary basis for qualifying customers, until the end of 2012 (where the original loan value at disbursement does not exceed HUF 20 million and the debtor did not participate in any other payment easement programme before and has not been overdue for more than 90 days as of 30 September 2011).

Under the proposal, the difference between the current spot rate and the preferential fixed foreign exchange rate (180 HUF/CHF, 250 HUF/EUR, 2.5 HUF/JPY) for the the principal part of the monthly instalment is recorded in a “buffer” account and may be deferred for repayment until June 2017 (until which date the buffer account is bearing three months BUBOR interest).

Further to the deferral of the above difference on the principal part of the loan repayments, the interest part of the monthly instalment above the preferential foreign exchange rates is borne by the Hungarian government and by the banks on a 50/50 basis. Should the foreign exchange rate exceed the levels of CHF/HUF 270, EUR/HUF 340 and JPY 3,3 the excess amounts will be borne by the Hungarian state.

This amount has not been recognised in the 2011 accounts.

The Hungarian Parliament approved the legislation relating to this part of the agreement on 19 March 2012.

Measures to assist defaulted retail foreign exchange mortgage debtors

Retail foreign exchange mortgage debtors whose loans were overdue by more than 90 days on 30 September 2011 and the market value of the collateral was less than HUF 20 million can request to have their foreign exchange mortgage loans converted into HUF mortgage loans. For all loans converted, the bank is required to waive 25% of the converted total obligations at the date of conversion. Further as part of this proposal, 30% of the obligation waived by the bank can be deducted from the bank tax due for 2012 (see Note 11).

It was also decided that the National Asset Management Company (NAMC) shall purchase residential properties of eligible mortgages debtors, the so called social cases. The NAMC is expected to purchase 25 000 properties by the end of 2014.

The measures to assist defaulted foreign exchange mortgage debtors are estimated not to have further substantial impact on the consolidated income statement considered the average impairment level existing at year end 2011 for eligible clients and the banking tax benefits associated to the program.

This part of the legislation has not been approved by Parliament at the date of this report.

c., Impact of K&H Pannonleasing's merge

K&H Pannonleasing's merge had no material impact on the comparability of the bank's annual reports.

d., Miscellaneous

The main part of the provision of HUF 4 244 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 and 2011.
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)	
	2010	2011	2010	2011
Full-time	3 226	3 120	20 000	18 431
Part-time	73	63	235	241
Retired	7	8	88	65
Not on payroll	0*	0*	2	1
Total Profit & Loss Account line 59	**3 306**	**3 191**	**20 325**	**18 738**

* rounded figure

IV/12. Other personnel expenses

HUF millions

Description	Amount	
	31.12.2010.	31.12.2011.
Other personnel expenses	3 093	2 741
Total (Profit & Loss Account line 60):	**3 093**	**2 741**

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	
	31.12.2010.	31.12.2011.	31.12.2010.	31.12.2011.
Board of Directors	5	3	358	225
Executive Management	36	36	1 319	1 410
Supervisory Board	1	1	6	10
Total:	**42**	**40**	**1 683**	**1 645**

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

31 December 2011

Members of the Board of Directors, the Executive Management and the Supervisory Board have a total debt of HUF 276 million to the Bank in loans and interest/charges.

IV/15. Adjustments to the Bank's taxable income
31 December 2011

HUF millions

Items decreasing taxable income	Amount	Items increasing taxable income	Amount
Income from the use of provisions	1 993	Expense arising from provisioning	1 609
Depreciation according to the Corporation Tax Act	5 720	Depreciation according to the Accounting Act	5 886
Book value of tangible assets removed from the books	921	Book value of tangible assets removed from the books	657
Dividends received	2 300	Fines	23
Donations	1	Depreciations	11
Reversal of impairment	987	Income and expenses related to previous years	120
Accrued loss	5 073	Taxes paid abroad	76
Income and expenses related to previous years	183	Expenses not incurred in the interest of the company	4 366
Total:	**17 178**	**Total:**	**12 748**

