Kereskedelmi és Hitelbank Zártkörűen Működő Részvénytársaság

ANNUAL REPORT

31 December 2014

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 2014 Annual Report and the Year 2014 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 30 2015

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

Ernst & Young Kft.
Ernst & Young Ltd.
H-1132 Budapest Váci út 20.
1399 Budapest 62. Pf.632, Hungary

Tel: +36 1 451 8100
Fax: +36 1 451 8199
www.ey.com/hu
Cg. 01-09-267553

This is a translation of the Hungarian Report

Independent Auditors' Report

To the Shareholder of Kereskedelmi és Hitelbank Zártkörűen Működő Részvénytársaság

Report on financial statements

1.) We have audited the accompanying 2014 annual financial statements of Kereskedelmi és Hitelbank Zártkörűen Működő Részvénytársaság ("the Company"), which comprise the balance sheet as at 31 December 2014 - showing a balance sheet total of HUF 2,493,142 million and a profit for the year of HUF 0 (nil) million -, 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 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.

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Opinion

6.) 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 2014 and of the results of its operations for the year then ended in accordance with the Hungarian Accounting Law.

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 2,675 million 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 qualified 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- Report on the business report

9.) We have reviewed the business report of Kereskedelmi és Hitelbank Zártkörűen Működő Részvénytársaság for 2014. Management is responsible for the preparation of the business report in accordance with the Hungarian Accounting Law. 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 2014 corresponds to the disclosures in the 2014 financial statements of Kereskedelmi és Hitelbank Zártkörűen Működő Részvénytársaság.

Budapest, 17 April 2015

(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 31.12.2013.	Reporting year 31.12.2014.
a	b	c	d
01.	**1. CASH AND EQUIVALENTS**	**153 022**	**413 056**
02.	**2. GOVERNMENT SECURITIES**	**980 089**	**572 631**
03.	a) held for trading	542 371	107 386
04.	b) held for investment	437 718	465 245
05.	**2/A. VALUATION DIFFERENCE OF GOVERNMENT SECURITIES**	**155**	**- 253**
06.	**3. AMOUNTS DUE FROM CREDIT INSTITUTIONS**	**77 757**	**67 759**
07.	a) on demand	37 836	40 584
08.	b) other receivables from financial services	39 921	27 175
09.	ba) short-term	26 086	12 720
10.	of which: - from affiliated undertakings		
11.	- from other associated undertakings		
12.	- from the NBH		
13.	- from the clearing house		
14.	bb) long-term	13 835	14 455
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**	**1 177 082**	**1 283 055**
25.	a) from financial services	1 176 581	1 282 541
26.	aa) short-term	421 997	453 573
27.	of which: - from affiliated undertakings	8 653	12 637
28.	- from other associated undertakings		
29.	ab) long-term	754 584	828 968
30.	of which: - from affiliated undertakings	28 560	27 242
31.	- from other associated undertakings		
32.	b) from investment services	501	514
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	496	509
38.	bd) amounts due from the clearing house	5	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**	**30 187**	**2 722**
42.	a) securities issued by local municipalities and other administrative institutions (excluding government securities)	29 029	2 393
43.	aa) held for trading	602	
44.	ab) held for investment	28 427	2 393
45.	b) securities issued by third-party issuers	1 158	329
46.	ba) held for trading	1 158	329
47.	of which: - issued by affiliated undertakings		
48.	- issued by other associated undertakings		
49.	- Treasury stock	506	
50.	bb) held for investment		
51.	of which: - issued by affiliated undertakings		
52.	- issued by other associated undertakings		
53.	**5/A. VALUATION DIFFERENCE OF DEBT SECURITIES**	**147**	**153**

HUF millions

No.	Description	Previous year 31.12.2013.	Reporting year 31.12.2014.
a	b	c	d
54.	**6. SHARES AND OTHER VARIABLE YIELD SECURITIES**	**4 050**	**2 033**
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	4 050	2 033
59.	ba) held for trading	4 050	2 033
60.	bb) held for investment		
61.	**6/A. VALUATION DIFFERENCE OF SHARES AND OTHER VARIABLE YIELD SECURITIES**	**477**	**138**
62.	**7. SHARES AND PARTICIPATIONS HELD FOR INVESTMENT**	**646**	**646**
63.	a) shares and participations held for investment	646	646
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**	**4 169**	**4 429**
69.	a) shares and participations held for investment	4 169	4 429
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**	**13 012**	**13 775**
74.	a) intangible assets	13 012	13 775
75.	b) adjustments to the value of intangible assets		
76.	**10. TANGIBLE ASSETS**	**40 514**	**38 643**
77.	a) tangible assets used in financial and investment services	40 452	38 579
78.	aa) land and buildings	34 034	32 569
79.	ab) technical equipment, machinery and vehicles	5 193	4 663
80.	ac) capital expenditure	1 225	1 347
81.	ad) advances for capital investments		
82.	b) tangible assets not directly used in financial and investment services	62	64
83.	ba) land and buildings		
84.	bb) technical equipment, machinery and vehicles	62	64
85.	bc) capital expenditure		
86.	bd) advances for capital investments		
87.	c) adjustments to the value of tangible assets		
88.	**11. TREASURY STOCK**		
89.	**12. OTHER ASSETS**	**9 654**	**11 891**
90.	a) inventories	1 764	3 138
91.	b) other receivables	7 890	8 753
92.	of which: - amounts due from affiliated undertakings	513	37
93.	- amounts due from other associated undertakings		
94.	**12/A. VALUATION DIFFERENCE OF OTHER RECEIVABLES**		
95.	**12/b. POSITIVE VALUATION DIFFERENCE OF DERIVATIVE TRANSACTIONS**	**24 441**	**36 292**
96.	**13. PREPAYMENTS AND ACCRUED INCOME**	**58 227**	**46 172**
97.	a) accrued income	57 141	44 369
98.	b) prepayments	1 086	1 803
99.	c) deferred expense		
100.	**TOTAL ASSETS**	**2 573 629**	**2 493 142**
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]**	1 222 497	1 078 416
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]**	1 292 905	1 368 554

Budapest, 17th April 2015

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 31.12.2013.	Reporting year 31.12.2014.
a	b	c	d
103.	**1. AMOUNTS DUE TO CREDIT INSTITUTIONS**	**436 661**	**462 764**
104.	a) on demand	10 319	8 295
105.	b) fixed-term liabilities from financial services	426 342	454 469
106.	ba) short-term	250 976	248 468
107.	of which: - from affiliated undertakings	186 305	146 613
108.	- from other associated undertakings		
109.	- from the NBH	4 089	13 173
110.	- from the clearing house		
111.	bb) long-term	175 366	206 001
112.	of which: - from affiliated undertakings	1 316	
113.	- from other associated undertakings		
114.	- from the NBH	89 085	151 369
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**	**1 767 953**	**1 684 007**
122.	a) savings deposits		
123.	aa) on demand		
124.	ab) short-term		
125.	ac) long-term		
126.	b) other liabilities from financial services	1 759 428	1 670 701
127.	ba) on demand	768 205	993 018
128.	of which: - from affiliated undertakings	14 901	18 252
129.	- from other associated undertakings		
130.	bb) short-term	801 157	472 798
131.	of which: - from affiliated undertakings	2 630	3 153
132.	- from other associated undertakings		
133.	bc) long-term	190 066	204 885
134.	of which: - from affiliated undertakings	23 887	23 870
135.	- from other associated undertakings		
136.	c) from investment services	8 525	13 306
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	8 525	13 306
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**	**7 953**	**7 530**
146.	a) bonds issued	7 701	7 286
147.	aa) short-term	3 684	3 194
148.	of which: - from affiliated undertakings		
149.	- from other associated undertakings		
150.	ab) long-term	4 017	4 092
151.	of which: - from affiliated undertakings		
152.	- from other associated undertakings		

HUF millions

No.	Description	Previous year 31.12.2013.	Reporting year 31.12.2014.
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	252	244
161.	ca) short-term	252	244
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**	**81 929**	**30 353**
168.	a) short-term	81 929	30 353
169.	of which: - from affiliated undertakings	20	22
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**	**19 154**	**22 045**
176.	**5. ACCRUALS AND DEFERRED INCOME**	**36 632**	**23 941**
177.	a) accrued income	27	107
178.	b) accrued cost and expense	36 313	23 535
179.	c) deferred income	292	299
180.	**6. PROVISIONS**	**6 524**	**64 195**
181.	a) provisions for retirement benefits and severance pay	69	55
182.	b) risk provisions for contingent and future liabilities	4 243	5 360
183.	c) general risk provisions	-	
184.	d) other provisions	2 212	58 780
185.	**7. SUBORDINATED LIABILITIES**	**22 529**	**18 893**
186.	a) subordinated debt	22 529	18 893
187.	of which: - from affiliated undertakings	17 815	18 893
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**	**140 978**	**140 978**
194.	- repurchased ownership interest at par value		
195.	**9. SUBSCRIBED CAPITAL UNPAID (-)**		
196.	**10. CAPITAL RESERVE**	**23 179**	**23 179**
197.	a) differences between the par value and offering price of shares and participations (premium)	14 393	14 393
198.	b) other	8 786	8 786
199.	**11. GENERAL RESERVE**	**20 422**	**5 542**
200.	**12. PROFIT RESERVE (+/-)**	**9 715**	**9 715**
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**	**2 573 629**	**2 493 142**
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]**	1 944 201	1 791 721
208.	**- LONG-TERM LIABILITIES [1.bb)+2.ac)+2.bc)+3.ab)+3.bb)+3.cb)+4.b)+7]**	391 978	433 871
209.	**- EQUITY (8-9+10+11+12+13+14+15)**	194 294	179 414

Budapest, 17th April 2015

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 31.12.2013.	Reporting year 31.12.2014.
a	b	c	d
01.	**1. Interest received and similar income**	**136 569**	**116 015**
02.	a) interest received (receivable) on fixed-interest debt securities	56 484	41 490
03.	of which: - from affiliated undertakings		
04.	- from other associated undertakings		
05.	b) other interest received and similar income	80 085	74 525
06.	of which: - from affiliated undertakings	2 168	1 376
07.	- from other associated undertakings		
08.	**2. Interest paid and similar expense**	**66 850**	**34 240**
09.	of which: - from affiliated undertakings	3 125	2 021
10.	- from other associated undertakings		
11.	**NET INTEREST INCOME (1-2)**	**69 719**	**81 775**
12.	**3. Income from securities**	**2 002**	**2 154**
13.	a) income from shares and participations held for trading (dividend, minority interest)		
14.	b) income from participations in affiliated undertakings (dividend, minority interest)	2 002	2 154
15.	c) income from other participations (dividend, minority interest)		
16.	**4. Fees and commissions received (receivable)**	**60 122**	**62 530**
17.	a) income from other financial services	52 163	52 736
18.	of which: - from affiliated undertakings	184	50
19.	- from other associated undertakings		
20.	b) income from investment services (excluding income from trading operations)	7 959	9 794
21.	of which: - from affiliated undertakings	255	31
22.	- from other associated undertakings		
23.	**5. Fees and commissions paid (payable)**	**15 192**	**16 528**
24.	a) expense on other financial services	14 634	15 781
25.	of which: - from affiliated undertakings	1 182	896
26.	- from other associated undertakings		
27.	b) expense on investment services (excluding expense on trading operations)	558	747
28.	of which: - from affiliated undertakings	199	194
29.	- from other associated undertakings		
30.	**6. Profit/loss on financial transactions [6.a)-6.b)+6.c)-6.d)]**	**30 203**	**40 449**
31.	a) income from other financial services	14 962	21 253
32.	of which: - from affiliated undertakings		
33.	- from other associated undertakings		
34.	- valuation difference		
35.	b) expense on other financial services	2 201	2 173
36.	of which: - from affiliated undertakings		
37.	- from other associated undertakings		
38.	- valuation difference		
39.	c) income from investment services (income from trading operations)	72 645	69 677
40.	of which: - from affiliated undertakings		
41.	- from other associated undertakings		
42.	- reversal of impairment on securities held for trading		
43.	- valuation difference	13 985	18 774
44.	d) expense on investment services (expense on trading operations)	55 203	48 308
45.	of which: - to affiliated undertakings		
46.	- to other associated undertakings		
47.	- impairment on securities held for trading		
48.	- valuation difference	7 364	15 128

HUF millions

No.	Description	Previous year 31.12.2013.	Reporting year 31.12.2014.
a	b	c	d
49.	**7. Other income from business activities**	**19 500**	**23 154**
50.	a) income from non-financial and investment services	11 391	17 349
51.	of which: - from affiliated undertakings	446	447
52.	- from other associated undertakings		
53.	b) other income	8 109	5 805
54.	of which: - from affiliated undertakings	433	302
55.	- from other associated undertakings		
56.	- reversal of impairment on inventories	17	15
57.	**8. General and administrative expenses**	**52 863**	**50 594**
58.	a) personnel expense	27 522	27 676
59.	aa) salaries and wages	19 169	18 987
60.	ab) other personnel expense	2 398	2 771
61.	of which: - social security expense	365	355
62.	- retirement expense	206	200
63.	ac) contributions payable on salaries and wages	5 955	5 918
64.	of which: - social security expense	368	399
65.	- retirement expense		
66.	b) other administrative expenses (material-type expenses)	25 341	22 918
67.	**9. Depreciation**	**7 380**	**7 673**
68.	**10. Other expenses on business activities**	**67 270**	**137 783**
69.	a) expense on non-financial and investment services	8 765	14 172
70.	of which: - to affiliated undertakings		
71.	- to other associated undertakings		
72.	b) other expense	58 505	123 611
73.	of which: - to affiliated undertakings	9	19
74.	- to other associated undertakings		
75.	- impairment on inventories	15	67
76.	**11. Impairment on receivables and risk provisioning for contingent and future liabilities**	**52 276**	**37 307**
77.	a) impairment on receivables	50 215	35 619
78.	b) risk provisioning for contingent and future liabilities	2 061	1 688
79.	**12. Reversal of impairment on receivables and risk provisions used for contingent and future liabilities**	**44 912**	**35 542**
80.	a) reversal of impairment on receivables	43 887	34 783
81.	b) risk provisions used for contingent and future liabilities	1 025	759
82.	**12/A. Difference between general risk provisions made and used**	**319**	**-**
83.	**13. Impairment on debt securities held for investment and shares and participations in affiliated and other associated undertakings**	**195**	**119**
84.	**14. Reversal of impairment on debt securities held for investment and shares and participations in affiliated and other associated undertakings**	**1 172**	**277**
85.	**15. Profit/loss on ordinary activities**	**32 773**	**- 4 123**
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]**	30 147	- 7 300
87.	**- profit/loss on non-financial and investment services [7.a)-10.a)]**	2 626	3 177
88.	**16. Extraordinary income**	**72**	**179**
89.	**17. Extraordinary expense**	**234**	**8**
90.	**18. Extraordinary profit/loss (16-17)**	**- 162**	**171**
91.	**19. Pretax profit/loss (±15±18)**	**32 611**	**- 3 952**
92.	**20. Taxation**	**13 559**	**10 929**
93.	**21. Net profit/loss (±19-20)**	**19 052**	**- 14 881**
94.	**22. General provisions made/used (±)**	**- 1 905**	**14 881**
95.	**23. Profit reserve used for dividend and minority interest**		
96.	**24. Dividend and minority interest approved**	**17 147**	**-**
97.	of which: - to affiliated undertakings		
98.	- to other associated undertakings		
99.	**25. Retained earnings (±21-/+22+23-24)**	**-**	**-**

Budapest, 17th April 2015

Hendrik Scheerlinck
Chief Executive Officer

Attila Gombás
Chief Financial Officer

Kereskedelmi és Hitelbank Zártkörűen Működő Részvénytársaság

Notes to the Financial Statements

31 December 2014

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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 2013		31 December 2014	
	Subscribed capital (HUF m)	Stake (%)	Subscribed capital (HUF m)	Stake (%)
KBC Bank N.V. Havenlaan 2, 1080 Brussels, Belgium	140 978	100	140 978	100
Total subscribed capital	**140 978**	**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 CCXXXVII of 2013 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 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 are generally integrated 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 monthly 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 in the Bank's accounting records at the time of the funds movement in case of cash transactions, on the T-day of economic events and transactions are not related to cash transactions, after the economic events occurred in case of other type of economic events and transactions but no later than the third workday following the reference month.

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. K&H Bank Zrt. as „parent company" shall prepare consolidated financial statements.

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, unless the legislation exempts the Bank from this regulation. 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 2 percent of the balance sheet total.

It follows from the above that if the findings are not significant, i.e. the errors remain below the above stated threshold of 2 percent of the balance sheet total, then the Bank includes these in its figures for the reporting year.

VALUATION PROCEDURES EMPLOYED IN THE REPORT

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

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

The key principles of valuation procedures:

I. Fair market valuation

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

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

The Bank classifies financial instruments in the following categories.

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

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

- Derivative transactions: commodities- or financial assets-based transactions for trading or hedging purposes, options or swaps, or their derivatives.
    - Derivative transactions for trading: derivative transactions not for hedging purposes.
    - Market value (fair value) hedging transactions: transactions serving the purpose of covering the risk of changes to the market value of the whole or certain part of an asset or liability in the balance sheet arising from a hedged transaction or transactions, or changes to the expected future profit or loss from (market value of) a derivative transaction. The hedged risk is a specific risk impacting the profit or loss reported.
    - Cash-flow hedging transaction: transaction to hedge the risk connected to potential changes in future cash-flows related to assets or liabilities in the balance sheet originating from a hedged transaction (including the related interest payments as well), or related to swaps, options or (delivery) forward transactions executed upon the delivery of goods or financial assets. The hedged risk is a risk in a specific cash-flow, impacting the profit or loss reported.
    - Net hedging transaction of net investment in foreign business entity: a transaction concluded to hedge the risks arising from changes in exchange rate related to investments representing ownership and held not for trading purposes (shares, participations, other interest) in foreign currency and in a foreign business entity classifying as an associated enterprise, and the long-term receivables from and liabilities to such a business entity.
- Regardless of their above categorization, all derivative transactions are reported at fair market value.

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

The Bank relies on calculations in its Treasury system to determine the fair market value of its transactions reported at fair market value. This is essentially equivalent to the available market prices or the present value of the future cash-flows on the transactions.
Defining the yield curves used in present value calculation:

- The yield curve for government securities is defined on the basis of the yields on benchmark government securities published by the Government Debt Management Agency (ÁKK).
- The valuation of the derivatives is based on the yield curves including the market liquidity spread

Fair market value is determined for the individual product groups as follows

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

The amount of the fair value which is calculated on transaction level is adjusted (MVA - Market Value Adjustment) by the Bank taking into account the elements listed below. The adjustment according to the following elements is calculated by instrument / transaction types or on customer level:

- close-out cost of the transactions,
- illiquidity of the markets,
- counterparty risk.

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.

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.

The above mentioned method does not apply the amounts of foreign currency receivables and related impairment, provisions and the accrued interest, which are covered by the scope of the Act XXXVIII of 2014 on the 'Settlement of Certain Issues Related to the Supreme Court's (Curia's) Uniformity Decision Concerning Financial Institutions' Consumer Loan Agreements' as well as the Act XL of 2014 on the accounting rules laid down in the Act XXXVIII of 2014 on the 'Settlement of Certain Issues Related to the Supreme Court's (Curia's) Uniformity Decision Concerning Financial Institutions' Consumer Loan Agreements' and on the certain other instructions. The Bank values these amounts at the exchange rate as of 31 December 2014 determined in the 10. § of Act LXXVII of 2014 on the 'Settlement of issues related to the rules governing interest and the change currency of certain 'Consumer Loan Agreements' (this exchange rate is calculated as the average of the daily foreign exchange rates of the National Bank of Hungary between 16th of June 2014 and 7th of November 2014).

	Exchange rate according to Act LXXVII. of 2014	Exchange rate of NBH as of 31.12.2014
CHF	256,47	261,85
EUR	308,97	314,89
JPY	2,1630	2,1686

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 if that prevails for at least one year on the basis of historical events and future expectations. Furthermore, the difference is considered permanent - irrespective of its duration - if that appears final relying on the information available at the time of evaluation.

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 original cost.