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	222 053	180 082
02.	+ Income from other financial services (excluding reversal of impairment on securities)	51 688	47 960
03.	+ Other income (excluding use of provisions, reversal of surplus provisions, reversal of impairment on inventories and reversal of extraordinary depreciation)	4 354	822
04.	+ Income from investment services (excluding reversal of impairment on securities)	18 209	64 194
05.	+ Income from non-financial and investment services	1 833	2 500
06.	+ Dividend income	2 202	2 300
07.	+ Extraordinary income	69	4 631
08.	- Interest expense	127 907	92 799
09.	- Expense on other financial services (excluding impairment on securities)	14 604	15 489
10.	- Other expense (excluding provisioning, impairment on inventories and extraordinary depreciation)	27 670	41 422
11.	- Expense on investment services (excluding impairment on securities)	8 741	49 618
12.	- Expense on non-financial and investment services	348	580
13.	- General and administrative expense	58 761	55 153
14.	- Extraordinary expense (excluding corporation tax liability for the year)	97	5 459
15.	- Corporation tax liability for the year	6 078	-9
16.	- Dividend paid	93 305	3 995
17.	**CASH FLOW FROM OPERATIONS (lines 01-16)**	**-37 103**	**37 983**
18.	Change in liabilities (+ if increase, - if decrease)	255 000	-382 099
19.	Change in receivables (- if increase, + if decrease)	-49 813	85 003
20.	Change in inventories (- if increase, + if decrease)	97	-164
21.	Change in securities stated under current assets (- if increase, + if decrease)	22 271	276 988
22.	Change in securities stated under fixed assets (- if increase, + if decrease)	-211 295	1 278
23.	Change in capital expenditure (including advances) (- if increase, + if decrease)	-345	-2 481
24.	Change in intangible assets (- if increase, + if decrease)	-2 821	-3 599
25.	Change in tangible assets (excluding capital expenditure and advances for capital investments) (- if increase, + if decrease)	-2 006	-27 455
26.	Change in prepayments and accrued income (- if increase, + if decrease)	-1 191	-7 921
27.	Change in accruals and deferred income (+ if increase, - if decrease)	-4 762	1 227
28.	Share offering at sale price	0	67 269
29.	Cash and equivalents received definitively under applicable law	0	0
30.	Cash and equivalents transferred definitively under applicable law	0	-19
31.	Par value of Treasury stock and equity bonds retired	0	0
32.	**NET CASH FLOW (lines 17-34)**	**-31 968**	**46 010**
33.	of which: - change in cash (HUF and foreign currency cash and checks)	979	901
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)	-32 947	45 109

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

1. Balance sheet and profit & loss account

1.1. Balance sheet

billion HUF	31.12. 2010.	31.12. 2011.	Change
Balance sheet total	3 213	2 896	-9.9%
Receivables from customers	1 562	1 458	-6.7%

In 2011 the balance sheet total of K&H Bank Zrt. decreased by 9.9% (i.e., by HUF 317 billion). On the asset side, this was primarily attributable to government bonds and receivables from customers, while on the liabilities side to payables to financial institutions (primarily to the motherbank).
Receivables from customers saw a fall compared to 2011, both in respect of retail and corporate credit portfolios (retail: -8.3%, corporate: -6.3%). In case of retail credits the drop in volume is mainly due to the final repayment scheme for retail FX mortgage loans (which was partially set off by the further weakening of the HUF-CHF exchange rate) while the financing need of the retail and corporate sectors was similarly low as in the previous year. The merge with Pannonlízing Zrt. on 30 November 2011 had no apparent impact on the credit portfolio (the parent bank's financing granted to the leasing company was replaced by the customer credits provided by the former leasing company in the standalone entity's credit portfolio).

billion HUF	31.12. 2010.	31.12. 2011.	Change
Liabilities to customers	1 595	1 728	8.3%
Equity	117	181	54.7%

The volume of *liabilities to customers* increased by HUF 133 billion (8.3%) during the year, as the growth exceeded the average rate of the bank sector in both business segments (retail, corporate) owing to the successful savings campaigns.
Pursuant to a shareholder's decision, the bank paid a total of HUF 93.3 billion in dividends following the business year of 2010 (HUF 26.0 billion was paid from the profit generated in 2010 and HUF 67.3 billion from retained earnings). Prior to the dividend payment, the principal shareholder effected a capital increase in the same amount that was withdrawn from retained earnings for this purpose (HUF 67.3 billion). The HUF 63.6 billion increase in *equity* in 2011 was mainly the result of the above mentioned capital increase implemented by the shareholders.