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 2013			31 December 2014		
		HUF	Foreign currency	Total	HUF	Foreign currency	Total
Cash and equivalents	Line 1	149 817	3 205	153 022	410 611	2 445	413 056
Government securities	Line 2	939 093	40 996	980 089	523 151	49 480	572 631
Valuation difference of government securities	Line 5	200	-45	155	-160	-93	-253
Amounts due from credit institutions	Line 6	32 785	44 972	77 757	17 842	49 917	67 759
Valuation difference of amounts due from credit institutions	Line 23	0	0	0	0	0	0
Amounts due from clients	Line 24	458 711	718 371	1 177 082	584 170	698 885	1 283 055
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	1 154	29 033	30 187	324	2 398	2 722
- of which foreign securities		0	0	0	0	0	0
Valuation difference of debt securities	Line 53	146	1	147	152	1	153
- of which foreign securities		0	0	0	0	0	0
Shares and other variable yield securities	Line 54	2 422	1 628	4 050	573	1 460	2 033
- of which foreign securities		0	0	0	0	0	0
Valuation difference of shares and other variable yield securities	Line 61	306	171	477	30	108	138
Shares and participations held for investment	Line 62	640	6	646	640	6	646
- of which foreign securities		0	0	0	0	0	0
Valuation difference of shares and participations	Line 67	0	0	0	0	0	0
Shares and participations in affiliated undertakings	Line 68	4 169	0	4 169	4 429	0	4 429
Intangible assets	Line 73	13 012	0	13 012	13 775	0	13 775
Tangible assets	Line 76	40 514	0	40 514	38 643	0	38 643
Treasury stock	Line 88	0	0	0	0	0	0
Other assets	Line 89	9 126	528	9 654	11 382	509	11 891
Valuation difference on other assets	Line 94	0	0	0	0	0	0
Positive valuation difference of derivative transactions	Line 95	24 441	0	24 441	36 292	0	36 292
Prepayments and accrued income	Line 96	54 127	4 100	58 227	42 365	3 807	46 172
Total assets		**1 730 663**	**842 966**	**2 573 629**	**1 684 219**	**808 923**	**2 493 142**

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

HUF millions

Description	Balance Sheet	31 December 2013			31 December 2014		
		HUF	Foreign currency	Total	HUF	Foreign currency	Total
Amounts due to credit institutions	Line 103	260 409	176 252	436 661	210 087	252 677	462 764
Valuation difference of amounts due to credit institutions	Line 120	0	0	0	0	0	0
Amounts due to clients	Line 121	1 410 113	357 840	1 767 953	1 329 833	354 174	1 684 007
Valuation difference of amounts due to clients	Line 144	0	0	0	0	0	0
Liabilities from securities issued	Line 145	7 953	0	7 953	7 530	0	7 530
Other liabilities	Line 167	76 685	5 244	81 929	22 684	7 669	30 353
Negative valuation difference of derivative transactions	Line 175	19 154	0	19 154	22 045	0	22 045
Accruals and deferred income	Line 176	34 595	2 037	36 632	21 805	2 136	23 941
Provisions	Line 180	3 429	3 095	6 524	-10 538	74 733	64 195
Subordinated liabilities	Line 185	4 714	17 815	22 529	0	18 893	18 893
Subscribed capital	Line 193	140 978	0	140 978	140 978	0	140 978
Subscribed capital unpaid (-)	Line 195	0	0	0	0	0	0
Capital reserve	Line 196	23 179	0	23 179	23 179	0	23 179
General reserve	Line 199	20 422	0	20 422	5 542	0	5 542
Profit reserve (+/-)	Line 200	9 715	0	9 715	9 715	0	9 715
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		**2 011 346**	**562 283**	**2 573 629**	**1 782 860**	**710 282**	**2 493 142**

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

31 December 2014

HUF millions

Description	31 December 2013				
	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)	20 196	5 890	11 721	2 114	39 921
Amounts due from clients, arising from financial services (Balance Sheet line 25)	225 819	196 178	359 257	395 327	1 176 581
Total	**246 015**	**202 068**	**370 978**	**397 441**	**1 216 502**

HUF millions

Description	31 December 2014				
	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)	7 446	5 274	13 334	1 121	27 175
Amounts due from clients, arising from financial services (Balance Sheet line 25)	230 969	222 604	422 009	406 959	1 282 541
Total	**238 415**	**227 878**	**435 343**	**408 080**	**1 309 716**

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

31 December 2014

HUF millions

Description	31 December 2013				
	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)	202 917	48 059	135 634	39 732	426 342
Amounts due to clients – other short-term liabilities from financial services (Balance Sheet line 130)	622 360	178 797	0	0	801 157
Amounts due to clients – other long-term liabilities from financial services (Balance Sheet line 133)	0	0	158 517	31 549	190 066
Subordinated liabilities (Balance Sheet line 185)	0	4 714	17 815	0	22 529
Total	**825 277**	**231 570**	**311 966**	**71 281**	**1 440 094**

HUF millions

Description	31 December 2014				
	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)	180 098	68 371	171 359	34 641	454 469
Amounts due to clients – other short-term liabilities from financial services (Balance Sheet line 130)	370 159	102 639	0	0	472 798
Amounts due to clients – other long-term liabilities from financial services (Balance Sheet line 133)	0	0	153 774	51 111	204 885
Subordinated liabilities (Balance Sheet line 185)	0	0	18 893	0	18 893
Total	**550 257**	**171 010**	**344 026**	**85 752**	**1 151 045**

II/5. Gross value of intangible and tangible assets

2014

HUF millions

Description	Balance Sheet	Change in gross value				
		Opening value	Reclassification (+/-)	Increase (+)	Decrease (-)	Closing value
Intangible assets	Line 73	**41 572**	**1**	**4 327**	**-25**	**45 875**
- rights		10 868	134	1 198	-1	**12 199**
- trademarks and patents		30 704	-133	3 129	-24	**33 676**
Tangible assets used in financial services	Line 77	**72 812**	**-1**	**2 533**	**-3 731**	**71 613**
- land and buildings	Line 78	47 179	0	906	-729	**47 356**
- technical equipment, machinery	Line 79	24 408	0	1 495	-2 993	**22 910**
- capital expenditure	Line 80	1 225	-1	132	-9	**1 347**
- advances for capital investments	Line 81	0	0	0	0	**0**
Tangible assets not directly used in financial services	Line 82	**78**	**0**	**4**	**0**	**82**
- land and buildings	Line 83	0	0	0	0	**0**
- technical equipment, machinery and vehicles	Line 84	78	0	4	0	**82**
- capital expenditure	Line 85	0	0	0	0	**0**
- advances for capital investments	Line 86	0	0	0	0	**0**

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

II/6. Accumulated depreciation of intangible and tangible assets

2014

HUF millions

Description	Balance Sheet	Accumulated depreciation				
		Opening value	Reclassification (+/-)	Increase (+)	Decrease (-)	Closing value
Intangible assets	Line 73	**28 560**	**0**	**3 541**	**-1**	**32 100**
- rights		6 270	6	1 631	-1	7 906
- trademarks and patents		22 290	-6	1 910	0	24 194
Tangible assets used in financial services	Line 77	**32 360**	**0**	**4 130**	**-3 456**	**33 034**
- land and buildings	Line 78	13 145	0	2 153	-511	14 787
- technical equipment, machinery and vehicles	Line 79	19 215	0	1 977	-2 945	18 247
Tangible assets not directly used in financial services	Line 82	**16**	**0**	**2**	**0**	**18**
- land and buildings	Line 83	0	0	0	0	0
- technical equipment, machinery and vehicles	Line 84	16	0	2	0	18

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

II/7. Net value of intangible and tangible assets

HUF millions

Description	Balance sheet	31.12.2013. Closing value	31.12.2014. Closing value
Intangible assets	Line 73	**13 012**	**13 775**
- rights		4 598	4 293
- trademarks and patents		8 414	9 482
Tangible assets used in financial services	Line 77	**40 452**	**38 579**
- land and buildings	Line 78	34 034	32 569
- technical equipment, machinery and vehicles	Line 79	5 193	4 663
- capital expenditure	Line 80	1 225	1 347
- advances for capital investments	Line 81	0	0
Tangible assets not directly used in financial services	Line 82	**62**	**64**
- land and buildings	Line 83	0	0
- technical equipment, machinery and vehicles	Line 84	62	64
- capital expenditure	Line 85	0	0
- advances for capital investments	Line 86	0	0

II/8. Annual depreciation of intangible and tangible assets

2014

HUF millions

Description	Ordinary	Extraordinary	Total
Intangible assets	**3 527**	0	**3 527**
Tangible assets used in financial services	**4 076**	0	**4 076**
- land and buildings	2 153	0	2 153
- technical equipment, machinery and vehicles	1 923	0	1 923
Tangible assets not directly used in financial services	**2**	0	**2**
- land and buildings	0	0	0
- technical equipment, machinery and vehicles	2	0	2
Depreciation of tangible assets with a value of less than HUF 100,000	34	0	34
Adjustment due to self-audit	34	0	34
Total	**7 673**	**0**	**7 673**

Linear method is in use for calculation the depreciation in the Bank. There was not extraordinary depreciation written back.

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

In 2014 the Bank did not change the depreciation method used with intangible and tangible assets.

II/10. Contingent-, future liabilities and receivables

a., Liabilities

HUF millions

Description	31.12.2013.	31.12.2014.
Guarantees and warranties issued	120 789	115 911
Loans, guarantees and letters of credit	336 172	370 396
Export letters of credit	469	0
Import letters of credit	4 153	2 551
Liabilities from lawsuits	4 522	6 576
Liabilities from options	220 144	321 559
Other contingent liabilities	923	866
Total contingent liabilities	**687 172**	**817 859**

HUF millions

Description	31.12.2013.	31.12.2014.
Swaps (foreign currency and other)	910 884	828 276
Foreign currency forwards	130 290	113 501
Liabilities from the sale/purchase of securities	17 036	8 582
Future liabilities on payments	638	757
Other future liabilities	4 707	4 619
Interbank deposits	93 000	4 881
Total future liabilities	**1 156 555**	**960 616**

The Bank had contingent-, future liabilities of HUF 556 832 million to its affiliates.

b., Receivables

HUF millions

Description	31.12.2013.	31.12.2014.
Received guarantees and coverages	1 264 777	1 812 182
Interests, extra interests receivables	28 785	34 292
Receivables from lawsuits	876	2 495
Receivables from options	220 144	321 559
Other contingent receivables	1 575	2 113
Total contingent receivables	**1 516 157**	**2 172 641**

HUF millions

Description	31.12.2013.	31.12.2014.
Swaps (foreign currency and other)	862 577	816 758
Foreign currency forwards	127 441	113 099
Liabilities from the sale/purchase of securities	26 706	14 914
Future receivables on payments	643	764
Other future receivables	468	404
Total future receivables	**1 017 835**	**945 939**

The Bank had contingent-, future receivables of HUF 505 727 million to its affiliates.

II/11. Impairment and risk provisioning
2014

HUF millions

Description	Opening balance	Impairment recognized and provisions made in the reporting year (+)	Reversal of impairment recognized, and use/release of provisions made, in the previous year (-)	Other changes	Closing balance
Impairment recognized on receivables (amounts due from credit institutions, clients)	114 301	34 958	35 399	4 105	117 965
Impairment recognized on financial leasing receivables	3 773	661	798	31	3 667
Impairment recognized on financial fixed assets	2 934	119	277	2	2 778
Impairment recognized on administrative risks	211	0	2	0	209
Impairment recognized on other receivables (operating)	280	3	10	1	274
Impairment recognized on received in debt settlement	24	9	14	0	19
Total impairment recognized on assets	**121 523**	**35 750**	**36 500**	**4 139**	**124 912**
Risk provisions for contingent and future liabilities	4 243	1 688	759	188	5 360
Provisions of retail loan and financial lease receivables (based on 2014. XXXVIII. act.)	0	58 352	0	-344	58 008
Provisions for anticipated liabilities	2 212	275	1 715	0	772
Provisions for payment obligations due to early retirement and severance pay	69	0	14	0	55
Total provisions	**6 524**	**60 315**	**2 488**	**-156**	**64 195**

The “Other changes” column shows the change resulting from revaluation in 2014, except for the change in general risk provision.
Provision was not created for liabilities to affiliates.

II/12. Other notes to the Balance Sheet

a., Listed securities held by the Bank

- Under financial fixed assets:

HUF millions

Description	31 December 2013		31 December 2014	
	Par value	**Book value**	**Par value**	**Book value**
Government bonds	453 818	438 619	433 813	428 014
Total:	**453 818**	**438 619**	**433 813**	**428 014**

- Under current assets:

HUF millions

Description	31 December 2013		31 December 2014	
	Par value	**Book value**	**Par value**	**Book value**
Government bonds	5 710	5 934	21 931	23 224
Discounted Treasury bills	60 038	58 560	10 509	10 442
Investment units	413	413	86	89
Total:	**66 161**	**64 907**	**32 526**	**33 755**

b., The total amount of loans, securities, participations and liabilities classified as legal lending limits pursuant Regulation (EU) No 575/2013 was HUF 924 700 million as at the balance sheet date.

c., As at 31 December 2014 the Bank's liabilities included subordinated debt of HUF 18 893 million (EUR 60 million, maturity date 30.06.2016., interest rate: 3-month EURIBOR +0.55%, that is, 0.632%), 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 after tax loss at year-end 2014 was covered by using the general reserve according to the Bank's decision.

f., The amount of accrued interest (including transaction interest and late interest), interest-type commission and fees receivable totaled HUF 17 831 million on 31 December 2014, versus HUF 14 345 million on 31 December 2013.

g., The HUF equivalent of receivables and liabilities arising from spot foreign exchange trades totaled HUF 18 419 million and HUF 18 422 million, respectively, at the balance sheet date, 31 December 2014.

h., On 31 December 2014, the balances of currency swap buy and sell trades made in the interbank market stood at HUF 745 230 million and HUF 733 491 million, respectively, while the balances of currency swap buy and sell trades made with clients were HUF 78 221 million and HUF 78 442 million, respectively. The balances of forward sell and buy trades made in the interbank market stood at HUF 6 156 million and

HUF 6 436 million, respectively, while the balances of FX forward sell and buy trades made with clients were HUF 84 915 million and HUF 85 042 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
17DEC2014	07JAN2015	2016/C	1 200	1 312
23DEC2014	07JAN2015	2016/C	1 000	1 094
29DEC2014	05JAN2015	2016/D	500	541
29DEC2014	05JAN2015	2016/D	200	217
23DEC2014	07JAN2015	2017/A_X	500	565
22DEC2014	07JAN2015	2022/A	500	637
23DEC2014	07JAN2015	2023/A	500	603
23DEC2014	07JAN2015	2025/B	500	601
30DEC2014	06JAN2015	2028/A	300	404
29DEC2014	05JAN2015	D151223	500	493
Total active special delivery repos			**5 700**	**6 467**

HUF millions

Start date	Maturity date	Security	Par value	Transaction value
17DEC2014	19JAN2015	2015/A_X	700	754
17DEC2014	07JAN2015	2016/C	1 200	1 312
23DEC2014	07JAN2015	2016/C	1 000	1 094
23DEC2014	07JAN2015	2017/A_X	500	565
22DEC2014	07JAN2015	2022/A	500	637
23DEC2014	07JAN2015	2023/A	500	603
23DEC2014	07JAN2015	2025/B	500	601
Total passive special delivery repos			**4 900**	**5 566**

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 2014.
The par value of investment units posted as off-balance sheet items (held on securities accounts) – expressed in Hungarian forints – totaled HUF 720 672 million at the end of the year.

k., The Bank did not have any earmarked reserves on 31 December 2014.

l., On 31 December 2014 the adjusted balance sheet total was HUF 1 391 837 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 1 218 474 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 7 532 million as at 31 December 2014. Clients had receivables of HUF 12 877 million and payables of HUF 565 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 2014.

p., On 31 December 2014 the Bank had a total amount of HUF 4 699 million due from its parent company; at the same time, the Bank had liabilities of HUF 168 904 million to its parent of which short-term liabilities of HUF 150 011 million.
On 31 December 2014, amounts due from subsidiaries totaled HUF 39 917 million, while short-term liabilities amounted to HUF 21 427 million, and long-term liabilities to HUF 23 870 million come 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

HUF millions*

Description	Par value		Comments
	31.12.2013.	31.12.2014.	
Dematerialized	**1 284 786**	**1 182 876**	
In safekeeping at the Bank's depository	40 413	35 598	
Total physical	**40 413**	**35 598**	
Total	**1 325 199**	**1 218 474**	

* converted into HUF at the NBH exchange rate for 31.12.2014.

II/14. Securities portfolio held by the Bank

- Stated in fixed assets

HUF millions

Description	Par value		Book value	
	31.12.2013.	31.12.2014.	31.12.2013.	31.12.2014.
Dematerialized	**480 611**	**474 639**	**467 947**	**469 557**
In safekeeping at the Bank's depository	1 305	761	2 924	2 689
Total physical	**1 305**	**761**	**2 924**	**2 689**
Total	**481 916**	**475 400**	**470 871**	**472 246**

- Stated in current assets

HUF millions *

Description	Par value		Book value	
	31.12.2013.	31.12.2014.	31.12.2013.	31.12.2014.
Dematerialized	547 825	**105 169**	548 181	**109 748**
Total physical	0	0	0	0
Total	**547 825**	**105 169**	**548 181**	**109 748**

* converted into HUF at the NBH exchange rate for 31.12.2014.

II/15. Accruals

HUF millions

Prepayments and accrued income	31.12.2013.	31.12.2014.
Accrued interest and interest-type commissions	34 879	30 161
IR swaps fair market value interest accrual	19 946	11 772
IR arbitrage transactions interest accrual	639	812
Other accrued income	1 677	1 624
Accrued income	**57 141**	**44 369**
Prepaid costs and expenses	**1 086**	**1 803**
Deferred expense	**0**	**0**
Total (Balance Sheet line 96)	**58 227**	**46 172**

HUF millions

Accruals and deferred income	31.12.2013.	31.12.2014.
Accrued income	**27**	**107**
Accrued interest	22 914	14 503
IR swaps fair market value interest accrual	5 768	2 003
IR arbitrage transactions interest accrual	279	191
Other accrued expenses	0	0
Accrued costs	7 352	6 838
Accrued costs and expenses	**36 313**	**23 535**
Deferred income	**292**	**299**
Total (Balance Sheet line 176)	**36 632**	**23 941**

II/16. Changes in equity

HUF millions

Description	Subscribed capital	Capital reserve	Profit reserve	General reserve	Retained earnings for the year	Total
Balance 31.12.2013.	140 978	23 179	9 715	20 422	0	**194 294**
Use of general reserve covering the after tax loss				-14 880		**-14 880**
Balance 31.12.2014.	**140 978**	**23 179**	**9 715**	**5 542**	**0**	**179 414**

II/17. Rights and concessions concerning properties stated in intangible and tangible assets by type

a) Intangible assets by type

HUF millions

Description	31.12.2013.	31.12.2014.
Licenses	4 575	4 274
Other	23	19
Rights	**4 598**	**4 293**
Basic software	79	49
User software	8 333	9 432
Trademarks	2	1
Patents	**8 414**	**9 482**
Total:	**13 012**	**13 775**

b) Rights and concessions concerning properties stated in tangible assets by type

HUF millions

Description	31.12.2013.	31.12.2014.
Lease rights	27	20
Acquired rights from payment contribution of public utility	38	39
Total:	**65**	**59**

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

HUF millions

Description	31.12.2013.	31.12.2014.
Materials	10	9
Goods	1 126	2 247
Inventories purchased	**1 136**	**2 256**
Land and buildings	619	882
Technical equipment, machinery and vehicles	9	0
Received in debt settlement	**628**	**882**
Total (Balance Sheet line 90)	**1 764**	**3 138**

II/19. Risk-free securities at par value

HUF millions

Issue currency	Description	2013	2014
HUF	Government bonds for loan consolidation	12 349	0
HUF	Bonds issued by the NBH	410 404	0
HUF	Securities issued by the State of Hungary	533 423	527 102
HUF Total		**956 176**	**527 102**
JPY	Bonds issued by the NBH	2 315	2 444
JPY Total		**2 315**	**2 444**
EUR	Securities issued by the State of Hungary	38 124	36 068
EUR Total		**38 124**	**36 068**
USD	Securities issued by the State of Hungary	0	9 896
USD Total		**0**	**9 896**

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	
	2013	2014	2013	2014	2013	2014
Asset swap	0	0	-221	-104	-711	-352
CCIRS	581	900	121	-156	-33 617	28 710
Forward	325	672	-2 327	-654	-2 901	-407
FRA	121	0	-38	-24	84	-24
IRS	20 263	30 312	-13 238	-16 811	16 058	24 462
Option	2 981	4 132	-3 380	-4 184	4	0
Currency swap	166	268	-56	-105	1 806	75
Futures	4	8	-15	-7	18	-34
Total	**24 441**	**36 292**	**-19 154**	**-22 045**	**-19 259**	**52 430**

Accruals related to the fair market valuation of derivative transactions amounted to HUF 12 584 million in interest income and HUF 2 194 million in interest expense.
The HUF 12 063 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**	
	31.12.2013	**31.12.2014**	**31.12.2013**	**31.12.2014**	**31.12.2013**	**31.12.2014**
Government bonds	457 707	90 466	457 747	90 224	40	-242
of which: reclassified from securities held for investment and maturing in 2015	34 308	56 011	34 308	56 011	0	0
Government bonds for loan consolidation	12 349	0	12 349	0	0	0
of which: reclassified from securities held for investment and maturing in 2015	12 349	0	12 349	0	0	0
Treasury bills	72 315	16 920	72 430	16 909	115	-11
Total government securities:	**542 371**	**107 386**	**542 526**	**107 133**	**155**	**-253**
Closed-end investment units	653	329	800	482	147	153
Bonds	1 107	0	1 107	0	0	0
of which: reclassified from securities held for investment and maturing in 2015	602	0	602	0	0	0
Total debt securities:	**1 760**	**329**	**1 907**	**482**	**147**	**153**
Open-end investment units	4 050	2 033	4 527	2 171	477	138
Total shares and other variable-yield securities	**4 050**	**2 033**	**4 527**	**2 171**	**477**	**138**

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

HUF millions

Description	**Book value**	**Fair market value**	**Book value**	**Fair market value**
	2013.12.31	**2013.12.31**	**2014.12.31**	**2014.12.31**
Securities held to maturity and securities included in available for sale	513 404	551 409	523 648	580 464
Receivables	1 254 839	1 240 406	1 350 813	1 337 470
Liabilities	2 234 590	2 226 829	2 173 194	2 162 526

II/21. Reclassification of financial instruments

The Bank did not reclassify any financial instruments into another category in 2014.