	31.12. 2010.	31.12. 2011.	Difference
Guarantee capital (billion HUF)	135.5	199.4	+47.2%
Capital adequacy ratio	8.38%	11.36%	+2.98%
Capital adequacy ratio (comparable)*	9.88%	11.36%	+1.48%

** based on IRB Foundation methodology in both periods (2010 does not include the decrease in retained earnings due to dividend payment)*

Capital adequacy ratio: As of January 1st, 2011, the Bank introduced the IRB (internal rating based) foundation capital calculation method. The significant improvement of the capital adequacy ratio between the end of 2010 and the end of 2011 was mainly caused by a HUF 67.3 billion increase of the Bank's subscribed capital.

1.2. Profit & loss account

In 2011 the bank posted HUF 4.4 billion in profit after taxation. The significant drop compared to the result in the previous year (HUF 28.9 billion) was primarily attributable to the HUF 48.9 billion loss before taxation, booked for the expected and realised impact of the final repayments on retail foreign currency mortgage loans[1] (of this, HUF 15.3 billion may be deducted from the bank tax payable on group level). The merge with Pannonlízing Zrt. on 30 November 2011 had no material impact on the bank's result (interest income from financing the activity of Pannonleasing was replaced by interest earned on the portfolio of former leasing company in the standalone entity's result).

billion HUF	2010	2011	Change
Profit from ordinary operations	35.0	5.3	-84.9%
Profit after taxation	28.9	4.4	-84.8%

The following factors were instrumental in the growth of income:

- *Net interest and interest-type income* decreased by nearly 8% compared to the previous year (2010: HUF 94.5 billion, 2011: HUF 87.3 billion), mainly due to technical items (the change in the structure of EUR financing granted by KBC and the accounting for FX swaps)[2]
- The decrease in *net income from fees and commission* (2010: HUF 28.1 billion; 2011: HUF 26.7 billion) is associated with the *income from securities services* (less capital protected fund units were sold than in the 2010 which was closed with an outstanding result).
- In 2010 *other income* included HUF 6.8 billion compensation income, to serve as coverage for losses from operational risks (the Bank accounted for HUF 0.5 billion compensation income in 2011).
- Operating expenses dropped by HUF 4.3 billion, i.e., by 6.5 % compared to the previous year (2011: HUF 61.1 billion; 2010: HUF 65.4 billion):
    - Staff costs diminished by HUF 2.5 billion (8.3 %) owing to the changes in the headcount and bonuses;
    - Other costs decreased by HUF 1.1 billion (3.9 %). Key components: IT costs (- HUF 0.5 billion), marketing costs (- HUF 0.3 billion), administrative expenses (- HUF 0.2 billion), Fees for operating, financial and HR services (- HUF 0.1 billion);
    - The depreciation charge decreased by HUF 0.67 billion (-10.1 %) compared to the previous year.

[1] During 2011, the most significant impact on the Hungarian financial sector was the Act on repayments on foreign currency mortgage loans (Hungarian parliament passed the related amendment of the Act on credit institutions and financial enterprises on 19 September 2011). Those clients eligible according to the law were able to take advantage of repaying their FX mortgage debt at preferential rates (in the case of Euro HUF 250, in the case of Swiss Frank HUF 180, in the case of Japanese yen HUF 2). The clients had to meet the financial obligations associated with the repayment until the 60th day after the submission of their applications. By 30 January 2012 the borrowers had to either provide for coverage on an account or present a promissory note of a financial institution for the repayment amount. Considering the timetable set by the law the ultimate deadline for repayment at these preferable conditions has expired at 28 February 2012.
Accounting treatment of repayment: in the report, realised losses made up to the end of the year were stated – together with the discount from the bank tax – under „other expenses on business activities", while other losses expected in addition thereto were stated under the heading of „impairment on receivables".

[2] In the *new financing structure* KBC has ensured the majority of EUR financing via HUF/EUR swap instead of interbank sources from 2011. The structural changes in the balance sheet (lower interbank financing was accompanied by a similar decrease in the securities portfolio on the asset side, while the volume of EUR/HUF swaps increased among off-balance sheet items) also modified the composition of the profit and loss account (lower interest income resulting from the net balance of the decreased securities portfolio and EUR interbank financing costs, which was partially compensated by the increased interest-type income from FX swaps among "profit/loss on financial operations").
In line with legal regulations, the rules for *accounting* for the interest realised on FX swap/Forward transactions also changed in 2011 (while in 2010 this constituted a part of interest income, in 2011 it is posted among "profit/loss on financial operations" together with unrealised interest income).
Upon omitting these technical items, interest income will come to the same magnitude as in the previous year.