II/22. Data of restructured loan

HUF millions

Description	**2013**	**2014**
Conditional equity claim	150 307	268 957
Impairment	52 300	55 516
Book value of receivables	98 007	213 441

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

a., Net value of receivables

HUF millions

Description	2013				2014			
	Corporate loans	Retail loans	Credit institutions	Total	Corporate loans	Retail loans	Credit institutions	Total
Performing	608 473	373 542	77 757	**1 059 772**	692 925	400 223	67 759	**1 160 907**
Monitor	36 397	42 837	0	**79 234**	46 091	44 827	0	**90 918**
Substandard	15 351	7 680	0	**23 031**	17 904	5 331	0	**23 235**
Doubtful	12 670	36 757	0	**49 427**	17 164	9 646	0	**26 810**
Bad	1 250	40 565	0	**41 815**	1 491	44 849	0	**46 340**
Total	**674 141**	**501 381**	**77 757**	**1 253 279**	**775 575**	**504 876**	**67 759**	**1 348 210**

b., Net value of securities

HUF millions

Description	2013			2014		
	Investments	Debt securities	Total	Investments	Debt securities	Total
Performing	2 418	24 128	**26 546**	2 221	2 393	**4 614**
Monitor	0	4 901	**4 901**	378	0	**378**
Substandard	0	0	**0**	379	0	**379**
Doubtful	2 397	0	**2 397**	2 097	0	**2 097**
Bad	0	0	**0**	0	0	**0**
Total	**4 815**	**29 029**	**33 844**	**5 075**	**2 393**	**7 468**

c., Received in debt settlement

HUF millions

Description	2013			2014		
	Land and buildings	**Technical equipment, machinery and vehicles**	**Total**	**Land and buildings**	**Technical equipment, machinery and vehicles**	**Total**
Performing	602	0	**602**	801	0	**801**
Monitor	0	9	**9**	29	0	**29**
Substandard	0	0	**0**	45	0	**45**
Doubtful	17	0	**17**	7	0	**7**
Bad	0	0	**0**	0	0	**0**
Total	**619**	**9**	**628**	**882**	**0**	**882**

d., Net value of off balance sheet liabilities

HUF millions

Description	2013			2014		
	Corporate	**Retail**	**Total**	**Corporate**	**Retail**	**Total**
Performing	450 538	16 120	**466 658**	466 247	19 122	**485 369**
Monitor	1 398	7	**1 405**	790	5	**795**
Substandard	3 372	9	**3 381**	2 899	2	**2 901**
Doubtful	5 186	9	**5 195**	4 174	14	**4 188**
Bad	5	106	**111**	24	255	**279**
Total	**460 499**	**16 251**	**476 750**	**474 134**	**19 399**	**493 532**

II. 24 Financial leasing receivables

On 31 December 2014 the financial leasing receivables amounts was HUF 24 457 million.

III. NOTES TO THE PROFIT & LOSS ACCOUNT

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

HUF millions

No.	Description	31.12.2013.	31.12.2014.
1.	Re-invoiced value of third-party services	277	304
2.	Book value of inventories sold	8 488	13 868
Total (Profit & Loss Account line 69)		**8 765**	**14 172**

III/2. Income from and expense on investment services

HUF millions

Income from investment services	31.12.2013.	31.12.2014.
1. Income from custody services	579	599
2. Income from trading operations	72 645	69 677
3. Income from brokerage activities	6 415	8 320
4. Income from organizing activities on securities issue	0	0
5. Other income	965	875
Total (Profit & Loss Account lines 20 + 39)	**80 604**	**79 471**

HUF millions

Expense on investment services	31.12.2013.	31.12.2014.
1. Expense on custody services	110	47
2. Expense on trading operations	55 203	48 308
3. Expense on brokerage activities	448	700
4. Expense on organizing activities on securities issue	0	0
Total (Profit & Loss Account lines 27 + 44)	**55 761**	**49 055**

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 2014.

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

a) Contributions to deposit insurance and institutional protection funds

HUF millions

Description	Amount	
	2013	2014
National Deposit Insurance Fund	657	1 207
Investor Protection Fund	144	158
Resolution Fund	-	292

b) Financial assistance received

The non-repayable grant was given for extension of tools of cashless payment transactions was received by the Bank in amount of HUF 145 million in 2014, from which HUF 70 million was used in the reference year.

c) Geographic breakdown of income

In 2013

HUF millions

Profit & Loss Account lines	Geographical breakdown			Breakdown of non-EU countries		
	Domestic	EU member states	Non-EU countries	United States of America	Switzerland	Other
1. Interest received and similar income	134 470	1 971	128	21	107	0
3. Income from securities	1 999	0	3	3	0	0
4. Fees and commissions received (receivable)	60 051	64	7	1	1	5
6. Profit/loss from financial transactions						
a) income from other financial services	14 962	0	0	0	0	0
c) income from investment services	11 562	61 071	12	12	0	0
7. Other income from business activities	16 235	3 250	15	0	0	15

In 2014

HUF millions

Profit & Loss Account lines	Geographical breakdown			Breakdown of non-EU countries			
	Domestic	EU member states	Non-EU countries	United States of America	Bissau-Guinea	Switzerland	Other
1. Interest received and similar income	113 655	2 310	50	3	0	47	0
3. Income from securities	2 154	0	0	0	0	0	0
4. Fees and commissions received (receivable)	62 471	52	7		3	1	3
6. Profit/loss from financial transactions							
a) income from other financial services	21 253	0	0	0	0	0	0
c) income from investment services	25 857	43 820	0	0	0	0	0
7. Other income from business activities	23 054	100	0	0	0	0	0

d) Financial institutions' special tax

Other expenditures in amount of HUF 12 949 million was recorded by the Bank in 2014 due to financial institutions' special tax.

III/5. Extraordinary expense and extraordinary income recognized in 2014

HUF millions

Extraordinary expense	Amount		Extraordinary income	Amount	
	31.12.2013.	31.12.2014.		31.12.2013.	31.12.2014.
Amounts not deemed uncollectible but forgiven	234	7	Financial assistance received definitively for development purposes	52	53
Extraordinary expense related to donated assets	0	1	Lapsed liabilities	1	2
			Extraordinary income related to assets taken over as refund	0	13
			Extraordinary income related to businesses	0	96
			Extraordinary income related to associated businesses	0	15
			Other extraordinary income	19	0
Total (Profit & Loss Account line 89)	**234**	**8**	**Total (Profit & Loss Account line 88)**	**72**	**179**

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

HUF millions

Description		31.12.2013.	31.12.2014.
Futures / forwards	Forward	-1 649	-367
	FRAs	-253	246
	FX futures	-241	-275
Options	Options	282	333
Swaps	Asset swaps	-129	-127
	Currency swaps	483	1 547
	Index swaps	24	-31
	Interest rate swaps	9 599	15 222
Total		**8 116**	**16 548**

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

HUF millions

Profit/loss	2013		2014	
	Parent	**Affiliate**	**Parent**	**Affiliate**
Interest difference	-572	-385	-378	-267
Fees and commissions	-1 005	62	-839	-170
Profit/loss from financial transactions	N/A	0	N/A	0
Other	-31	870	-131	726
Extraordinary	21	0	0	0

IV. ADDITIONAL INFORMATION

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

I.	Name:	Hendrik Scheerlinck
	Address:	Budapest
II.	Name:	Attila Gombás
	Address:	Budapest

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 (Budapest (006660))

b., Fees charged by the auditors in 2014

HUF millions

Description	Amount	
	Ernst & Young	**Other auditors**
Auditing	146	
Other certification services	3	
Tax consulting services		18
Other, non-auditor services		
Total	**149**	**18**

IV/3. Person in charge of accounting tasks

Name: Paula Ecsedi

Registration number: 140573

IV/4. Registered office and website

Registered office: 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)* 31.12.2013.	Subscribed capital (HUF m) * 31.12.2013.	Reserves (HUF m) * 31.12.2013.	Retained earnings for the last financial year (HUF m)* 31.12.2013.
1	K&H Befektetési Alapkezelő Zrt.	1095 Budapest, Lechner Ödön fasor 9.	100	3 075	850	151	2 074
2	K&H Autópark Kft.	1095 Budapest, Lechner Ödön fasor 9.	100	-43	10	-256	203
3	K&H Alkusz Kft.	1095 Budapest, Lechner Ödön fasor 9.	100	54	5	54	-5
4	K&H Lízingház Zrt. "v.a."	1095 Budapest, Lechner Ödön fasor 9.	100	16	20	-89	85
5	K&H Lízing Zrt.	1095 Budapest, Lechner Ödön fasor 9.	100	126	50	79	-3
6	K&H Csoportszolgáltató Kft.	1095 Budapest, Lechner Ödön fasor 9.	100	622	60	461	100
7	K&H Equities Zrt.	1095 Budapest, Lechner Ödön fasor 9.	100	2 161	38	2 105	18
8	K&H Eszközlízing Kft.	1095 Budapest, Lechner Ödön fasor 9.	100	106	5	107	-5
9	K&H Ingatlanlízing Zrt.	1095 Budapest, Lechner Ödön fasor 9.	100	82	50	25	7
10	K&H Faktor Pénzügyi Szolgáltató Zrt.	1095 Budapest, Lechner Ödön fasor 9.	100	312	51	200	61