2. Risk management

Banks are exposed to several types of risks due to their operations. K&H Bank has a system in place for the accurate measurement and appropriate management and limitation of these risks. The system has been adjusted to the risk management system of the principal shareholder KBC Group both in terms of methodology and work organisation.

2.1 Risk management governance model

The risk management governance model seeks to define the responsibilities and tasks of various bodies and persons within the organisations with a view to ensuring the sound management of value creation and all the associated risks to which the banking and insurance businesses are exposed. The Group's risk governance model is organised in three tiers:

- Overarching company and risk committees are the Board of Directors (BoD), the Audit, Risk and Compliance Committee (ARCC), the Executive Committee (ExCo), the Country Team (CT) and the Capital and Risk Oversight Committee (CROC). These committees concentrate on overarching risk management and on monitoring value creation.
- Specialised risk councils (Credit Risk Council (CRC), Trading Risk Councils (TRC), Operational Risk Councils (ORC)) concentrate on implementing a group-wide framework for one particular type of risk and monitoring the associated risk management process. The risk councils are composed of representatives from line management and Value and Risk Management Division.
- Line management and activity-specific committees have primary responsibility for value and risk management on the operational level. Whereas Value and Risk Management Division measures risks, economic capital and value creation for all relevant business entities and reports its findings directly to line management and the relevant activity-specific committees.
- Within Risk Management Division the Integrated Risk Department is dedicated to overarch the three existing risk centers of competence (Credit Risk, Market and Liquidity Risk and Non-financial Risks), enhance coordination and transfer synthesized message to senior management regarding value creation, risk and capital.

The Board of Directors and the Audit, Risk and Compliance Committee have an important role to play in value creation and risk governance. Regular reporting to the Audit, Risk and Compliance Committee ensures that there is an ample flow of information to the relevant members of the Board over the course of the year. Moreover, through the involvement of the entire Board in the annual round of approvals of risk-tolerance limits, the Board is able to take informed decisions on the degree of risk it finds acceptable for the Group and on the adequacy of the risk management structure.

2.2 Risk types

- **Credit risk** means the potential loss sustained by the Bank if a customer becomes insolvent or cannot perform their payment obligations in due time. Credit risks are managed by risk mitigating techniques approved by the Management of the Bank. Regulations cover the entirety of the lending process. The Bank constantly monitors the credit portfolio and prepares reports on the findings to the senior management of the Bank.
  In the framework of the Basel II program, late 2010 the Bank was granted the permission of HFSA to use the internal rating model (IRB Foundation) which has been applied for regulatory capital calculation for credit risk since 1 January 2011. During the program, the Bank reviewed all debtor rating models and upgraded them in line with the new uniform group-level methodology.
  In 2011 the bank paid special attention to the enhancement of the applied risk management methodology, with special regard to the analyses of the various stress scenarios affecting the credit portfolio (macro-economic indicators, foreign exchange rate changes and the changes in real estate values). An additional instrumental component of the further development of the risk management methodology was the revision of the management reports to better highlight the various quantitative risk indicators in order to allow the continuous monitoring of the credit portfolio.

  The increase in overdue retail credit portfolio was similar to that of previous year. The economic conditions, especially the expected evolution of unemployment can have a considerably influence the future quality of the credit portfolio.

The bank also helps its retail clients to retain their solvency by credit restructuring. At the end of 2011 the volume of restructured retail mortgage loans amounted to HUF 116 billion (accounting for 16% of the portfolio) which represents a significant increase compared to the previous year.

- **Market risk** means the potential loss sustained by the bank upon a change in the value of foreign currency and interest positions. Both the asset-liability management and market risk management are based on the methodology applied by the principal shareholder KBC Group. Accordingly, the CROC constantly monitors banking and trading book risks and controls them by setting up limits (in compliance with the limit policy of KBC). Interest risks are measured and controlled by the joint application of various methods and limits (gap analysis, interest sensitivity, duration, BPV, NII).
- **Liquidity risk** means the risk of the inability of an institution to comply with net financing requirements. Liquidity risk may be caused by disturbances on the market, credit downgrading, which may result in the constant cessation of certain financing sources. To eliminate this risk, the management seeks to diversify the financing sources and manages assets with due regard to liquidity requirements, maintaining a healthy balance between cash, liquid funds and promptly marketable securities. Short term liquidity risk is measured by the operational liquidity limit which establishes whether there is sufficient coverage for the 30-day cumulative liquidity gap. From 2011 structural liquidity is determined by the application of the coverage ratio, the calculation of the new regulatory and Basel III liquidity rates as well as by liquidity stress tests conducted in compliance with KBC directives. The Risk Management Directorate prepares regular reports to the K&H Bank CROC on the various liquidity indicators and limits.
- K&H Bank group manages **operational risks** (that is, the potential loss that may arise as a result of inappropriately operating systems, processes or human errors or external events) based on uniform principles and methodology. The methodology covers the various techniques for risk recognition (a system of self-assessments – both for junior and senior management, analysis of losses incurred, analysis of risks identified on KBC group level) as well as the method for risk mitigation or acceptance and the uniform decision-making authorities alike. The Hungarian Financial Supervisory Authority granted the Bank a permission to apply the standardized method for the capital requirement on operational risk in December 2007 (from 1 January 2008).

3. The Bank's operating conditions

Beginning from the fourth quarter of 2011 the central divisions of the Bank gradually moved to the new K&H head office located at Lechner Ödön fasor 9, which provides a state-of-the-art location both aesthetically, technically-technologically and environmental consciously. Parallel to the commissioning of the new headquarters of K&H Group, the lease contracts of the former head office building at Vigadó square as well as all the other central buildings (Liget Center, Ajtósi Dürer sor, Benczúr utca, Csányi u.) have been terminated and the central building on Pozsonyi street owned by the Bank has been transformed into a training centre and BCP building.
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Capital investments in branches:

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The removal of any obstructions of access to the branch network is being done concurrently with the constructions and reconstructions, currently 185 of the 236 branches can be accessed without obstruction.

We have complied with the legal requirements regarding environmental protection (Freon-free environment), at some locations in combination with certain mechanical renovations and at others as a separate project. Uniquely in Hungary, the branch network of K&H is Freon-free.

By the creation of two new “green branches” we continued the creation of so-called "green branches" started in 2008 (Hajdúszoboszló and Békéscsaba, Andrássy) and preparations are underway for more of this branch type. These branches do not directly usefossil energy.

April marked the launch of KBC’s new Central-European Data Centre (CEDC), data migration is in progress as scheduled.

Budapest, 6 April 2012

Hendrik Scheerlinck Chief Executive Officer	Attila Gombás Chief Financial Officer

K&H Bank Zrt.

Management Report

31 December 2011

Below we summarise the business operations, the operating conditions and the financial results of K&H Bank in 2011.

1. Economic environment

2011 did not turn out to be a year of upswing following the global recession, but rather that of the management of the European sovereign debt crisis. As a result of worsening external factors, Hungarian economic growth had been slowing down step by step, and the annual GDP growth of 1.7% was driven by agriculture rather than the previously export-oriented industrial production. Investment activities continued to decline in 2011, while the consumption of households was also lower than in the previous year.
The external and internal balance of the Hungarian economy further improved in 2011 (the improvement in the state budget balance was mainly due to one-off measures).

	2010 actual	2011 preliminary
GDP growth	1.3%	1.7%
CPI (average)	4.9%	3.9%
Investment growth	-5.1%	-4.5%
Rate of unemployment	11.2%	10.9%
Balance of the state budget (ESA balance)	-4.2%	+3.5%*
Balance of payments (in % of GDP)	1.1%	2.1%

Source: NBH, HCSO and GKI

As a result of the increasing risk sensitivity of international investors, the Hungarian sovereign risk margin perceptibly increased starting from the second quarter, and in the fourth quarter two credit rating agencies (Moody's and S&P) downgraded Hungarian government bonds into category below investment grade.
The base rate of the NBH remained unchanged in the months following a 25-bp increase in January, following which the new, extended Monetary Council decided to increase it by 50-50 bps each in the last two months of the year, due to the adverse investment climate (thus the base rate has increased from 5.7% at the beginning of the year to 7.0% at the end of the year).