* Corresponding to the annual report for previous year

No.	Company name	Registered office	Stake (%)	Equity (HUF m)* 31.12.2014.	Subscribed capital (HUF m) 31.12.2014.	Reserves (HUF m) 31.12.2014.	Retained earnings for the last financial year (HUF m)* 31.12.2014.
1	K&H Befektetési Alapkezelő Zrt.	1095 Budapest, Lechner Ödön fasor 9.	100	3 397	850	151	2 396
2	K&H Autópark Kft.	1095 Budapest, Lechner Ödön fasor 9.	100	452	11	217	225
3	K&H Alkusz Kft.	1095 Budapest, Lechner Ödön fasor 9.	100	78	5	49	25
4	K&H Lízing Zrt. "v.a."	1095 Budapest, Lechner Ödön fasor 9.	100	124	50	74	0
5	K&H Csoportszolgáltató Kft.	1095 Budapest, Lechner Ödön fasor 9.	100	562	60	461	40
6	K&H Equities Zrt.	1095 Budapest, Lechner Ödön fasor 9.	100	2 097	38	2 110	-52
7	K&H Eszközlízing Kft.	1095 Budapest, Lechner Ödön fasor 9.	100	171	5	155	12
8	K&H Ingatlanlízing Zrt.	1095 Budapest, Lechner Ödön fasor 9.	100	167	50	66	51
9	K&H Faktor Pénzügyi Szolgáltató Zrt.	1095 Budapest, Lechner Ödön fasor 9.	100	379	51	261	67

* Unaudited

b, Participations in jointly managed undertakings

The Bank holds no ownership interest in any jointly managed undertaking either in this year not in the previous year.

c, Participations in affiliated undertakings

No.	Company name	Registered office	Stake (%)*	Equity (HUF m)* 31.12.2013.	Subscribed capital (HUF m) * 31.12.2013.	Reserves (HUF m) * 31.12.2013.	Retained earnings for the last financial year (HUF m)* 31.12.2013.
1	HAGE Zrt.	4181 Nádudvar, Kossuth u. 2.	25,00	6 391	2 689	3 369	333
2	GIRO Elszámolásforgalmi Zrt.	1054 Budapest, Vadász u. 31.	20,99	7 174	2 496	3 628	1 051

* Corresponding to the annual report for previous year

No.	Company name	Registered office	Stake (%)	Equity (HUF m)* 31.12.2014.	Subscribed capital (HUF m) 31.12.2014.	Reserves (HUF m) 31.12.2014.	Retained earnings for the last financial year (HUF m)* 31.12.2014.
1	HAGE Zrt.	4181 Nádudvar, Kossuth u. 2.	25,00	7 188	2 689	4 008	491

* Unaudited

d, Participations in other associated undertakings

No.	Company name	Registered office	Stake (%)*	Equity (HUF m) * 31.12.2013.	Subscribed capital (HUF m) * 31.12.2013.	Reserves (HUF m) * 31.12.2013.	Retained earnings for the last financial year (HUF m) * 31.12.2013.
1	Garantiqa Hitelgarancia Zrt.	1082 Budapest, Kisfaludy u. 32.	8,16	20 295	7 840	6 863	5 592
2	Árpád Üzletház Egyesülés	1045 Budapest, Árpád út 112	7,52	N/A	3	N/A	N/A
3	Swift SC	Belgium, B-1310 La Hulpe, Avenue Adele 1.	0,02	N/A	14	N/A	N/A
4	VISA Europe Limited	London, W2 6TT, Sheldon square 1	1,28	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) 31.12.2014.	Subscribed capital (HUF m) 31.12.2014.	Reserves (HUF m) 31.12.2014.	Retained earnings for the last financial year (HUF m) 31.12.2014.
1	Garantiqua Hitelgarancia Zrt.	1082 Budapest, Kisfaludy u. 32.	8,16	25 852	7 840	12 596	5 417
2	Árpád Üzletház Egyesülés	1045 Budapest, Árpád út 112.	7,38	N/A	3	N/A	N/A
3	Swift SC	Belgium, B-1310 La Hulpe, Avenue Adele 1.	0,02	N/A	14	N/A	N/A
4	VISA Europe Limited	London, W2 6TT, Sheldon square 1	1,27	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%
K&H Equities Zrt.	1095 Budapest, Lechner Ödön fasor 9.	38	100,00%
K&H Csoportszolgáltató Kft.	1095 Budapest, Lechner Ödön fasor 9.	60	100,00%
K&H Ingatlanlízing Zrt.	1095 Budapest, Lechner Ödön fasor 9.	50	100,00%
K&H Lízing Zrt. "v.a."	1095 Budapest, Lechner Ödön fasor 9.	50	100,00%
K&H Eszközlízing Kft.	1095 Budapest, Lechner Ödön fasor 9.	5	100,00%
K&H Autópark Kft.	1095 Budapest, Lechner Ödön fasor 9.	11	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.

As at 31.12.2014. the impairment recognized by the Bank on its investment totaled HUF 2 675 million, after an decrease of HUF 11 million in 2014.

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

Overview on the government measures related to consumer loan contracts

On 16 June 2014, the Hungarian Supreme Court rendered its decision regarding the legal assessment of foreign currency based loans ("FX loans") for consumers under Hungarian civil law. The main findings of the decision are the following:

1. As a general rule, it is not unfair and, thus, not invalid if a loan agreement stipulates that the consumer has to bear the foreign exchange rate risk. However, the unfairness of such provision may be established if the content of the clause was not clear or was incomprehensible to the average consumer.
2. A provision allowing the bank's to unilaterally amend the loan agreement is only regarded as fair (and thus, valid) under strict conditions, namely if i) the circumstances that may form the basis for such an amendment are clear and comprehensible for the consumer; ii) such circumstances are defined item by item; iii) such circumstances are objective and the amendment is proportional to the circumstances; iv) the grounds for amendment are transparent; and v) the consumer is provided with the right of termination.
3. When calculating the consumers' outstanding loan amounts versus payments credited, the usage of different sides of the exchange rate bid-ask spread (commonly referred to as the exchange rate margin) was unfair since no underlying service can be identified in relation to the bid-ask spread and its usage was not clear, understandable and transparent for the consumer. (According to the Hungarian Supreme Court, the official medium exchange rate quoted by the National Bank of Hungary shall be considered to be applicable for the related transactions.)

Following the Supreme Court ruling, the following legislative changes have been promulgated:

1. The act on the '*Resolution of certain issues related to the Supreme Court's (Curia) uniformity decision on consumer loan agreements concluded by financial institutions*' (Act XXXVIII of 2014) was approved on 4 July 2014 by the Parliament. The scope of the act includes retail loans in both foreign currency and Hungarian forints. According to the act, the use of foreign-exchange-rate margins in consumer

loans denominated in foreign currency is unfair and void and, therefore, bid-offer spreads applied to those foreign currency loans need to be retroactively corrected. Furthermore, as regards all consumer loans, the act installs a rebuttable assumption of unfairness and repeals unilateral changes to interest rates and fees applied by banks.

2. Act on Settlement (Act XL of 2014 on '*Rules of the settlement and certain other issues of Act XXXVIII of 2014 on Resolution of certain issues related to the Supreme Court's uniformity decision on consumer loan agreements concluded by financial institutions'*) has provided further clarifications to the provisions of Act XXXVIII of 2014 (among others specifying the related products subject to the settlement or the accounting and tax consequences of the settlement).
3. On 7 November 2014, the National Bank of Hungary and the Banking Association concluded an agreement over the technical details of the FX mortgages' conversion. Accordingly, the National Bank of Hungary provided the requested currency need for the banking sector' conversion need in November by means of a special EUR tender (through the combination of spot and swap deals).
4. On 25 November, the Hungarian Parliament has adopted the Conversion Act (Act LXXVII of 2014 on "*Settlement of certain issues concerning the modification of the currency and interest conditions of consumer loan agreements*") including regulations about the conversion of foreign currency mortgage loans into HUF legally effective on 1 February 2015 and the calculation methodology of interest on the HUF loan to be paid by the consumer following the conversion.

Impact of government measures related to consumer loan contracts

The Bank made provisions of HUF 58 352 million in the 2014 financial statements for settlement requirements related to consumers loan agreements to cover the settlements of consumer receivables from both the bid-offer spreads and unilateral changes to interest rates. The amount of provision was recognized in the Balance sheet as other provision and it's effect on the result was recorded in the income statement as other expenditures.

The amount will be expected to reduce the payable corporate tax related to year 2015 and the subsequent years can be considered as a decreasing item according to *§29/ZS of Act LXXXI of 1996 on „Corporate Tax and Dividend Tax"* during calculation of the above provision's amount in accordance with *§33 of Government Decree No. 250/2000 "on the special provisions regarding the annual reporting and book-keeping obligations of credit institutions and financial enterprises*". The previous statement is valid only in case that the decreasing item can be likely enforced in 2015 or the subsequent years by the financial institute i.e. the corporate tax base is positive.

In accordance with the *§29/ZS of Act LXXXI of 1996* the corporate tax payable for the tax year 2015 and the subsequent years shall be decreased –instead of self-revision, re-revision- with the amount the Bank would deduct from the total tax due to a related self-revision in consequence of settlement related to consumer loan contracts (if the deductible amount exceeds the corporate tax payable for 2015, the remaining amount shall be deducted from the corporate tax of the subsequent years).This option shall take effect when the deduction becomes possible due to enforcement of the *Act XL of 2014* and the *Act XXXVIII of 2014* regarding the corporate tax, special levy on collective enterprises, local business tax, innovation contribution and banking tax declared and paid for the tax years from 2008 to 2014.

The item respected under the above mentioned title was recorded in amount of HUF 9 868 million in the Bank's financial statement, which item has been deducted from the amount of provision recognized.

Based on the Bank's financial plans for 2015-2017 the Bank will utilize the calculated tax allowance until 2017.

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

Employees by category	Average statistical number of employees		Salaries and wages (HUF m)	
	2013	2014	2013	2014
Full-time	3 125	3 078	18 839	18 627
Part-time	75	91	268	321
Retired	7	6	61	38
Not on payroll	0*	0*	1	1
Total Profit & Loss Account line 59	**3 207**	**3 175**	**19 169**	**18 987**

* rounded figure

The amounts of other personnel expenses were in 2013 HUF 2 398 million, in 2014 HUF 2 771 million.

IV/12. 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	
	31.12.2013.	31.12.2014.	31.12.2013.	31.12.2014.
Board of Directors	2	3	225	228
Executive Management	40	35	1 664	1 304
Supervisory Board	2	2	17	6
Total:	**44**	**40**	**1 906**	**1 538**

IV/13. Loans granted to members of the Board of Directors, Executive Management and the Supervisory Board

31 December 2014

Members of the Board of Directors, the Executive Management and the Supervisory Board have a total debt of HUF 355 million to the Bank in loans and interest/charges.