2. Evolution of the Bank's market position

	31DEC 2010	31DEC 2011*
Balance sheet total	11.0%	10.0%
Corporate loans	8.7%	8.2%
Retail loans	9.2%	8.5%
Corporate deposits	10.7%	11.1%
Retail deposits and mutual funds	10.4%	10.2%

** Preliminary figures*
Source: NBH, K&H

The market share of the Bank was reduced in 2011 in case of both retail and corporate loans (the drop was mainly related to the repayment scheme for retail FX mortgage loans and to a selective lending policy). In terms of retail and corporate savings, the Bank has firmly retained its second position in the Hungarian Bank sector.

3. 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)

4. Key balance sheet and performance data

4.1. Balance sheet

billion HUF	**31.12. 2010.**	**31.12. 2011.**	**Change**
Balance sheet total	3 213	2 896	-9.9%
Receivables from customers	1 562	1 458	-6.7%

In 2011 the balance sheet total of K&H Bank Zrt. decreased by 9.9% (i.e., by HUF 317 billion). On the asset side, this was primarily attributable to government bonds and receivables from customers, while on the liabilities side to payables to financial institutions (primarily to the motherbank).
Receivables from customers saw a fall compared to 2011, both in respect of retail and corporate credit portfolios (retail: -8.3%, corporate: -6.3%). In case of retail credits the drop in volume is mainly due to the final repayment scheme for retail FX mortgage loans (which was partially offset by the further weakening of the HUF-CHF exchange rate) while the financing need of the retail and corporate sectors was similarly low as in the previous year. The merge with Pannonlízing Zrt. on 30 November 2011 had no apparent impact on the credit portfolio (the parent bank's financing granted to the leasing company was replaced by the customer credits provided by the former leasing company in the standalone entity's credit portfolio).

billion HUF	**31.12. 2010.**	**31.12. 2011.**	**Change**
Liabilities to customers	1 595	1 728	8.3%
Equity	117	181	54.7%

The volume of *liabilities to customers* increased by HUF 133 billion (8.3%) during the year, as the growth exceeded the average rate of the bank sector in both business segments (retail, corporate) owing to the successful savings campaigns.
Pursuant to a shareholder's decision, the bank paid a total of HUF 93.3 billion in dividends following the business year of 2010 (HUF 26.0 billion was paid from the profit generated in 2010 and HUF 67.3 billion from retained earnings). Prior to the dividend payment, the principal shareholder effected a capital increase in the same amount that was withdrawn from retained earnings for this purpose (HUF 67.3 billion). The HUF 63.6 billion increase in *equity* in 2011 was mainly the result of the above mentioned capital increase implemented by the shareholders.

	2010. Dec 31.	2011. Dec 31.	Difference
Guarantee capital (billion HUF)	135.5	199.4	+47.2%
Capital adequacy ratio	8.38%	11.36%	+2.98%
Capital adequacy ratio (comparable)*	9.88%	11.36%	+1.48%

** based on IRB Foundation methodology in both periods (2010 does not include the decrease in retained earnings due to dividend payment)*

Capital adequacy ratio: As of January 1st, 2011, the Bank introduced the IRB (internal rating based) foundation capital calculation method. The significant improvement of the capital adequacy ratio between the end of 2010 and the end of 2011 was mainly caused by a HUF 67.3 billion increase of the Bank's subscribed capital.

4.2. Profit

In 2011 the bank posted HUF 4.4 billion in profit after taxation. The significant drop compared to the result in the previous year (HUF 28.9 billion) was primarily attributable to the HUF 48.9 billion loss before taxation, booked for the expected and realised impact of the final repayments on retail foreign currency mortgage loans[1] (of this, HUF 15.3 billion may be deducted from the bank tax payable on group level). The merge with Pannonlízing Zrt. on 30 November 2011 had no material impact on the bank's result (interest income from financing the activity of Pannonleasing was replaced by interest earned on the portfolio of former leasing company in the standalone entity's result).

billion HUF	2010	2011	Change
Profit from ordinary operations	35.0	5.3	-84.9%
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The following factors were instrumental in the growth of income:

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5.1 Risk management governance model

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6. Operating Conditions of the Bank

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Dated in Budapest, 18th April 2012

Hendrik Scheerlinck	Attila Gombás
Chief Executive Officer	Chief Financial Officer