IV/14. Adjustments to the Bank's taxable income 31 December 2014

HUF millions

Items decreasing taxable income	Amount	Items increasing taxable income	Amount
Income from the use of provisions	1 729	Expense arising from provisioning	58 627
Depreciation according to the Corporation Tax Act	7 494	Depreciation according to the Accounting Act	7 639
Book value of tangible assets removed from the books	538	Book value of tangible assets removed from the books	299
Dividends received	2 154	Fines	21
Reversal of impairment	15	Depreciations	5
Bank tax	2 699	Income and expenses related to previous years	65
		Expenses not incurred in the interest of the company	2 373
Total:	**14 629**	**Total:**	**69 029**

Extraordinary expense and extraordinary income had no material impact on the adjustments to the Bank's taxable income.
Among expenses arising from provisioning the amount of provision due to settlement requirements related to consumer loan agreements is HUF 58 352 million.

IV/15. 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	136 569	116 015
02.	+ Income from other financial services (excluding reversal of impairment on securities)	67 125	73 989
03.	+ Other income (excluding use of provisions, reversal of surplus provisions, reversal of impairment on inventories and reversal of extraordinary depreciation)	5 893	4 064
04.	+ Income from investment services (excluding reversal of impairment on securities)	66 186	60 538
05.	+ Income from non-financial and investment services	11 391	17 349
06.	+ Dividend income	2 002	2 154
07.	+ Extraordinary income	72	179
08.	- Interest expense	66 850	34 240
09.	- Expense on other financial services (excluding impairment on securities)	16 835	17 954
10.	- Other expense (excluding provisioning, impairment on inventories and extraordinary depreciation)	56 617	63 072
11.	- Expense on investment services (excluding impairment on securities)	48 397	33 927
12.	- Expense on non-financial and investment services	8 765	14 172
13.	- General and administrative expense	52 863	50 594
14.	- Extraordinary expense (excluding corporation tax liability for the year)	234	8
15.	- Corporation tax liability for the year	13 559	10 929
16.	- Dividend paid	17 147	0
17.	**CASH FLOW FROM OPERATIONS (lines 01-16)**	**7 971**	**49 392**
18.	Change in liabilities (+ if increase, - if decrease)	126 150	-113 291
19.	Change in receivables (- if increase, + if decrease)	24 970	-98 010
20.	Change in inventories (- if increase, + if decrease)	-855	-1 369
21.	Change in securities stated under current assets (- if increase, + if decrease)	-39 237	438 428
22.	Change in securities stated under fixed assets (- if increase, + if decrease)	-29 100	-1 596
23.	Change in capital expenditure (including advances) (- if increase, + if decrease)	302	-131
24.	Change in intangible assets (- if increase, + if decrease)	-4 475	-4 314
25.	Change in tangible assets (excluding capital expenditure and advances for capital investments) (- if increase, + if decrease)	-2 410	-2 419
26.	Change in prepayments and accrued income (- if increase, + if decrease)	6 911	3 881
27.	Change in accruals and deferred income (+ if increase, - if decrease)	-15 825	-8 926
28.	Share offering at sale price	0	0
29.	Cash and equivalents received definitively under applicable law	0	0
30.	Cash and equivalents transferred definitively under applicable law	-7	-1 611
31.	Par value of Treasury stock and equity bonds retired	0	0
32.	**NET CASH FLOW (lines 17-34)**	**74 395**	**260 034**
33.	of which: - change in cash (HUF and foreign currency cash and checks)	8 045	-3 097
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)	66 350	263 131

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

1. Key balance sheet and performance data

1.1. Balance sheet

HUF billion	31. Dec. 2013	31. Dec 2014	Change
Balance sheet total	2 574	2 493	-3,1%
Amounts due from clients	1 177	1 283	+9,0%

K&H Bank's total assets amounted to HUF 2 493 billion on 31 December 2014. Main changes in the balance sheet:

- The significant increase in *cash and equivalents* (2014: HUF 413 billion, 2013: HUF 153 billion) is related to the change in the National Bank of Hungary's monetary policy instruments: the 2w bond instrument was replaced by the newly introduced 2w deposit instrument since 1 August 2014. This technical increase in cash and cash equivalents was offset by a corresponding decrease in the *government securities* (the 2w bond portfolio was reported under the heading of government securities in the annual reports at 31 December 2014, while the 2w deposit is part of a separate balance sheet line of cash and cash equivalents).
- *Amounts due from clients* increased by 9% during 2014 as a consequence of the Bank's increased business activity in all relevant segments. Retail lending activity has expanded, the volume of newly disbursed mortgage loans in K&H Bank has almost tripled compared to 2013 (this compares with the 50% increase in the banking sector's new mortgage placements). SME and corporate lending activity, which started to increase in the middle of 2013, remained on a stable growing path partly driven by the Hungarian National Bank's “Funding for growth” scheme: in the 2nd phase the Bank's concluded loan contracts in value of HUF 116 billion with SME clients representing 20% market share.

Market share	2013	2014 *
Total assets	10,1%	9,2%
Corporate loans	8,3%	10,0%
Retail loans	8,7%	9,1%
Corporate deposits	11,7%	11,6%
Retail deposits+mutual funds	10,7%	11,2%

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

- The volume of *amounts due to clients* decreased by HUF 84 billion (4.8%) during the year primarily related to the investment policy change of mutual funds managed by the K&H Fund Management (funds place higher proportion of their Assets under Management in other financial investments vs. deposits placed with K&H Bank). In respect of business segments (retail, SME, corporate) the Bank's deposits volume increased further in 2014.

HUF billion	31. Dec. 2013	31. Dec 2014	Change
Amounts due to clients	1 768	1 684	-4,8%
Equity	194	179	-7,7%

- The HUF 14,9 billion decrease in shareholders' equity is related to actual year's net result.

	31. Dec. 2013	31. Dec 2014	Difference
Guarantee capital (HUF bln)	186,4	171,2	-8,2%
Capital adequacy ratio (%)	14,2	12,3	-1,9

1.2. Profit

HUF billion	2013	2014	Change
Profit after taxation	19,1	-14,9	-78,1%

In 2014 the Bank's net result amounted to HUF -14,9 billion (2013: HUF 19,1 billion). Following the legislatory changes on consumer loan agreements concerning the application of bid-offer spread and unilateral contract modifications[1] the Bank recorded HUF 65,6 billion (pre-tax) provision. The provision (considering also the related tax allowances) was reported under the heading of "other expenses on business activities" in the Bank's standalone report according to HAS.

- In comparison with previous year *net interest and interest-type income* increased by 17,3% (2014: HUF 81,8 billion; 2013: HUF 69,7 billion). If we consider the interest type result of FX swaps (reported under the heading of "profit/loss on financial operations"), net interest income shows 3% increase compared to previous year.
- *Net income from fees and commission* increased by 2% compared to previous year on a comparable basis (2014: HUF 46,0 billion; 2013: HUF 44,9 billion) driven by income from mutual funds.
- *Profit/loss on financial transactions* increased by 34% in 2014 (2014: HUF 40,5 billion; 2013: HUF 30,2 billion). Description of the financial instruments' valuation is included in the Bank's financial statements (II/19, II/20, II/21, III/6).
- There was a HUF 2 billion reduction in *operating expenses* (2014: HUF 58,3 billion; 2013: HUF 60,3 billion) as a result of strict cost management.

2. Risk Management

Banks are exp*osed to several ty*pes of risks due to their operations. K&H Bank has a system in place for the measurement and appropriate management and limitation of these risks. The system has been adjusted to the risk management system of the 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 Risk and Compliance Committee (RCC), the Audit Board (AB), the Supervisory Board (SB), 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

[1] The act on the 'resolution of certain issues related to the Supreme Court's (Curia) uniformity decision on consumer loan agreements concluded by financial institutions' was promulgated on 26 July 2014. According to the act, both the use of foreign-exchange-rate margins in consumer loans denominated in foreign currency and unilateral contract modificators are unfair and void (the consumer loan agreements are still valid). The Settlement Act, intended to provide further clarifications over the settlement process with the related clients, was approved on 24 September 2014 by the House of Parliament.

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 Value and 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 report to senior management.

The Board of Directors and the Risk and Compliance Committee have an important role to play in value creation and risk governance. Regular reporting to the Risk and Compliance Committee ensures that there is an ample flow of information to the members of the Board over the course of the year. Moreover, through the involvement of the 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 (a switch to the 'Advanced' approach is subject to regulatory approval). During the program, the Bank reviewed all debtor rating models and upgraded them in line with the new uniform group-level methodology.

  In the subsequent years, 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.

  Management reports were further fine-tuned during 2014, and amended with additional information. More emphasis was given to ad-hoc type reports, which always focus on a specific product or risk type. The causes for RWA change were given a separate report to shed more light on the drivers of capital consumption. Reports on forborne portfolio and Funding for Growth portfolio, the vintage analysis of different segments/products give an example of ad-hoc reports.
  The main conclusions for 2014 are:
  - Corporate and SME portfolios are mainly stable with some improvements in risk indicators. The main drivers for the improvements are the new rapid increase of FFG (Funding for Growth programme of MNB) portfolio, which had a diluting effect on the existing portfolios. The quality of the FFG portfolio is better than the existing portfolio, but it is too early to see any important long term trends.
  - Retail portfolio showed some improvement by the fourth quarter of 2014, the worsening of the portfolio seemed to slow down significantly. The most important driver of the improved risk indicators are the significant disbursement of new loans in both the secured and unsecured products. New disbursement had reached the level of the natural amortization of the mortgage portfolio, so the decrease stopped by the end of the year, and increased slightly.

  The economic conditions, especially the expected evolution of unemployment and future evolution of Forint interest rate levels can have a considerable influence on the future quality of the credit portfolio.

- **Market risk** means the potential loss suffered 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 shareholder KBC Group. Accordingly, the Capital and Risk Oversight Committee continuously monitors banking and trading book risks and controls them by setting 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). There's also spread risk and sovereign monitoring in place here.

The banking book is characterized by increasing interest rate risk, to the extent allowed by the set limit, throughout the year the BPV limit of banking book has increased.

The risk taking has been moderate in the trading book. There was one HVAR limit overrun in Q4 2014 due to technical issues concerning FX mortgage conversion.

- **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 ratios (LCR, NSFR) as well as by liquidity stress tests. The Risk Management Directorate prepares regular reports to the K&H Bank Capital and Risk Oversight Committee on the various liquidity indicators and limits.

	31. Dec. 2013	31. Dec 2014	Regulatory requirement
Deposit coverage ratio (%)	63,0	49,1	20,0
Balance sheet coverage ratio (%)	27,9	23,4	10,0
Foreign currency financing ratio (%)	70,7	73,5	75,0

- K&H Bank group manages **operational risks** (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 includes various techniques of risk identification, risk analysis such as self-assessments (top-down and bottom-up), analysis of losses incurred and the assessment and implementation of key control principles defined by KBC group. The risk mitigation measures (or risk acceptance) are decided according to the uniform accountability rules (decision-making authority). The identified exposures and handling of the risk is monitored and followed up by the Capital and Risk Oversight Committee and analyzed by the Operational Risk Councils that are established throughout the organization. K&H Bank group applies the standardized method to calculate the Pillar I. capital requirement for operational risk according to the permission of the Hungarian Financial Supervisory Authority that was granted in December 2007 (from 1 January 2008).

3. Operating Conditions of the Bank

The number of bank employees decreased by 48 during the year and amounted to 3 150 at the end of 2014.

Capital investments in branches:

In 2014 the set-up, full or partial reconstruction of 18 branches was started or completed as follows:
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Budapest, 17th April 2015

Hendrik Scheerlinck Chief Executive Officer	Attila Gombás Chief Financial Officer

K&H Bank Zrt.

Management Report

31 December 2014

Below we summarise the business operations, the operating conditions and the financial results of K&H Bank Zrt. in 2014.

1. Economic environment

The Hungarian economic growth was higher than expected (3.6% in 2014) and with this Hungary had one of the fastest growths in the EU. The accelerating investment, the growing industrial output, the export and the peaking EU subsidies all played an important role in it, but the households' consumption dynamics increased also during the year. The country's external debt decreased further and the internal balance improved as well. The economic growth outlook is less favourable for 2015, but the stable domestic demand and the slowly, but steadily improving euro zone performance suggests that the Hungarian economy may slow down only slightly in 2015.

	2013 actual	2014 preliminary
GDP growth	+1.5%	+3.6%
CPI (average)	+1.7%	-0.2%
Investments	+7.2%	+15.0%
Unemployment rate	9.1%	7.1%
Budget deficit (ESA) (in % of GDP)	-2.2%	-2.4%
Debt/GDP rate	77.3%	76.9%
Balance of payments (in % of GDP)	+4.2%	+4.2%

source: MNB (National Bank of Hungary), KSH, K&H

The FED stopped its bond purchasing program in 2014, while the ECB loosened the monetary policy conditions, furthermore it started a sizable bond purchasing program at the end of 2014. The National Bank of Hungary continued the rate cut cycle with small steps. The base rate was lowered from the level of 3% at the beginning of the year to 2.1% in July and was left unchanged at that level till the end of the year. The very low inflation environment increased the chance of restarting of the rate cut cycle. NBH emphasized that they would like to maintain the low interest environment till the end of 2015.

2. Key balance sheet and performance data

2.1. Balance sheet

HUF billion	31 Dec 2013	31 Dec 2014	Change
Balance sheet total	2,574	2,493	-3.1%
Amounts due from clients	1,177	1,283	+9.0%

K&H Bank's total assets amounted to HUF 2,493 billion on 31 December 2014. Main changes in the balance sheet:

- The significant increase in *cash and equivalents* (2014: HUF 413 billion, 2013: HUF 153 billion) is related to the change in the National Bank of Hungary's monetary policy instruments: the 2w bond instrument was replaced by the newly introduced 2w deposit instrument since 1 August 2014. This technical increase in cash and cash equivalents was offset by a corresponding decrease in the *government securities* (the 2w bond portfolio was reported under the heading of government securities in the annual reports at 31 December 2014, while the 2w deposit is part of a separate balance sheet line of cash and cash equivalents).
- *Amounts due from clients* increased by 9% during 2014 as a consequence of the Bank's increased business activity in all relevant segments. Retail lending activity has expanded, the volume of newly disbursed mortgage loans in K&H Bank has almost tripled compared to 2013 (this compares with the 50% increase in the banking sector's new mortgage placements). SME and corporate lending activity, which started to increase in the middle of 2013, remained on a stable growing path partly driven by the Hungarian National Bank's "Funding for growth" scheme: in the 2nd phase the

Bank's concluded loan contracts in value of HUF 116 billion with SME clients representing 20% market share.

Market share	2013	2014 *
Total assets	10.1%	9.2%
Corporate loans	8.3%	10.0%
Retail loans	8.7%	9.1%
Corporate deposits	11.7%	11.6%
Retail deposits+mutual funds	10.7%	11.2%

** preliminary figures*
source: MNB, K&H

- The volume of *amounts due to clients* decreased by HUF 84 billion (4.8%) during the year primarily related to the investment policy change of mutual funds managed by the K&H Fund Management (funds place higher proportion of their Assets under Management in other financial investments vs. deposits placed with K&H Bank). In respect of business segments (retail, SME, corporate) the Bank's deposits volume increased further in 2014.

HUF billion	31 Dec 2013	31 Dec 2014	Change
Amounts due to clients	1,768	1,684	-4.8%
Equity	194	179	-7.7%

- The HUF 14.9 billion decrease in shareholders' equity is related to actual year's net result.

	31 Dec 2013	31 Dec 2014	Difference
Guarantee capital (HUF bln)	186.4	171.2	-8.2%
Capital adequacy ratio (%)	14.2	12.3	-1.9

2.2. Profit

HUF billion	2013	2014	Change
Profit after taxation	19.1	-14.9	-78.1%

In 2014 the Bank's net result amounted to HUF -14.9 billion (2013: HUF 19.1 billion). Following the legislatory changes on consumer loan agreements concerning the application of bid-offer spread and unilateral contract modifications[1] the Bank recorded HUF 65.6 billion (pre-tax) provision. The provision (considering also the related tax allowances) was reported under the heading of "other expenses on business activities" in the Bank's standalone report according to HAS.

- In comparison with previous year *net interest and interest-type income* increased by 17.3% (2014: HUF 81.8 billion; 2013: HUF 69.7 billion). If we consider the interest type result of FX swaps (reported under the heading of "profit/loss on financial operations"), net interest income shows 3% increase compared to previous year.
- *Net income from fees and commission* increased by 2% compared to previous year on a comparable basis (2014: HUF 46.0 billion; 2013: HUF 44.9 billion) driven by income from mutual funds.
- *Profit/loss on financial transactions* increased by 34% in 2014 (2014: HUF 40.5 billion; 2013: HUF 30.2 billion). Description of the financial instruments' valuation is included in the Bank's financial statements (II/19, II/20, II/21, III/6).

[1] The act on the 'resolution of certain issues related to the Supreme Court's (Curia) uniformity decision on consumer loan agreements concluded by financial institutions' was promulgated on 26 July 2014. According to the act, both the use of foreign-exchange-rate margins in consumer loans denominated in foreign currency and unilateral contract modificators are unfair and void (the consumer loan agreements are still valid). The Settlement Act, intended to provide further clarifications over the settlement process with the related clients, was approved on 24 September 2014 by the House of Parliament.

- There was a HUF 2 billion reduction in *operating expenses* (2014: HUF 58.3 billion; 2013: HUF 60.3 billion) as a result of strict cost management.

3. Risk Management

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

3.1 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 Risk and Compliance Committee (RCC), the Audit Board (AB), the Supervisory Board (SB), 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 Value and 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 report to senior management.

The Board of Directors and the Risk and Compliance Committee have an important role to play in value creation and risk governance. Regular reporting to the Risk and Compliance Committee ensures that there is an ample flow of information to the members of the Board over the course of the year. Moreover, through the involvement of the 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.

3.2 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 (a switch to the 'Advanced' approach is subject to regulatory approval). During the program, the Bank reviewed all debtor rating models and upgraded them in line with the new uniform group-level methodology.

  In the subsequent years, 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.

Management reports were further fine-tuned during 2014, and amended with additional information. More emphasis was given to ad-hoc type reports, which always focus on a specific product or risk type. The causes for RWA change were given a separate report to shed more light on the drivers of capital consumption. Reports on forborne portfolio and Funding for Growth portfolio, the vintage analysis of different segments/products give an example of ad-hoc reports.
The main conclusions for 2014 are:

- Corporate and SME portfolios are mainly stable with some improvements in risk indicators. The main drivers for the improvements are the new rapid increase of FFG (Funding for Growth programme of MNB) portfolio, which had a diluting effect on the existing portfolios. The quality of the FFG portfolio is better than the existing portfolio, but it is too early to see any important long term trends.
- Retail portfolio showed some improvement by the fourth quarter of 2014, the worsening of the portfolio seemed to slow down significantly. The most important driver of the improved risk indicators are the significant disbursement of new loans in both the secured and unsecured products. New disbursement had reached the level of the natural amortization of the mortgage portfolio, so the decrease stopped by the end of the year, and increased slightly.

The economic conditions, especially the expected evolution of unemployment and future evolution of Forint interest rate levels can have a considerable influence on the future quality of the credit portfolio.

- **Market risk** means the potential loss suffered 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 shareholder KBC Group. Accordingly, the Capital and Risk Oversight Committee continuously monitors banking and trading book risks and controls them by setting 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). There's also spread risk and sovereign monitoring in place here.

  The banking book is characterized by increasing interest rate risk, to the extent allowed by the set limit, throughout the year the BPV limit of banking book has increased.

  The risk taking has been moderate in the trading book. There was one HVAR limit overrun in Q4 2014 due to technical issues concerning FX mortgage conversion.

- **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 ratios (LCR, NSFR) as well as by liquidity stress tests. The Risk Management Directorate prepares regular reports to the K&H Bank Capital and Risk Oversight Committee on the various liquidity indicators and limits.

	31 Dec 2013	31 Dec 2014	Regulatory requirement
Deposit coverage ratio (%)	63.0	49.1	20.0
Balance sheet coverage ratio (%)	27.9	23.4	10.0
Foreign currency financing ratio (%)	70.7	73.5	75.0

- K&H Bank group manages **operational risks** (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 includes various techniques of risk identification, risk analysis such as self-assessments (top-down and bottom-up), analysis of losses incurred and the assessment and implementation of key control principles defined by KBC group. The risk mitigation measures (or risk acceptance) are decided according to the uniform accountability rules (decision-making authority). The identified exposures and handling of the risk is monitored and followed up by the Capital and Risk Oversight Committee and analyzed by the Operational Risk Councils that are established throughout the organization. K&H Bank group applies the standardized method to calculate the Pillar I. capital requirement for operational risk according to the permission of the Hungarian Financial Supervisory Authority that was granted in December 2007 (from 1 January 2008).

4. Operating Conditions of the Bank

The number of bank employees decreased by 48 during the year and amounted to 3,150 at the end of 2014.

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Dated: Budapest, 29th April 2015

Hendrik Scheerlinck Chief Executive Officer	Attila Gombás Chief Financial Officer